

ConforMIS Inc  
Form 10-Q  
August 07, 2017

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-37474

ConforMIS, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 56-2463152  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)  
600 Technology Park Drive 01821  
Billerica, MA  
(Address of principal executive offices) (Zip Code)

(781) 345-9001  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" and "emerging growth company," in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  x

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company  o

Emerging growth company  x

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.  x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No  x

As of July 31, 2017, there were 44,836,170 shares of Common Stock, \$0.00001 par value per share, outstanding.

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ConforMIS, Inc.

INDEX

|  | Page      |
|--|-----------|
| <u>Part I - FINANCIAL INFORMATION</u>  |           |
| <u>Item 1. Financial Statements (interim periods unaudited)</u>  | <u>1</u>  |
| <u>Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016</u>                                   | <u>1</u>  |
| <u>Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016</u>         | <u>2</u>  |
| <u>Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2017 and 2016</u> | <u>3</u>  |
| <u>Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016</u>                   | <u>4</u>  |
| <u>Notes to Consolidated Financial Statements</u>  | <u>5</u>  |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>           | <u>25</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                                      | <u>36</u> |
| <u>Item 4. Controls and Procedures</u>   | <u>37</u> |
| <br>   |           |
| <u>Part II- OTHER INFORMATION</u>  |           |
| <u>Item 1. Legal Proceedings</u>   | <u>38</u> |
| <u>Item 1A. Risk Factors</u>   | <u>38</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                                     | <u>39</u> |
| <u>Item 6. Exhibits</u>  | <u>40</u> |
| <u>Signatures</u>  | <u>41</u> |

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## PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS  
CONFORMIS, INC. AND SUBSIDIARIESConsolidated Balance Sheets  
(in thousands, except share and per share data)

|  | June 30,<br>2017<br>(unaudited) | December 31,<br>2016 |
|--|---------------------------------|----------------------|
| Assets   |                                 |                      |
| Current Assets   |                                 |                      |
| Cash and cash equivalents  | \$ 39,207                       | \$ 37,257            |
| Investments  | 29,218                          | 28,242               |
| Accounts receivable, net   | 11,868                          | 14,675               |
| Inventories  | 11,784                          | 11,720               |
| Prepaid expenses and other current assets  | 2,592                           | 3,954                |
| Total current assets   | 94,669                          | 95,848               |
| Property and equipment, net  | 16,493                          | 15,084               |
| Other Assets   |                                 |                      |
| Restricted cash  | 762                             | 300                  |
| Investments  | 2,750                           | —                    |
| Intangible assets, net   | 622                             | 746                  |
| Goodwill   | 753                             | 753                  |
| Other long-term assets   | 35                              | 79                   |
| Total assets   | \$ 116,084                      | \$ 112,810           |
| Liabilities and stockholders' equity   |                                 |                      |
| Current liabilities  |                                 |                      |
| Accounts payable   | \$ 5,076                        | \$ 5,474             |
| Accrued expenses   | 8,187                           | 8,492                |
| Deferred revenue   | 305                             | 305                  |
| Total current liabilities  | 13,568                          | 14,271               |
| Other long-term liabilities  | 451                             | 164                  |
| Deferred revenue   | 4,167                           | 4,320                |
| Long-term debt, less debt issuance costs   | 29,612                          | —                    |
| Total liabilities  | 47,798                          | 18,755               |
| Commitments and contingencies  | —                               | —                    |
| Stockholders' equity   |                                 |                      |
| Preferred stock, \$0.00001 par value:  |                                 |                      |
| Authorized: 5,000,000 shares authorized as of June 30, 2017 and December 31, 2016; no shares issued and outstanding as of June 30, 2017 and December 31, 2016  | —                               | —                    |
| Common stock, \$0.00001 par value:   |                                 |                      |
| Authorized: 200,000,000 shares authorized as of June 30, 2017 and December 31, 2016; 44,866,228 and 43,399,547 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively | —                               | —                    |
| Additional paid-in capital   | 482,576                         | 476,486              |
| Accumulated deficit  | (412,491 )                      | (382,930 )           |
| Accumulated other comprehensive (loss) income  | (1,799 )                        | 499                  |
| Total stockholders' equity   | 68,286                          | 94,055               |

Total liabilities and stockholders' equity \$ 116,084 \$ 112,810

The accompanying notes are an integral part of these consolidated financial statements.

1

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## CONFORMIS, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations

(unaudited)

(in thousands, except share and per share data)

|  | Three Months Ended |             | Six Months Ended |             |
|--|--------------------|-------------|------------------|-------------|
|  | June 30,<br>2017   | 2016        | June 30,<br>2017 | 2016        |
| Revenue  |                    |             |                  |             |
| Product  | \$18,046           | \$19,104    | \$38,425         | \$39,086    |
| Royalty  | 438                | 229         | 514              | 497         |
| Total revenue  | 18,484             | 19,333      | 38,939           | 39,583      |
| Cost of revenue  | 12,236             | 13,332      | 26,196           | 26,919      |
| Gross profit   | 6,248              | 6,001       | 12,743           | 12,664      |
| Operating expenses   |                    |             |                  |             |
| Sales and marketing  | 9,375              | 10,648      | 20,191           | 21,762      |
| Research and development                                       | 4,335              | 3,977       | 8,895            | 8,375       |
| General and administrative                                     | 6,444              | 5,487       | 14,902           | 11,782      |
| Total operating expenses                                       | 20,154             | 20,112      | 43,988           | 41,919      |
| Loss from operations   | (13,906 )          | (14,111 )   | (31,245 )        | (29,255 )   |
| Other income and expenses                                      |                    |             |                  |             |
| Interest income  | 127                | 143         | 230              | 282         |
| Interest expense   | (372 )             | (75 )       | (679 )           | (100 )      |
| Foreign currency exchange transaction income                   | 2,117              | —           | 2,507            | —           |
| Total other income (expenses), net                             | 1,872              | 68          | 2,058            | 182         |
| Loss before income taxes                                       | (12,034 )          | (14,043 )   | (29,187 )        | (29,073 )   |
| Income tax provision   | 56                 | 9           | 63               | 13          |
| Net loss   | \$(12,090)         | \$(14,052 ) | \$(29,250)       | \$(29,086 ) |
| Net loss per share - basic and diluted                         | \$(0.28 )          | \$(0.34 )   | \$(0.68 )        | \$(0.71 )   |
| Weighted average common shares outstanding - basic and diluted | 43,193,065         | 41,314,942  | 43,035,672       | 41,155,421  |

The accompanying notes are an integral part of these consolidated financial statements.

## CONFORMIS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Loss  
(unaudited)  
(in thousands)

|   | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | June 30,           |            | June 30,         |            |
|   | 2017               | 2016       | 2017             | 2016       |
| Net loss  | \$(12,090)         | \$(14,052) | \$(29,250)       | \$(29,086) |
| Other comprehensive income (loss)   |                    |            |                  |            |
| Foreign currency translation adjustments                                      | (1,926 )           | (276 )     | (2,280 )         | (134 )     |
| Change in unrealized gain (loss) on available-for-sale securities, net of tax | (9 )               | 2          | (18 )            | 11         |
| Comprehensive loss  | \$(14,025)         | \$(14,326) | \$(31,548)       | \$(29,209) |

The accompanying notes are an integral part of these consolidated financial statements.

## CONFORMIS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows  
(unaudited)  
(in thousands)

|   | Six Months Ended |            |
|---|------------------|------------|
|   | June 30,         |            |
|   | 2017             | 2016       |
| Cash flows from operating activities  |                  |            |
| Net loss  | \$(29,250)       | \$(29,086) |
| Adjustments to reconcile net loss to net cash used by operating activities: |                  |            |
| Depreciation and amortization expense                                       | 1,748            | 1,543      |
| Amortization of debt discount   | —                | 3          |
| Stock-based compensation expense  | 2,741            | 2,131      |
| Provision for bad debts on trade receivables                                | (4               | ) 190      |
| Non-cash interest expense   | 46               | —          |
| Amortization/accretion on investments                                       | 117              | 128        |
| Tax effect, unrealized gain/loss on investments                             | —                | (6         |
| Changes in operating assets and liabilities:                                |                  |            |
| Accounts receivable   | 2,811            | 1,599      |
| Inventories   | (64              | ) (457     |
| Prepaid expenses and other assets   | 1,406            | 629        |
| Accounts payable and accrued liabilities                                    | (703             | ) (3,469   |
| Deferred royalty revenue  | (153             | ) (153     |
| Other long-term liabilities   | 287              | (53        |
| Net cash used in operating activities                                       | (21,018          | ) (27,001  |
| Cash flows from investing activities:                                       |                  |            |
| Acquisition of property and equipment                                       | (3,032           | ) (4,188   |
| Increase in restricted cash   | (462             | ) 300      |
| Purchase of investments   | (20,487          | ) (55,363  |
| Maturity of investments   | 16,625           | 5,500      |
| Net cash used in investing activities                                       | (7,356           | ) (53,751  |
| Cash flows from financing activities:                                       |                  |            |
| Proceeds from exercise of common stock options                              | 2,015            | 1,661      |
| Debt issuance costs   | (434             | ) —        |
| Proceeds from issuance of debt  | 30,000           | —          |
| Payments on long-term debt  | —                | (147       |
| Net proceeds from issuance of common stock                                  | 1,023            | —          |
| Net cash provided by financing activities                                   | 32,604           | 1,514      |
| Foreign exchange effect on cash and cash equivalents                        | (2,280           | ) (134     |
| Increase (decrease) in cash and cash equivalents                            | 1,950            | (79,372    |
| Cash and cash equivalents, beginning of period                              | 37,257           | 117,185    |
| Cash and cash equivalents, end of period                                    | \$39,207         | \$37,813   |



The accompanying notes are an integral part of these consolidated financial statements.

4

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## CONFORMIS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (unaudited)

#### Note A—Organization and Basis of Presentation

ConforMIS, Inc. and its subsidiaries (the “Company”) is a medical technology company that uses its proprietary iFit Image-to-Implant technology platform to develop, manufacture and sell joint replacement implants that are individually sized and shaped, which the Company refers to as customized, to fit each patient’s unique anatomy. The Company’s proprietary iFit® technology platform is potentially applicable to all major joints. The Company offers a broad line of customized knee implants designed to restore the natural shape of a patient’s knee.

The Company was incorporated in Delaware and commenced operations in 2004. The Company introduced its iUni and iDuo in 2007, its iTotal CR in 2011 and its iTotal PS in 2015. The Company has its corporate offices in Billerica, Massachusetts.

#### Liquidity and operations

The accompanying Interim Consolidated Financial Statements as of June 30, 2017 and for the three and six months ended June 30, 2017 and 2016, and related interim information contained within the notes to the Consolidated Financial Statements, have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company's consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

Since the Company’s inception in June 2004, it has financed its operations primarily through private placements of preferred stock, its initial public offering in July 2015, bank debt and convertible debt financings, equipment purchase loans, and, product revenue beginning in 2007. The Company has not yet attained profitability and continues to incur operating losses, which adversely impacts the Company's ability to continue as a going concern. At June 30, 2017, the Company had an accumulated deficit of \$412.5 million.

As of June 30, 2017, the Company had cash and cash equivalents, and short-term and long-term investments of \$71.2 million and \$0.8 million in restricted cash allocated to lease deposits. As of December 31, 2016, the Company had cash and cash equivalents and investments of \$65.5 million and \$0.3 million in restricted cash allocated to lease deposits.

On January 6, 2017, the Company entered into a senior secured \$50 million loan and security agreement with Oxford Finance LLC (“Oxford”). Through the term loan facility with Oxford, the Company accessed the initial \$15 million of borrowings on January 6, 2017 and another \$15 million of borrowings on June 30, 2017, with an additional \$20 million available, at its option, through June 2018, subject to the satisfaction of certain revenue milestones and customary drawdown conditions. For further information regarding this facility, see “Note I-Debt and Notes Payable-2017 Secured Loan Agreement” to the consolidated financial statements appearing in this Quarterly Report on Form 10-Q.

Additionally, in January 2017, the Company filed a shelf registration statement on Form S-3 with the SEC. The shelf registration statement allows the Company to sell from time to time up to \$200 million of common stock, preferred stock, debt securities, warrants, or units comprised of any combination of these securities, for its own account in one

or more offerings. The shelf registration statement is intended to provide the Company flexibility to conduct sales of its registered securities, subject to market conditions and our future capital needs. The terms of any offering under the shelf registration statement will be established at the time of such offering and will be described in one or more prospectus supplement filed with the SEC prior to the completion of any such offering.

On May 10, 2017, the Company filed with the SEC a prospectus supplement (the “Prospectus Supplement”), pursuant to which the Company may issue and sell up to \$50 million of its common stock, par value \$0.0001 per share (the “Shares”)

In connection with the offering, the Company entered into an Equity Distribution Agreement, dated as of May 10, 2017 (the "Distribution Agreement"), with Canaccord Genuity Inc., as sales agent ("Canaccord"). Pursuant to the Distribution Agreement, Canaccord will use commercially reasonable efforts consistent with its normal trading and sales practices and applicable state and federal laws, rules and regulations, and the rules of The NASDAQ Global Select Market to sell the Shares from time to time, as the Company's agent. Sales of the Shares, may be made by any method deemed to be an "at-the-market" offering ("ATM") as defined in Rule 415 promulgated under the U.S. Securities Act of 1933, as amended, including sales made directly on or through The NASDAQ Global Select Market, on any other existing trading market for the Shares, or sales to or through a market maker other than on an exchange, in negotiated transactions at market prices prevailing at the time of sale or at prices related to such prevailing market prices, and/or any other method permitted by law. The Company is not obligated to sell any Shares under the Distribution Agreement. As of June 30, 2017, the Company has sold 228,946 Shares under the Distribution Agreement resulting in net proceeds of \$1.0 million. The Company intends to use the net proceeds of the offering of the Shares for general corporate purposes, which may include research and development costs, sales and marketing costs, clinical studies, manufacturing development, the acquisition or licensing of other businesses or technologies, repayment and refinancing of debt, including the Company's secured term loan facility, working capital and capital expenditures.

The Company anticipates that its principal sources of funds in the future will be revenue generated from the sales of its products, borrowings under its 2017 Secured Loan Agreement subject to the satisfaction of certain revenue milestones, as well as other customary drawdown conditions, future capital raises through the issuance of equity securities, and revenues that may be generated in connection with licensing its intellectual property.

The Company expects that its existing cash and cash equivalents as of June 30, 2017, borrowings under its 2017 Secured Loan Agreement, and anticipated revenue from operations, including from projected sales of its products, will enable the Company to fund its operating expenses and capital expenditure requirements and pay its debt service as it becomes due for at least the next 12 months from the date of filing. Management has based this expectation on assumptions that may prove to be wrong, such as the revenue that it expects to generate from the sale of its products and the gross profit the Company expects to generate from those revenues, and it could use its capital resources sooner than we expect.

In the event the Company's resources are not sufficient to fund its operations, the Company may need to engage in equity or debt financings to secure additional funds. The Company may not be able to obtain additional financing on terms favorable to the Company, or at all.

#### Basis of presentation and use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. The most significant estimates used in these consolidated financial statements include the valuation of accounts receivable, inventory reserves, intangible valuation, equity instruments, impairment assessments, income tax reserves and related allowances, and the lives of property and equipment. Actual results may differ from those estimates. The interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

#### Unaudited Interim Financial Information

The accompanying Interim Consolidated Financial Statements as of June 30, 2017 and for the three and six months ended June 30, 2017 and 2016, and related interim information contained within the notes to the Consolidated

Financial Statements are unaudited. These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. In management's opinion, the unaudited interim consolidated financial statements have been prepared on the same basis as the audited financial statements and include all adjustments (including normal recurring adjustments) necessary for the fair presentation of the Company's financial position as of June 30, 2017, results of operations for the three and six months ended June 30, 2017 and 2016, and cash flows for the six months ended June 30, 2017 and 2016. The results for the three and six months ended June 30, 2017 are not necessarily indicative of the results expected for the full year or any interim period.

## Note B—Summary of Significant Accounting Policies

### Concentrations of credit risk and other risks and uncertainties

Financial instruments that subject the Company to credit risk primarily consist of cash, cash equivalents, and accounts receivable. The Company maintains the majority of its cash with accredited financial institutions.

The Company and its contract manufacturers rely on sole source suppliers and service providers for certain components. There can be no assurance that a shortage or stoppage of shipments of the materials or components that the Company purchases will not result in a delay in production or adversely affect the Company's business. The Company is in the process of validating alternate suppliers relative to certain key components, which are expected to be phased in during the coming periods.

For the three and six months ended June 30, 2017 and 2016, no customer represented greater than 10% of revenue. There were no customers that represented greater than 10% of total gross receivable balance as of June 30, 2017 or December 31, 2016.

### Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries including ImaTx, Inc. ("ImaTx"), ConforMIS Europe GmbH, ConforMIS UK Limited and ConforMIS Hong Kong Limited. All material intercompany balances and transactions have been eliminated in consolidation.

### Cash and cash equivalents

The Company considers all highly liquid investment instruments with original maturities of 90 days or less, to be cash equivalents. The Company's cash equivalents consist of demand deposits, money market accounts, and repurchase agreements on deposit with certain financial institutions, in addition to cash deposits in excess of federally insured limits. Demand deposits are carried at cost which approximates their fair value. Money market accounts are carried at fair value based upon level 1 inputs. Corporate bonds and repurchase agreements are valued using level 2 inputs. See "Note C-Fair Value Measurements" below. The associated risk of concentration is mitigated by banking with credit worthy financial institutions.

The Company had \$1.3 million and \$1.6 million as of June 30, 2017 and December 31, 2016, respectively, held in foreign bank accounts that are not federally insured. In addition, the Company has recorded restricted cash of \$0.8 million and \$0.3 million as of June 30, 2017 and December 31, 2016, respectively. Restricted cash consisted of security provided for lease obligations.

### Investment securities

The Company classifies its investment securities as available-for-sale. Those investments with maturities less than 12 months at the date of purchase are considered short-term investments. Those investments with maturities greater than 12 months at the date of purchase are considered long-term investments. The Company's investment securities classified as available-for-sale are recorded at fair value based upon quoted market prices at period end. Unrealized gains and losses, deemed temporary in nature, are reported as a separate component of accumulated other comprehensive income (loss).

A decline in the fair value of any security below cost that is deemed other than temporary results in a charge to earnings and the corresponding establishment of a new cost basis for the security. Premiums (discounts) are amortized (accrued) over the life of the related security using the constant yield method. Dividend and interest income are

recognized when earned and reported in other income. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Fair value of financial instruments

Certain of the Company's financial instruments, including cash and cash equivalents excluding money market funds, accounts receivable, accounts payable, accrued expenses and other liabilities are carried at cost, which approximates their fair value because of the short-term maturity. Based on borrowing rates currently available

to the Company for loans with similar terms, the carrying value of the Company's long-term debt approximates its fair value.

#### Accounts receivable and allowance for doubtful accounts

Accounts receivable consist of billed and unbilled amounts due from medical facilities. Upon completion of a procedure, revenue is recognized and unbilled receivable is recorded. Upon receipt of a purchase order number from a medical facility, a billed receivable is recorded and the unbilled receivable is reversed. As a result, the unbilled receivable balance fluctuates based on the timing of the Company's receipt of purchase order numbers from the medical facilities. In estimating whether accounts receivable can be collected, the Company performs evaluations of customers and continuously monitors collections and payments and estimates an allowance for doubtful accounts based on the aging of the underlying invoices, collections experience to date and any specific collection issues that have been identified. The allowance for doubtful accounts is recorded in the period in which revenue is recorded or when collection risk is identified.

#### Inventories

Inventories consist of raw materials, work-in-process components and finished goods. Inventories are stated at the lower of cost, determined using the first-in first-out method, or market value. The Company regularly reviews its inventory quantities on hand and related cost and records a provision for any excess or obsolete inventory based on its estimated forecast of product demand and existing product configurations. The Company also reviews its inventory value to determine if it reflects the lower of cost or market, with market determined based on net realizable value. Appropriate consideration is given to inventory items sold at negative gross margins, purchase commitments and other factors in evaluating net realizable value. During the three and six months ended June 30, 2017, the Company recognized provisions in cost of revenue of \$1.1 million and \$1.6 million, respectively, to adjust its inventory value to the lower of cost or market for estimated unused product related to known and potential cancelled cases. During the three and six months ended June 30, 2016, \$1.2 million and \$1.6 million, respectively, was recognized in cost of revenue for estimated unused product.

#### Property and equipment

Property and equipment is stated at cost less accumulated depreciation and is depreciated using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over their useful life or the life of the lease, whichever is shorter. Assets capitalized under capital leases are amortized in accordance with the respective class of assets and the amortization is included with depreciation expense. Maintenance and repair costs are expensed as incurred.

#### Intangibles and other long-lived assets

Intangible assets consist of developed technology and other intellectual property rights licensed from ImaTx as part of the spin-out transaction in 2004. Intangible assets are carried at cost less accumulated amortization.

The Company tests impairment of long-lived assets when events or changes in circumstances indicate that the assets might be impaired. For assets with determinable useful lives, amortization is computed using the straight-line method over the estimated economic lives of the respective intangible assets. Furthermore, periodically the Company assesses whether long-lived assets, including intangible assets, should be tested for recoverability whenever events or circumstances indicate that their carrying value may not be recoverable. The amount of impairment, if any, is measured based on fair value, which is determined using estimated undiscounted cash flows to be generated from such assets or group of assets. If the cash flow estimates or the significant operating assumptions upon which they are based change in the future, the Company may be required to record impairment charges. During the six months ended



June 30, 2017 and 2016, no such impairment charges were recognized.

#### Goodwill

Goodwill relates to amounts that arose in connection with the acquisition of Imaging Therapeutics, Inc. (formerly known as Osteonet.com, renamed ImaTx, Inc.) in 2009. The Company tests goodwill at least annually for impairment, or more frequently when events or changes in circumstances indicate that the assets may be impaired. This impairment test is performed annually during the fourth quarter at the reporting unit level. Goodwill may be

considered impaired if the carrying value of the reporting unit, including goodwill, exceeds the reporting unit's fair value. The Company is comprised of one reporting unit. When testing goodwill for impairment, the Company first assesses the qualitative factors to determine whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount. This qualitative analysis is used as a basis for determining whether it is necessary to perform the two-step goodwill impairment analysis. If the Company determines that it is more likely than not that its fair value is less than its carrying amount, then the two-step goodwill impairment test will be performed. If the two-step approach is performed, the Company will estimate fair value of the reporting unit, which is typically estimated using a discounted cash flow approach, and requires the use of assumptions and judgments including estimates of future cash flows and the selection of discount rates. During the six months ended June 30, 2017, and 2016, there were no triggering events which would require an interim goodwill impairment assessment.

#### Revenue recognition

##### Product

The Company generates revenue from the sale of customized implants and instruments to medical facilities through the use of a combination of direct sales personnel, independent sales representatives and distributors in the United States, Germany, the United Kingdom, Ireland, Austria, Switzerland, Singapore, Hong Kong and Monaco.

Revenue is recognized when all of the following criteria are met:

- persuasive evidence of an arrangement exists;
- the sales price is fixed or determinable;
- collection of the relevant receivable is probable at the time of sale; and
- delivery has occurred or services have been rendered.

The Company recognizes revenue upon completion of the procedure, which represents satisfaction of the required revenue recognition criteria. Once the revenue recognition criteria have been satisfied the Company does not offer rights of return or price protection and there are no post-delivery obligations.

##### Royalty

The Company has accounted for its agreements with Wright Medical Group, Inc. and MicroPort Orthopedics, Inc. under the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 605-25, Multiple-Element Arrangements and Staff Accounting Bulletin No. 104, Revenue Recognition (ASC 605). In accordance with ASC 605, the Company is required to identify and account for each of the separate units of accounting. The Company identified the relative selling price for each and then allocated the total consideration based on their relative values. Additionally, the Company recognized an initial \$5.1 million in aggregate as deferred royalty revenue, which is recognized as royalty revenue ratably through 2031. The on-going royalty from MicroPort is recognized as royalty revenue upon receipt of payment.

##### Shipping and handling costs

Amounts invoiced to customers for shipping and handling are classified as revenue. Shipping and handling costs incurred are included in general and administrative expense. Shipping and handling expense was \$0.3 million and \$0.3 million for the three months ended June 30, 2017 and 2016, respectively, and was \$0.7 million and \$0.9 million for the six months ended June 30, 2017 and 2016, respectively.

Taxes collected from customers and remitted to government authorities

The Company's policy is to present taxes collected from customers and remitted to government authorities on a net basis and not to include tax amounts in revenue.

### Research and development expense

The Company's research and development costs consist of engineering, product development, quality assurance, clinical and regulatory expense. These costs primarily relate to employee compensation, including salary, benefits and stock-based compensation. The Company also incurs costs related to consulting fees, materials and supplies, and marketing studies, including data management and associated travel expense. Research and development costs are expensed as incurred.

### Advertising expense

Advertising costs are expensed as incurred, which are included in sales and marketing. Advertising expense was \$120,000 and \$73,000 for the three months ended June 30, 2017 and 2016, respectively, and was \$265,000 and \$183,000 for the six months ended June 30, 2017 and 2016, respectively.

### Segment reporting

Operating segments are defined as components of an enterprise about which separate financial information is available and is evaluated on a regular basis by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources to an individual segment and in assessing performance of the segment. The Company's chief operating decision-maker is its chief executive officer. The Company's chief executive officer reviews financial information presented on an aggregate basis for purposes of allocating resources and evaluating financial performance. The Company has one business segment and there are no segment managers who are held accountable for operations, operating results and plans for products or components below the aggregate Company level. Accordingly, in light of the Company's current product offerings, management has determined that the primary form of internal reporting is aligned with the offering of the ConforMIS customized joint replacement products and that the Company operates as one segment. See "Note L—Segment and Geographic Data".

### Comprehensive loss

At June 30, 2017 and 2016, accumulated other comprehensive loss consists of foreign currency translation adjustments and changes in unrealized gain and loss of available-for-sale securities, net of tax.

The following table summarizes accumulated beginning and ending balances for each item in Accumulated other comprehensive income (loss).

|                           | Foreign<br>currency<br>translation<br>adjustments | Change in<br>unrealized gain<br>(loss) on<br>available-for-sale<br>securities, net of<br>tax | Accumulated<br>other<br>comprehensive<br>income (loss) |
|---------------------------|---|--|--|
| Balance December 31, 2016 | \$ 506  | \$ (7 )  | \$ 499   |
| Change in period          | (2,280 )  | (18 )  | (2,298 )   |
| Balance June 30, 2017     | \$ (1,774 )                                       | \$ (25 )   | \$ (1,799 )  |

### Foreign currency translation and transactions

The assets and liabilities of the Company's foreign operations are translated into U.S. dollars at current exchange rates at the balance sheet date, and income and expense items are translated at average rates of exchange prevailing during the quarter. Gains and losses realized from transactions denominated in foreign currencies, including intercompany balances not of a long-term investment nature, are included in the consolidated statements of operations.

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating losses and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment date.

In evaluating the need for a valuation allowance, the Company considers all reasonably available positive and negative evidence, including recent earnings, expectations of future taxable income and the character of that income. In estimating future taxable income, the Company relies upon assumptions and estimates of future activity including the reversal of temporary differences. Presently, the Company believes that a full valuation allowance is required to reduce deferred tax assets to the amount expected to be realized.

The tax benefit from an uncertain tax position is only recognized if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from these positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

The Company reviews its tax positions on an annual basis and more frequently as facts surrounding tax positions change. Based on these future events, the Company may recognize uncertain tax positions or reverse current uncertain tax positions, the impact of which would affect the consolidated financial statements.

The Company has operations in Germany and the United Kingdom. The operating results of these operations will be permanently reinvested in those jurisdictions. As a result, the Company has only provided for income taxes at local rates when required.

Accounting Standard Update ("ASU") No. 2016-09, "Compensation - Stock Compensation", was issued and adopted in January 2017. ASU 2016-09 eliminates additional paid in capital ("APIC") pools and requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. In addition, modified retrospective adoption of ASC 2016-09 eliminates the requirement that excess tax benefits be realized (i.e., through a reduction in income taxes payable) before we can recognize them and therefore, we have accounted for a cumulative-effect adjustment of \$7.7 million during the six months ended June 30, 2017 to record excess tax benefits. Since the Company has a full valuation allowance on all deferred taxes, this has no impact on retained earnings or the tax position of the Company.

The Company is subject to U.S. federal, state, and foreign income taxes. The Company recorded a provision for income taxes of approximately \$56,000 and \$9,000 for the three months ended June 30, 2017 and 2016, respectively, and \$63,000 and \$13,000 for the six months ended June 30, 2017 and 2016, respectively.

The Company recognizes interest and penalties related to income taxes as a component of income tax expense. As of June 30, 2017 and December 31, 2016, \$17,000 and \$13,000 of interest and penalties have been accrued, respectively.

#### Medical device excise tax

The Company is subject to the Health Care and Education Reconciliation Act of 2010 (the "Act"), which imposes a tax equal to 2.3% on the sales price of any taxable medical device by a medical device manufacturer, producer or importer of such device. Under the Act, a taxable medical device is any device defined in Section 201(h) of the Federal Food, Drug, and Cosmetic Act, intended for humans, which includes an instrument, apparatus, implement, machine, contrivance, implant, in vitro reagent, or other similar or related article, including any component, part, or accessory, which meets certain requirements. The Consolidated Appropriations Act of 2016 includes a two-year moratorium on the medical device excise tax, which moratorium suspended taxes on the sale of a taxable medical device by the manufacturer, producer, or importer of the device during the period beginning on January 1, 2016 and ending on December 31, 2017. As such, the Company did not incur medical device excise tax expense during the three and six months ended June 30, 2017 and 2016, respectively. Unless the medical device tax is repealed or the moratorium extended, the Company expects that it will incur expenses associated with the medical device excise tax beginning on January 1, 2018.

Stock-based compensation

The Company accounts for stock-based compensation in accordance with ASC 718, Stock Based Compensation. ASC 718 requires all stock-based payments to employees and consultants, including grants of stock options, to be recognized in the consolidated statements of operations based on their fair values. The Company uses the Black-Scholes option pricing model to determine the weighted-average fair value of options

granted and recognizes the compensation expense of stock-based awards on a straight-line basis over the vesting period of the award.

The determination of the fair value of stock-based payment awards utilizing the Black-Scholes option pricing model is affected by the stock price, exercise price, and a number of assumptions, including expected volatility of the stock, expected life of the option, risk-free interest rate and expected dividends on the stock. The Company evaluates the assumptions used to value the awards at each grant date and if factors change and different assumptions are utilized, stock-based compensation expense may differ significantly from what has been recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, the Company may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. See “Note K—Stockholders’ Equity” for a summary of the stock option activity under the Company’s stock-based compensation plan.

#### Net loss per share

The Company calculates net loss per share in accordance with ASC 260, "Earnings per Share". Basic earnings per share (“EPS”) is calculated by dividing the net income or loss for the period by the weighted average number of common shares outstanding for the period, without consideration for common stock equivalents.

Diluted EPS is computed by dividing the net income or loss for the period by the weighted average number of common shares outstanding for the period and the weighted average number of dilutive common stock equivalents outstanding for the period determined using the treasury stock method.

The following table sets forth the computation of basic and diluted earnings per share attributable to stockholders (in thousands, except share and per share data):

| (in thousands, except share and per share data)                     | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | June 30,           |            | June 30,         |            |
|   | 2017               | 2016       | 2017             | 2016       |
| Numerator:  |                    |            |                  |            |
| Numerator for basic and diluted loss per share:                     |                    |            |                  |            |
| Net loss  | \$(12,090)         | \$(14,052) | \$(29,250)       | \$(29,086) |
| Denominator:  |                    |            |                  |            |
| Denominator for basic loss per share:                               |                    |            |                  |            |
| Weighted average shares   | 43,193,065         | 41,314,942 | 43,035,672       | 41,155,421 |
| Basic loss per share attributable to ConforMIS, Inc. stockholders   | \$(0.28)           | \$(0.34)   | \$(0.68)         | \$(0.71)   |
| Diluted loss per share attributable to ConforMIS, Inc. stockholders | \$(0.28)           | \$(0.34)   | \$(0.68)         | \$(0.71)   |

The following table sets forth potential shares of common stock equivalents that are not included in the calculation of diluted net loss per share because to do so would be anti-dilutive as of the end of each period presented:

|   | Three Months   |           | Six Months Ended |           |
|---|----------------|-----------|------------------|-----------|
|   | Ended June 30, |           | June 30,         |           |
|   | 2017           | 2016      | 2017             | 2016      |
| Common stock warrants                     | —              | 44,659    | —                | 61,169    |
| Stock options and restricted stock awards | 355,741        | 2,120,712 | 589,122          | 2,286,613 |
| Total                                     | 355,741        | 2,165,371 | 589,122          | 2,347,782 |



## Recent accounting pronouncements

In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting". This ASU provides clarification on when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. The guidance will be effective the first quarter of 2018, with early adoption permitted. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements and expects to adopt this pronouncement commencing in the first quarter of 2018.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles- Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". This ASU removes the second step of the two-step test to determine goodwill impairment previously required. Entities will now apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. The guidance will be effective the first quarter of 2020, with early adoption permitted. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements and expects to adopt this pronouncement commencing the first quarter of 2020.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230) Restricted Cash a consensus of the FASB Emerging Issues Task Force". The standard requires restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows. The guidance will be effective in the first quarter of 2018, with early adoption permitted. The Company evaluated the impact of this pronouncement noting the Company's cash flow disclosure currently reflects ASU No. 2016-18 disclosure requirements. The Company expects to adopt this pronouncement commencing in the first quarter of 2018.

In June 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients", which provides guidance for accounting of credit losses affecting the impairment model for most financial assets and certain other instruments. Entities will be required to use a new forward-looking current expected credit loss model for trade and other receivables, held-to-maturity debt securities, loans and other instruments, which will generally lead to an earlier recognition of loss allowances. Entities will recognize losses on available-for-sale debt securities as allowances rather than a reduction in amortized cost of the security while the measurement process of this loss does not change. Disclosure requirements are expanded regarding an entity's assumptions, models and methods of estimations of the allowance. The guidance will be effective in the first quarter of 2018, with the option for early adoption. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements and expects to adopt this pronouncement commencing in the first quarter of 2018.

In April 2016, the FASB issued ASU 2016-10, "Identifying Performance Obligations and Licensing" ("ASU 2016-10"). This ASU clarifies two aspects of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606): identifying performance obligations and the licensing implementation guidance". ASU 2016-10 will become effective for the first quarter of 2018. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements and expects to adopt this pronouncement commencing in the first quarter of 2018.

In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. This guidance will be effective in the first quarter of 2018, with the option to adopt it in the first quarter of 2017. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements and expects to adopt this pronouncement commencing in the first quarter of 2018.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This ASU amends various aspects of existing guidance for leases and requires additional disclosures about leasing arrangements. It will require companies to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under GAAP. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. This ASU is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years;

earlier adoption is permitted. In the financial statements in which the ASU is first applied, leases shall be measured and recognized at the beginning of the earliest comparative period presented with an adjustment to equity. Practical expedients are available for election as a package and if applied consistently to all leases. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements and expects to adopt this pronouncement commencing in the first quarter of 2019.

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes", which eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. This guidance is effective for public companies financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted ASU 2015-17 effective January 1, 2017 on a prospective basis. Since the Company has a full valuation allowance, adoption of ASU 2015-17 had no impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-9, "Revenue from Contracts with Customers (Topic 606)". ASU 2014-9 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new guidance was to be effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017; early adoption was permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods. Companies have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. In August 2015, the FASB issued ASU 2015-14 to defer the effective date of the guidance contained in ASU 2014-9 by one year. Thus, the guidance is effective for the Company commencing in the first quarter of 2018. The Company has begun its assessment process to evaluate the impact and expects to complete this assessment later in 2017. While the Company continues to evaluate the effect of the standard, adoption of this ASU will require additional disclosure around the Company's revenue recognition in its financial statements. To complete the assessment of the impact of the standard, the Company continues to assess all implications of the standard, method of adoption, and related financial disclosures. The Company's evaluation of ASU 2014-09 is ongoing and not complete. The Company expects to adopt this pronouncement and related disclosures commencing in the first quarter of 2018.

#### Change in accounting policy regarding share-based compensation

Effective January 1, 2017, the Company elected to change its accounting policy to recognize forfeitures as they occur in accordance with ASU 2016-09, "Compensation - Stock Compensation". Historically, the Company recognized share-based compensation net of estimated forfeitures over the vesting period of the respective grant. The new forfeiture policy election was adopted using a modified retrospective approach with a cumulative effect adjustment of \$0.3 million to accumulated deficit and an offset to APIC as of January 1, 2017.

ASU No. 2016-09, "Compensation - Stock Compensation", was issued and adopted in January 2017. ASU 2016-09 eliminates APIC pools and requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. In addition, modified retrospective adoption of ASC 2016-09 eliminates the requirement that excess tax benefits be realized (i.e., through a reduction in income taxes payable) before we can recognize them and therefore, we have accounted for a cumulative-effect adjustment of \$7.7 million during the quarter ended June 30, 2017 to record excess tax benefits. Since the Company has a full valuation allowance on all deferred taxes, this has no impact on retained earnings or the tax position of the Company.

#### Note C—Fair Value Measurements

The Fair Value Measurements topic of the FASB Codification establishes a framework for measuring fair value in accordance with US GAAP, clarifies the definition of fair value within that framework and expands disclosures about fair value measurements. This guidance requires disclosure regarding the manner in which fair value is determined for assets and liabilities and establishes a three-tiered value hierarchy into which these assets and liabilities must be grouped, based upon significant levels of inputs as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs, other than Level 1 prices, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company's investment policy is consistent with the definition of available-for-sale securities. All investments have been classified within Level 1 or Level 2 of the fair value hierarchy because of the sufficient observable inputs for revaluation. The Company's Level 1 cash and equivalents and investments are valued using quoted prices that are readily and regularly available in the active market. The Company's Level 2 investments are valued at par value or using third-party pricing sources based on observable inputs, such as quoted prices for similar assets at the measurement date; or other inputs that are observable, either directly or indirectly.

The following table summarizes, by major security type, the Company's assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy and where they are classified on the Consolidated Balance Sheets (in thousands):

|                      | June 30, 2017     |                              |                               |                            |                         |                                  |                                 |
|----------------------|-------------------|------------------------------|-------------------------------|----------------------------|-------------------------|----------------------------------|---------------------------------|
|                      | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value | Cash and<br>equivalents | Short-term<br>(1)<br>investments | Long-term<br>(2)<br>investments |
| Cash                 | \$22,650          | \$ —                         | —                             | \$ 22,650                  | \$ 22,650               | \$ —                             | \$ —                            |
| Level 1 securities:  |                   |                              |                               |                            |                         |                                  |                                 |
| Money market funds   | 10,557            | —                            | —                             | 10,557                     | 10,557                  | —                                | 1,251                           |
| U.S. treasury bonds  | 1,251             | —                            | —                             | 1,251                      | —                       | —                                | —                               |
| Level 2 securities:  |                   |                              |                               |                            |                         |                                  |                                 |
| Corporate bonds      | 6,004             | —                            | (3 )                          | 6,001                      | —                       | 6,001                            | —                               |
| Commercial paper     | 3,997             | —                            | —                             | 3,997                      | —                       | 3,997                            | —                               |
| Agency bond          | 20,742            | —                            | (22 )                         | 20,720                     | —                       | 19,220                           | 1,499                           |
| Repurchase agreement | 6,000             | —                            | —                             | 6,000                      | 6,000                   | —                                | —                               |
| Total                | \$71,201          | \$ —                         | —\$ (25 )                     | \$ 71,176                  | \$ 39,207               | \$ 29,218                        | \$ 2,750                        |

|                     | December 31, 2016 |                              |                               |                            |                         |                                  |                                 |
|---------------------|-------------------|------------------------------|-------------------------------|----------------------------|-------------------------|----------------------------------|---------------------------------|
|                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value | Cash and<br>equivalents | Short-term<br>(1)<br>investments | Long-term<br>(2)<br>investments |
| Cash                | \$8,504           | \$ —                         | —                             | \$ 8,504                   | \$ 8,504                | \$ —                             | \$ —                            |
| Level 1 securities: |                   |                              |                               |                            |                         |                                  |                                 |
| Money market funds  | 28,753            | —                            | —                             | 28,753                     | 28,753                  | —                                | —                               |
| Level 2 securities: |                   |                              |                               |                            |                         |                                  |                                 |
| Corporate bonds     | 6,701             | —                            | (4 )                          | 6,697                      | —                       | 6,697                            | —                               |
| Agency bonds        | 21,548            | —                            | (3 )                          | 21,545                     | —                       | 21,545                           | —                               |
| Total               | \$65,506          | \$ —                         | —\$ (7 )                      | \$ 65,499                  | \$ 37,257               | \$ 28,242                        | \$ —                            |

(1) Contractual maturity due within one year.

(2) Contractual maturity greater than one year.

## Note D—Accounts Receivable

Accounts receivable consisted of the following (in thousands):

|   | June 30,<br>2017 | December 31,<br>2016 |
|---|------------------|----------------------|
| Total receivables                           | \$12,514         | \$ 15,356            |
| Allowance for doubtful accounts and returns | (646 )           | (681 )               |
| Accounts receivable, net                    | \$11,868         | \$ 14,675            |

Accounts receivable included unbilled receivable of \$1.6 million and \$2.5 million at June 30, 2017 and December 31, 2016, respectively. Write-offs related to accounts receivable were approximately \$3,000 and \$0 for the three months ended June 30, 2017 and 2016, respectively, and \$11,000 and \$0 for the six months ended June 30, 2017 and 2016, respectively.

Summary of allowance for doubtful accounts and returns activity was as follows (in thousands):

|  | June 30,<br>2017 | December 31,<br>2016 |
|--|------------------|----------------------|
| Beginning balance                            | (681 )           | (554 )               |
| Provision for bad debts on trade receivables | 4                | (188 )               |
| Other allowances                             | 20               | 20                   |
| Accounts receivable write offs               | 11               | 41                   |
| Ending balance                               | \$(646 )         | \$(681 )             |

## Note E—Inventories

Inventories consisted of the following (in thousands):

|                   | June 30,<br>2017 | December 31,<br>2016 |
|-------------------|------------------|----------------------|
| Raw Material      | \$4,444          | \$ 3,331             |
| Work in process   | 1,540            | 2,530                |
| Finished goods    | 5,800            | 5,859                |
| Total Inventories | \$11,784         | \$ 11,720            |

At June 30, 2017 and December 31, 2016, inventories included write-downs of \$0.2 million related to units affected by the recall and sterilization capacity limitation.

## Note F—Intangible Assets

The components of intangible assets consisted of the following (in thousands):

|                           | Estimated<br>Useful Life<br>(Years) | June<br>30,<br>2017 | December<br>31, 2016 |
|---------------------------|-------------------------------------|---------------------|----------------------|
| Developed technology      | 10                                  | \$979               | \$ 979               |
| Accumulated amortization  |                                     | (730 )              | (681 )               |
| Developed technology, net |                                     | 249                 | 298                  |
| License agreements        | 10                                  | 1,508               | 1,508                |
| Accumulated amortization  |                                     | (1,135 )            | (1,060 )             |
| License technology, net   |                                     | 373                 | 448                  |

|                        |    |       |        |
|------------------------|----|-------|--------|
| Intangible assets, net | 10 | \$622 | \$ 746 |
|------------------------|----|-------|--------|

16

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The Company recognized amortization expense of \$62,000 for the three months ended June 30, 2017, and 2016, and \$124,000 for the six months ended June 30, 2017, and 2016. The weighted-average remaining life of total amortizable intangible assets is 2.50 years for the developed technology and license agreements.

The estimated future aggregated amortization expense for intangible assets owned as of June 30, 2017 consisted of the following (in thousands):

|                              | Amortization<br>expense |
|------------------------------|-------------------------|
| 2017 (remainder of the year) | \$ 124                  |
| 2018                         | 249                     |
| 2019                         | 249                     |
|                              | \$ 622                  |

#### Note G—Accrued Expenses

Accrued expenses consisted of the following (in thousands):

|                                | June 30,<br>2017 | December 31,<br>2016 |
|--------------------------------|------------------|----------------------|
| Accrued employee compensation  | \$ 4,142         | \$ 4,037             |
| Deferred rent                  | 78               | 101                  |
| Accrued legal expense          | 726              | 710                  |
| Accrued consulting expense     | 65               | 104                  |
| Accrued vendor charges         | 998              | 1,396                |
| Accrued revenue share expense  | 848              | 992                  |
| Accrued clinical trial expense | 231              | 256                  |
| Accrued other                  | 1,099            | 896                  |
|                                | \$ 8,187         | \$ 8,492             |

#### Note H—Commitments and Contingencies

##### Operating Leases - Real Estate

The Company maintains its corporate headquarters in a leased building located in Billerica, Massachusetts. The Company moved its corporate headquarters from Bedford, Massachusetts in April 2017. The Company maintains its manufacturing facility in a leased building located in Wilmington, Massachusetts.

The Billerica facility is leased under a long-term, non-cancellable lease that is scheduled to expire in October 2025. The Company leased the Bedford facility under a long-term, non-cancellable sublease that was set to expire in April 2017. In April 2017, the Company and the landlord of the Bedford facility agreed to a holdover of 30 days beyond the lease termination through May 31, 2017.

On July 25, 2016, the Company entered into an amendment to the Wilmington Lease. Pursuant to the amendment, the Company exercised an option in its current lease to rent an additional 18,223 square feet of space adjacent to the Company's existing premises. The Company took possession of the additional space in April 2017. The Company has a right to extend the term for one additional five-year period following termination of the lease in March 2022. The initial base rental rate for the additional space is \$0.2 million annually, subject to 2% annual increases until the expiration of the initial term.

Rent expense of \$0.6 million and \$0.4 million for the three months ended June 30, 2017 and 2016, respectively, and \$0.9 million and \$0.7 million for the six months ended June 30, 2017 and 2016, respectively, was charged to



operations. The Company's operating lease agreements contain scheduled rent increases, which are being amortized over the terms of the agreements using the straight-line method.

## License and revenue share agreements

### Revenue Share Agreements

The Company is party to revenue share agreements with certain past and present members of its scientific advisory board under which these advisors agreed to participate on its scientific advisory board and to assist with the development of the Company's customized implant products and related intellectual property. These agreements provide that the Company will pay the advisor a specified percentage of the Company's net revenues, ranging from 0.1% to 1.33%, with respect to the Company's products on which the advisor made a technical contribution or, in some cases, which the Company covered by a claim of one of its patents on which the advisor is a named inventor. The specific percentage is determined by reference to product classifications set forth in the agreement and is tiered based on the level of net revenues collected by the Company on such product sales. The Company's payment obligations under these agreements typically expire a fixed number of years after expiration or termination of the agreement, but in some cases expire on a product-by-product basis or expiration of the last to expire of the Company's patents where the advisor is a named inventor that claims the applicable product.

Philipp Lang, M.D., one of the Company's directors and former Chief Executive Officer, joined the Company's scientific advisory board in 2004 prior to becoming an employee. The Company first entered into a revenue share agreement with Dr. Lang in 2008 when he became the Company's Chief Executive Officer. In 2011, the Company entered into an amended and restated revenue share agreement with Dr. Lang. Under this agreement, the specified percentage of the Company's net revenues payable to Dr. Lang ranges from 0.875% to 1.33% and applies to all of the Company's current products, including the Company's iUni, iDuo, iTotal CR, and iTotal PS products, as well as certain other knee, hip and shoulder replacement products and related instrumentation the Company may develop in the future. The Company's payment obligations under this agreement expire on a product-by-product basis on the last to expire of the Company's patents on which Dr. Lang is named an inventor that claim the applicable product. These payment obligations survived the termination of Dr. Lang's employment with the Company. The Company incurred revenue share expense paid to Dr. Lang of \$231,000 and \$238,000 for the three months ended June 30, 2017, and 2016, respectively, and \$489,000 and \$487,000 for the six months ended June 30, 2017, and 2016, respectively.

The Company incurred aggregate revenue share expense including all amounts payable under the Company's scientific advisory board and Dr. Lang revenue share agreements of \$0.9 million during the three months ended June 30, 2017, representing 4.9% of product revenue, \$1.9 million during the six months ended June 30, 2017, representing 4.8% of product revenue, \$0.9 million during the three months ended June 30, 2016, representing 4.7% of product revenue, and \$1.7 million during the six months ended June 30, 2016, representing 5.2% of product revenue. Revenue share expense is included in research and development. See "Note J—Related Party Transactions" for further information regarding the Company's arrangement with Dr. Lang.

### Other obligations

In the ordinary course of business, the Company is a party to certain non-cancellable contractual obligations typically related to research and development and marketing services. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

There have been no contingent liabilities requiring accrual at June 30, 2017 or December 31, 2016.

### Legal proceedings

In the ordinary course of the Company's business, the Company is subject to litigation, claims and administrative proceedings on a variety of matters, including patent infringement, product liability, securities-related claims, and other claims in the United States and in other countries where the Company sells its products. An estimate of the

possible loss or range of loss as a result of any of these matters cannot be made; however, management does not believe that these matters, individually or in the aggregate, are material to its financial condition, results of operations or cash flows.

On February 29, 2016, the Company filed a lawsuit against Smith & Nephew, Inc. ("Smith & Nephew") in the United States District Court for the District of Massachusetts Eastern Division, and the Company amended its complaint on June 13, 2016 (the "Smith & Nephew Lawsuit"). The Smith & Nephew Lawsuit alleges that Smith &

Nephew's Visionaire® patient-specific instrumentation as well as the implants systems used in conjunction with the Visionaire instrumentation infringe nine of the Company's patents, and it requests, among other relief, monetary damages for willful infringement, enhanced damages and a permanent injunction.

On May 27, 2016, Smith & Nephew filed its Answer and Counterclaims in response to the Company's lawsuit, which it subsequently amended on July 22, 2016. Smith & Nephew denied that its Visionaire® patient-specific instrumentation as well as the implants systems used in conjunction with the Visionaire instrumentation infringe the patents asserted by the Company in the lawsuit. It also alleged two affirmative defenses: that the Company's asserted patents are invalid and that the Company is barred from relief under the doctrine of laches. In addition, Smith & Nephew asserted a series of counterclaims, including counterclaims seeking declaratory judgments that Smith & Nephew's accused products do not infringe the Company's patents and that the Company's patents are invalid. Smith & Nephew also alleged that ConforMIS infringes ten patents owned or exclusively licensed by Smith & Nephew: two patents that Smith & Nephew alleges are infringed by the Company's iUni and iDuo products; three patents that Smith & Nephew alleges are infringed by the Company's iTotal products; and five patents that Smith & Nephew licenses from Kinamed, Inc. of Camarillo, California and that it alleges are infringed by the Company's iUni, iDuo and iTotal products. Due to Smith & Nephew's licensing arrangement with Kinamed, Kinamed was named as a party to the lawsuit. Smith & Nephew and Kinamed requested, among other relief, monetary damages for willful infringement, enhanced damages and a permanent injunction. On March 9, 2017, the Court entered a stipulation of dismissal by the parties that dismissed from the lawsuit eight patents asserted by Smith & Nephew, including the patents involving Kinamed, and two patents asserted by ConforMIS.

Between September 21, 2016 and March 1, 2017, Smith & Nephew filed sixteen petitions with the United States Patent & Trademark Office ("USPTO") requesting Inter Partes Review of the nine patents that the Company asserted against Smith & Nephew in the lawsuit. In its petitions, Smith & Nephew alleges that the Company's patents are obvious in light of certain prior art. At this time, the USPTO has granted six petitions seeking Inter Partes Review pertaining to four patents in the lawsuit and one patent that is no longer part of the lawsuit. Six of the petitions seeking Inter Parties Review of two additional patents in the lawsuit and one patent that is no longer part of the lawsuit remain to be decided. Smith & Nephew has filed a request for rehearing of one of the petitions that was denied and may file motions for reconsideration of the other petitions that were denied.

On January 27, 2017, Smith & Nephew filed a motion seeking a stay of the Smith & Nephew Lawsuit until any requested Inter Partes Reviews are resolved, and the Company filed an opposition to that motion. The Court has stayed certain aspects of the proceedings and has indicated that it will make a final decision on the motion to stay after the USPTO has decided more of the petitions for Inter Partes Review. The Company is presently unable to predict the outcome of the motion to stay the proceedings, the existing petitions requesting Inter Partes Review of the Company's patents, including whether the USPTO will institute any of the remaining requested Inter Partes Reviews, or, if instituted, the outcome of any such Inter Partes Reviews. An adverse outcome of some or all of these potential Inter Partes Review proceedings and lawsuit could have a material adverse effect on the Company's business, financial condition or results of operations. The Company is presently unable to predict the outcome of the lawsuit or to reasonably estimate a range of potential losses, if any, related to the lawsuit.

Legal costs associated with legal proceedings are accrued as incurred.

#### Indemnifications

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations. However, the Company may record charges in the future as a result of these

indemnification obligations. In accordance with its bylaws, the Company has indemnification obligations to its officers and directors for certain events or occurrences, subject to certain limits, while they are serving at the Company's request in such capacity. There have been no claims to date and the Company has a director and officer insurance policy that enables it to recover a portion of any amounts paid for future claims.

## Note I—Debt and Notes Payable

Long-term debt consisted of the following (in thousands):

|  | June 30, December 31, |      |
|--|-----------------------|------|
|  | 2017                  | 2016 |
| Oxford Finance, LLC, Term A Loan         | 15,000                | —    |
| Oxford Finance, LLC, Term B Loan         | 15,000                | —    |
|  | 30,000                | —    |
| Less debt issuance costs                 | (388 )                | —    |
| Long-term debt, less debt issuance costs | 29,612                | —    |

The principal payments due as of June 30, 2017 consisted of the following (in thousands):

|                              | Principal<br>Payment |
|------------------------------|----------------------|
| 2017 (remainder of the year) | \$—                  |
| 2018                         | —                    |
| 2019                         | —                    |
| 2020                         | 13,750               |
| 2021                         | 15,000               |
| 2022                         | 1,250                |
| Total                        | \$ 30,000            |

## 2017 Secured Loan Agreement

On January 6, 2017, the Company entered into a senior secured \$50 million loan and security agreement with Oxford. Through the term loan facility with Oxford, the Company initially accessed \$15 million of borrowings, and a second \$15 million of borrowings, (the "Term B Loan"), on June 30, 2017, with an additional \$20 million available to borrow, at its option, through June 2018, subject to the satisfaction of certain revenue milestones and customary drawdown conditions. On March 9, 2017, the term loan facility with Oxford was amended to include an additional revenue milestone in order for the Company to drawdown the second and third tranches. On June 30, 2017, the term loan facility was further amended to, among other things, amend the period during which the Company was able to borrow the second term loan under the term loan facility, and also to amend the associated financial covenants of the Company. Amending the term loan facility made the Term B Loan available to the Company through the earlier of (i) June 30, 2017, or (ii) an event of default under the term loan facility. Except as modified by the amendment, all terms and conditions of the term loan facility remain in full force and effect. The proceeds of the Term B Loan will be used to fund the Company's ongoing working capital needs.

The credit facility is secured by substantially all of the Company's personal property other than the Company's intellectual property. Under the terms of the credit facility, the Company cannot grant a security interest in its intellectual property to any other party.

The term loan under the credit facility bears interest at a floating annual rate calculated at the greater of 30 day LIBOR or 0.53%, plus 6.47%. The Company is required to make monthly interest only payments in arrears commencing on the second payment date following the funding date of each term loan, and continuing on the payment date of each successive month thereafter through and including the payment date immediately preceding the amortization date of February 1, 2020. Commencing on the amortization date, and continuing on the payment date of each month thereafter, the Company is required to make consecutive equal monthly payments of principal of each term loan, together with accrued interest, in arrears, to Oxford. All unpaid principal, accrued and unpaid interest with respect to each term loan, and a final payment in the amount of 5.0% of the amount of loans advanced, is due and payable in full on the term loan maturity date. The term loan facility has a term of five years and matures on January 1, 2022.

At the Company's option, the Company may prepay all, but not less than all, of the term loans advanced by Oxford under the term loan facility, subject to a prepayment fee and an amount equal to the sum of all outstanding principal of the term loans plus accrued and unpaid interest thereon through the prepayment date, a final payment, plus all other amounts that are due and payable, including Oxford's expenses and interest at the default rate with respect to any past due amounts.

20

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The credit facility also includes events of default, the occurrence and continuation of which could cause interest to be charged at the rate that is otherwise applicable plus 5.0% and would provide Oxford, as collateral agent with the right to exercise remedies against us and the collateral securing the credit facility, including foreclosure against assets securing the credit facilities, including the Company's cash. These events of default include, among other things, the Company's failure to pay any amounts due under the credit facility, a breach of covenants under the credit facility, including, among other customary debt covenants, achieving certain revenue levels and limiting the amount of cash and cash equivalents held by the Company's foreign subsidiaries, the Company's insolvency, a material adverse change, the occurrence of any default under certain other indebtedness in an amount greater than \$500,000, one or more judgments against the Company in an amount greater than \$500,000, a material adverse change with respect to any governmental approval and any delisting event.

#### Note J—Related Party Transactions

##### Vertegen

In April 2007, the Company entered into a license agreement with Vertegen, Inc., or Vertegen, which was amended in May 2015 (the "Vertegen Agreement"). Vertegen is an entity that is wholly owned by Dr. Lang, the Company's Chief Executive Officer. Under the Vertegen Agreement, Vertegen granted the Company an exclusive, worldwide license under specified Vertegen patent rights and related technology to make, use and sell products and services in the fields of diagnosis and treatment of articular disorders and disorders of the human spine. The company may sublicense the rights licensed to it by Vertegen. The Company is required to use commercially reasonable efforts, at its sole expense, to prosecute the patent applications licensed to the Company by Vertegen. Pursuant to the Vertegen Agreement, the Company is required to pay Vertegen a 6% royalty on net sales of products covered by the patents licensed to the Company by Vertegen, the subject matter of which is directed primarily to spinal implants, and any proceeds from the Company enforcing the patent rights licensed to the Company by Vertegen. Such 6% royalty rate will be reduced to 3% in the United States during the five-year period following the expiration of the last-to-expire applicable patent in the United States and in the rest of the world during the five-year period following the expiration of the last-to-expire patent anywhere in the world. The Company has not sold any products subject to this agreement and has paid no royalties under this agreement. The Company has cumulatively paid approximately \$150,000 in expenses as of June 30, 2017 in connection with the filing and prosecution of the patent applications licensed to the Company by Vertegen.

The Vertegen Agreement may be terminated by the Company at any time by providing notice to Vertegen. In addition, Vertegen may terminate the Vertegen Agreement in its entirety if the Company is in material breach of the agreement, and the Company fails to cure such breach during a specified period.

##### Revenue share agreements

As described in Note H, the Company is a party to certain agreements with advisors to participate as a member of the Company's scientific advisory board. In September 2011, the Company entered into an amended and restated revenue share agreement with Philipp Lang, M.D., one of, the Company's directors and former Chief Executive Officer, which amended and restated a similar agreement entered into in 2008 when Dr. Lang stepped down as chair of the Company's scientific advisory board and became the Company's Chief Executive Officer. This agreement provides that the Company will pay Dr. Lang a specified percentage of its net revenues, ranging from 0.875% to 1.33%, with respect to all of its current and planned products, including the Company's iUni, iDuo, iTot CR, and iTot PS products, as well as certain other knee, hip and shoulder replacement products and related instrumentation the Company may develop in the future. The specific percentage is determined by reference to product classifications set forth in the agreement and is tiered based on the level of net revenues collected by the Company on such product sales. The Company's payment obligations expire on a product-by-product basis on the last to expire of the Company's



patents on which Dr. Lang is a named inventor that claim the applicable product. These payment obligations survived the termination of Dr. Lang's employment with the Company. The Company incurred revenue share expense paid to Dr. Lang of \$231,000 and \$238,000 and for the three months ended June 30, 2017 and 2016, respectively, and \$489,000 and \$487,000 for the six months ended June 30, 2017 and 2016, respectively.

## Note K—Stockholders' Equity

## Common stock

Common stockholders are entitled to dividends as and when declared by the board of directors, subject to the rights of holders of all classes of stock outstanding having priority rights as to dividends. There have been no dividends declared to date. The holder of each share of common stock was entitled to one vote.

Summary of common stock activity was as follows:

|   | Shares     |
|---|------------|
| Outstanding December 31, 2016               | 43,399,547 |
| Issuance of common stock - option exercises | 470,354    |
| Issuance of restricted common stock         | 767,381    |
| Issuance of common stock - ATM offering     | 228,946    |
| Outstanding June 30, 2017                   | 44,866,228 |

## Preferred stock

The Company's Restated Certificate of Incorporation authorizes the Company to issue 5,000,000 shares of preferred stock, \$0.00001 par value, all of which is undesignated. No shares were issued and outstanding at June 30, 2017 and December 31, 2016.

## Warrants

The Company also issued warrants to certain investors and consultants to purchase shares of the Company's preferred stock and common stock. Based on the Company's assessment of the warrants granted in 2013 and 2014 relative to ASC 480, Distinguishing Liabilities from Equity, the warrants are classified as equity. No new warrants were issued in the three and six months ended June 30, 2017. According to ASC 480, an entity shall classify as a liability any financial instrument, other than an outstanding share, that, at inception, both a) embodies an obligation to repurchase the issuer's equity shares, or is indexed to such obligation and b) requires or may require the issuer to settle the obligation by transferring assets. The warrants do not contain any provision that requires the Company to repurchase the shares and are not indexed to such an obligation. The warrants also do not require the Company to settle by transferring assets.

## Common stock warrants

The Company also issued warrants to certain investors and consultants to purchase 1,138,424 shares of common stock at an exercise price range of \$0.02 to \$9.00 per share. Additionally, certain warrants to purchase shares of preferred stock were converted to 564,188 warrants to purchase 564,188 shares of common stock. Warrants to purchase 171,783 and 171,783 shares of common stock were outstanding as of June 30, 2017 and December 31, 2016, respectively. Outstanding warrants are currently exercisable with varying expiration dates from 2017 through 2024.

At June 30, 2017 and December 31, 2016, the weighted average warrant exercise price per share for common stock underlying warrants and the weighted average contractual life was as follows:

| Number of Warrants | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Life | Number of Warrants Exercisable | Weighted Average Price Per Share |
|--------------------|---|---|--------------------------------|----------------------------------|
| 171,783            | \$ 7.47                                   | 1.62  | 171,783                        | \$ 7.47                          |

Outstanding December 31,  
2016

|                           |         |         |      |         |         |
|---------------------------|---------|---------|------|---------|---------|
| Outstanding June 30, 2017 | 171,783 | \$ 7.47 | 1.08 | 171,783 | \$ 7.47 |
|---------------------------|---------|---------|------|---------|---------|

Stock option plans

22

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As of June 30, 2017, 1,192,668 shares of common stock were available for future issuance under the 2015 Stock Incentive Plan ("2015 Plan"). The 2015 Plan provides for an annual increase, to be added on the first day of each fiscal year, beginning with the fiscal year ending December 31, 2016 and continuing until, and including, the fiscal year ending December 31, 2025, equal to the least of (a) 3,000,000 shares of our common stock, (b) 3% of the number of share of our common stock outstanding on the first day of such fiscal year and (c) an amount determined by the Board. Effective January 1, 2017, an additional 1,301,986 shares of our common stock were added to the 2015 Plan under the terms of this provision.

Activity under all stock option plans was as follows:

|                               | Number of Options | Weighted Average Exercise Price per Share | Aggregate Intrinsic Value (in Thousands) |
|-------------------------------|-------------------|---|--|
| Outstanding December 31, 2016 | 3,790,040         | \$ 6.60                                   |  |
| Granted                       | 885,854           | 5.10                                      |  |
| Exercised                     | (470,354 )        | 4.28                                      | 1,551                                    |
| Expired                       | (212,131 )        | 7.19                                      |  |
| Cancelled/Forfeited           | (13,416 )         | 13.18                                     |  |
| Outstanding June 30, 2017     | 3,979,993         | \$ 6.48                                   | \$ 586                                   |
| Total vested and exercisable  | 2,727,313         | \$ 6.44                                   | \$ 586                                   |

The total fair value of stock options that vested during the three and six months ended June 30, 2017 was \$0.3 million and \$0.7 million, respectively. The weighted average remaining contractual term for the total stock options outstanding was 6.21 years as of June 30, 2017. The weighted average remaining contractual term for the total stock options vested and exercisable was 4.75 years as of June 30, 2017.

Restricted common stock award activity under the plan was as follows:

|                            | Number of Shares | Weighted Average Fair Value |
|----------------------------|------------------|-----------------------------|
| Unvested December 31, 2016 | 911,710          | \$ 10.18                    |
| Granted                    | 804,174          | 5.11                        |
| Vested                     | (172,525 )       | 8.84                        |
| Forfeited                  | (36,793 )        | 7.4                         |
| Unvested June 30, 2017     | 1,506,566        | \$ 7.69                     |

The total fair value of restricted common stock options that vested during the three and six months ended June 30, 2017 was \$0.6 million and \$1.5 million, respectively.

#### Stock-based compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using a pricing model is affected by the value of the Company's common stock as well as assumptions regarding a number of complex and subjective variables. The valuation of the Company's common stock prior to the IPO was performed with the assistance of an independent third-party valuation firm using a methodology that includes various inputs including the Company's historical and projected financial results, peer company public data and market metrics, such as risk-free interest and discount rates. As the valuations included unobservable inputs that were primarily based on the Company's own assumptions, the inputs were considered level 3 inputs within the fair value hierarchy.

The fair value of options at date of grant was estimated using the Black-Scholes option pricing model, based on the following assumptions:

23

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|                          | Three and Six<br>Months Ended<br>June 30, |           |
|--------------------------|---|-----------|
|                          | 2017                                      | 2016      |
| Risk-free interest rate  | 2.14%                                     | 1.75%     |
| Expected term (in years) | 6.02                                      | 6.02-6.25 |
| Dividend yield           | —%  | —%        |
| Expected volatility      | 50.95%                                    | 50.00%    |

Stock-based compensation expense was \$1.4 million and \$1.2 million for the three months ended June 30, 2017 and 2016, and \$2.7 million and \$2.1 million for the six months ended June 30, 2017 and 2016. Stock-based compensation expense was calculated based on awards ultimately expected to vest. To date, the amount of stock-based compensation capitalized as part of inventory was not material.

The following is a summary of stock-based compensation expense (in thousands):

|                            | Three Months<br>Ended June 30, |         | Six Months<br>Ended June 30, |         |
|----------------------------|--------------------------------|---------|------------------------------|---------|
|                            | 2017                           | 2016    | 2017                         | 2016    |
| Cost of revenues           | \$117                          | \$63    | \$215                        | \$123   |
| Sales and marketing        | 224                            | 492     | 482                          | 744     |
| Research and development   | 405                            | 264     | 897                          | 565     |
| General and administrative | 703                            | 368     | 1,147                        | 699     |
|                            | \$1,449                        | \$1,187 | \$2,741                      | \$2,131 |

As of June 30, 2017, the Company had \$3.7 million of total unrecognized compensation expense for options that will be recognized over a weighted average period of 3.30 years. As of June 30, 2017, the Company had \$8.5 million of total unrecognized compensation expense for restricted awards that will be recognized over a weighted average period of 2.68 years.

#### Note L—Segment and Geographic Data

The Company operates as one reportable segment as described in Note B to the Consolidated Financial Statements. The countries in which the Company has local revenue generating operations have been combined into the following geographic areas: the United States (including Puerto Rico), Germany and the rest of world, which consists predominately of Europe (including the United Kingdom) and other foreign countries. Sales are attributable to a geographic area based upon the customer's country of domicile. Net property, plant and equipment are based upon physical location of the assets.

Geographic information consisted of the following (in thousands):

|                 | Three Months<br>Ended June 30, |          | Six Months<br>Ended June<br>30, |        |
|-----------------|--------------------------------|----------|---------------------------------|--------|
|                 | 2017                           | 2016     | 2017                            | 2016   |
| Product Revenue |                                |          |                                 |        |
| United States   | \$15,219                       | \$15,002 | 31,183                          | 29,709 |
| Germany         | 2,428                          | 3,650    | 6,393                           | 8,372  |
| Rest of World   | 399                            | 452      | 849                             | 1,005  |
|                 | \$18,046                       | \$19,104 | 38,425                          | 39,086 |

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|                             | June 30,  | December 31, |
|-----------------------------|-----------|--------------|
|                             | 2017      | 2016         |
| Property and equipment, net |           |              |
| United States               | \$ 16,394 | \$ 14,971    |
| Germany                     | 99        | 113          |
| Rest of World               | —         | —            |
|                             | \$ 16,493 | \$ 15,084    |

24

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2016. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, our actual results could differ materially from the results described, in or implied, by these forward-looking statements.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, contained in this Quarterly Report on Form 10-Q, including statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, our ability to raise additional funds, plans and objectives of management and expected market growth are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

The words "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "potential," "should," "target," "will," or "would" or the negative of these terms or other similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

These forward-looking statements include, among other things, statements about:

- our estimates regarding the potential market opportunity and timing of estimated commercialization for our current and future products, including our iUni, iDuo, iTot CR, iTot PS and iTot Hip;
- our expectations regarding our sales, expenses, gross margins and other results of operations;
- our strategies for growth and sources of new sales;
- maintaining and expanding our customer base and our relationships with our independent sales representatives and distributors;
- our current and future products and plans to promote them;
- anticipated trends and challenges in our business and in the markets in which we operate;
- the implementation of our business model, strategic plans for our business, products, product candidates and technology;
- the future availability of raw materials used to manufacture, and finished components for, our products from third-party suppliers, including single source suppliers;
- product liability claims;
- the impact of our voluntary recall initiated in August 2015 on our business operations, financial results and customer relations;
- patent infringement claims;
- our ability to retain and hire necessary employees and to staff our operations appropriately;
- our ability to compete in our industry and with innovations by our competitors;
- potential reductions in reimbursement levels by third-party payors and cost containment efforts of accountable care organizations;
- our ability to protect proprietary technology and other intellectual property and potential claims against us for infringement of the intellectual property rights of third parties;





potential challenges relating to changes in and compliance with governmental laws and regulations affecting our U.S. and international businesses, including regulations of the U.S. Food and Drug Administration and foreign government regulators, such as more stringent requirements for regulatory clearance of our products;

the impact of federal legislation to reform the United States healthcare system and the reimposition of the 2.3 percent medical device excise tax if and when the current moratorium is lifted;

the anticipated adequacy of our capital resources to meet the needs of our business; and

our expectations regarding the time during which we will be an emerging growth company under the JOBS Act.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this Quarterly Report on Form 10-Q, particularly in the “Risk Factors” section, that could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, collaborations, joint ventures or investments that we may make or enter into. You should read this Quarterly Report on Form 10-Q and the documents that we have filed as exhibits to this Quarterly Report on Form 10-Q and our other filings with the SEC completely and with the understanding that our actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## Overview

We are a medical technology company that uses our proprietary iFit Image-to-Implant technology platform to develop, manufacture and sell joint replacement implants that are individually sized and shaped, which we refer to as customized, to fit each patient’s unique anatomy. The worldwide market for joint replacement products is approximately \$15 billion annually and growing, and we believe our iFit technology platform is applicable to all major joints in this market. We believe we are the only company offering a broad line of customized knee implants designed to restore the natural shape of a patient’s knee. We have sold a total of more than 50,000 knee implants in the United States and Europe. In clinical studies, iTTotal CR, our cruciate-retaining total knee replacement implant and best-selling product, demonstrated superior clinical outcomes, including better function and greater patient satisfaction compared to off-the-shelf implants. In 2015, we initiated the limited launch of iTTotal PS, our posterior-stabilized total knee replacement implant which addresses the largest segment of the knee replacement market and we initiated the broad commercial launch of the iTTotal PS in March 2016.

Our iFit technology platform comprises three key elements:

iFit Design, our proprietary algorithms and computer software that we use to design customized implants and associated single-use patient-specific instrumentation, which we refer to as iJigs, based on computed tomography, or CT scans of the patient and to prepare a surgical plan customized for the patient that we call iView.

iFit Printing, a three-dimensional, or 3D, printing technology that we use to manufacture iJigs and that we may extend to manufacture certain components of our customized knee replacement implants.

iFit Just-in-Time Delivery, our just-in-time manufacturing and delivery capabilities.

We believe our iFit technology platform enables a scalable business model that greatly lowers our inventory requirements, reduces the amount of working capital required to support our operations and allows us to launch new products and product improvements more rapidly, as compared to manufacturers of off-the-shelf implants.

All of our knee replacement products have been cleared by the FDA under the premarket notification process of Section 510(k) of the Federal Food, Drug, and Cosmetic Act, or the FDCA, and have received certification to CE Mark. We market our products to orthopedic surgeons, hospitals and other medical facilities and patients. We use direct sales representatives, independent sales representatives and distributors to market and sell our products in the United States, Germany, the United Kingdom and other markets. We were incorporated in Delaware and commenced operations in 2004.

## Components of our results of operations

The following is a description of factors that may influence our results of operations, including significant trends and challenges that we believe are important to an understanding of our business and results of operations.

### Revenue

Our product revenue is generated from sales to hospitals and other medical facilities that are served through a direct sales force, independent sales representatives and distributors in the United States, Germany, the United Kingdom, Austria, Ireland, Switzerland, Singapore, Hong Kong and Monaco. In order for surgeons to use our products, the medical facilities where these surgeons treat patients typically require us to enter into purchasing contracts. The process of negotiating a purchasing contract can be lengthy and time-consuming, require extensive management time and may not be successful.

Revenue from sales of our products fluctuates principally based on the selling price of the joint replacement product, as the sales price of our products varies among hospitals and other medical facilities. In addition, our product revenue may fluctuate based on the product sales mix and mix of sales by geography. Our product revenue from international sales can be significantly impacted by fluctuations in foreign currency exchange rates, as our sales are denominated in the local currency in the countries in which we sell our products. We expect our product revenue to fluctuate from quarter-to-quarter due to a variety of factors, including seasonality, as we have historically experienced lower sales in the summer months and around year-end, the timing of the introduction of our new products, if any, and the impact of the buying patterns and implant volumes of medical facilities.

In April 2015, we entered into a worldwide license agreement with MicroPort Orthopedics Inc., or MicroPort, a wholly owned subsidiary of MicroPort Scientific Corporation. Under the terms of this license agreement, we granted a perpetual, irrevocable, non-exclusive license to MicroPort to use patient-specific instrument technology covered by our patents and patent applications with off-the-shelf implants in the knee. This license does not extend to patient-specific implants. This license agreement provides for the payment to us of a fixed royalty at a high single to low double digit percentage of net sales on patient-specific instruments and associated implant components in the knee, including MicroPort's Prophecy patient-specific instruments used with its Advance and Evolution implant components. We cannot be certain as to the timing or amount of payment of any royalties under this license agreement. This license agreement also provided for a single lump-sum payment by MicroPort to us of low-single digit millions of dollars upon entering into the license agreement, which has been paid. This license agreement will expire upon the expiration of the last to expire of our patents and patent applications licensed to MicroPort, which currently is expected to occur in 2029.

In April 2015, we entered into a fully paid up, worldwide license agreement with Wright Medical Group, Inc., or Wright Group, and its wholly owned subsidiary Wright Medical Technology, Inc., or Wright Technology and collectively with Wright Group, Wright Medical. Under the terms of this license agreement, we granted a perpetual, irrevocable, non-exclusive license to Wright Medical to use patient-specific instrument technology covered by our patents and patent applications with off-the-shelf implants in the foot and ankle. This license does not extend to patient-specific implants. This license agreement provided for a single lump-sum payment by Wright Medical to us of mid-single digit millions of dollars upon entering into the license agreement, which has been paid. This license agreement will expire upon the expiration of the last to expire of our patents and patent applications licensed to Wright Medical, which currently is expected to occur in 2031.

We have accounted for the agreements with Wright Medical and MicroPort under ASC 605-25, Multiple-Element Arrangements and Staff Accounting Bulletin No. 104, Revenue Recognition (ASC 605). In accordance with ASC 605, we were required to identify and account for each of the separate units of accounting. We identified the relative selling price for each and then allocated the total consideration based on their relative values. In connection with these

agreements, in April 2015, we recognized in aggregate (i) back-owed royalties of \$3.4 million as royalty revenue and (ii) the value attributable to the settlements of \$0.2 million as other income. Additionally, we recognized an initial \$5.1 million in aggregate as deferred royalty revenue, which is recognized as royalty revenue ratably through 2031. See "Note I - Deferred Revenue" within our Annual Report on Form 10-K for the year ended December 31, 2016. The on-going royalty from MicroPort is recognized as royalty revenue upon receipt of payment.

## Cost of revenue

We produce the vast majority of our computer aided designs, or CAD, in-house and use them to direct all of our product manufacturing efforts. We manufacture all of our patient-specific instruments, or iJigs, in our facilities in Wilmington, Massachusetts. Since November 2016, we make in our facilities all of the tibial trays used in our total knee implants. We outsource the production of the remainder of the tibial components and the manufacture of femoral and other implant components to third-party suppliers. Our suppliers make our customized implant components using the CAD designs we supply. Cost of revenue consists primarily of costs of raw materials, manufacturing personnel, manufacturing supplies, inbound freight and manufacturing overhead and depreciation expense.

We calculate gross margin as revenue less cost of revenue divided by revenue. Our gross margin has been and will continue to be affected by a variety of factors, including primarily volume of units produced, mix of product components manufactured by us versus sourced from third parties, our average selling price, the geographic mix of sales, product sales mix, the number of cancelled sales orders resulting in wasted implants and royalty revenue.

We expect our gross margin from the sale of our products, which excludes royalty revenue, to expand over time to the extent we are successful in reducing our manufacturing costs per unit and increasing our manufacturing efficiency as sales volume increases. We believe that areas of opportunity to expand our gross margins in the future, if and as the volume of our product sales increases, include the following:

- absorbing overhead costs across a larger volume of product sales;
- obtaining more favorable pricing for the materials used in the manufacture of our products;
- obtaining more favorable pricing of certain component of our products manufactured for us by third parties;
- increasing the proportion of certain components of our products that we manufacture in-house, which we believe we can manufacture at a lower unit cost than vendors we currently use;
- developing new versions of our software used in the design of our customized joint replacement implants, which we believe will reduce costs associated with the design process; and
- expanding our CAD labor overseas, which we believe will reduce labor costs required to design our products.

We continue to explore the application of our 3D printing technology to select metal components of our products, which we believe may be a future opportunity for reducing our manufacturing costs. We also plan to explore other opportunities to reduce our manufacturing costs. However, these and the above opportunities may not be realized. In addition, our gross margin may fluctuate from period to period.

## Operating expenses

Our operating expenses consist of sales and marketing, research and development and general and administrative expenses. Personnel costs are the most significant component of operating expenses and consist of salaries, benefits, stock-based compensation and sales commissions.

**Sales and marketing.** Sales and marketing expense consists primarily of personnel costs, including salary, employee benefits and stock-based compensation for personnel employed in sales, marketing, customer service, medical education and training, as well as investments in surgeon training programs, industry events and other promotional activities. In addition, our sales and marketing expense includes sales commissions and bonuses, generally based on a percentage of sales, to our sales managers, direct sales representatives and independent sales representatives. Recruiting, training and retaining productive sales representatives and educating surgeons about the benefits of our products are required to generate and grow revenue. We expect sales and marketing expense to significantly increase as we build up our sales and support personnel and expand our marketing efforts. Our sales and marketing expense may fluctuate from period to period due to the seasonality of our revenue and the timing and extent of our expenses.

Research and development. Research and development expense consists primarily of personnel costs, including salary, employee benefits and stock-based compensation for personnel employed in research and development, regulatory and clinical areas. Research and development expense also includes costs associated with product design, product refinement and improvement efforts before and after receipt of regulatory clearance, development prototypes, testing, clinical study programs and regulatory activities, contractors and consultants, and equipment and software to support our development. As our revenue increases, we will also incur additional expenses for revenue share payments to our past and present scientific advisory board members, including one of

our directors. We expect research and development expense to increase in absolute dollars as we develop new products to expand our product pipeline, add research and development personnel and conduct clinical activities.

**General and administrative.** General and administrative expense consists primarily of personnel costs, including salary, employee benefits and stock-based compensation for our administrative personnel that support our general operations, including executive management, general legal and intellectual property, finance and accounting, information technology and human resources personnel. General and administrative expense also includes outside legal costs associated with intellectual property and general legal matters, financial audit fees, insurance, fees for other consulting services, depreciation expense, freight, and facilities expense. We expect our general and administrative expense will increase in absolute dollars as we increase our headcount and expand our infrastructure to support growth in our business and our operations as a public company. As our revenue increases we also will incur additional expense for freight. Our general and administrative expense may fluctuate from period to period due to the timing and extent of the expenses.

#### Total other income (expense), net

Total other income (expense), net consists primarily of interest expense and amortization of debt discount associated with our term loans outstanding during the year and realized gains (losses) from foreign currency transactions. The effect of exchange rates on our foreign currency-denominated asset and liability balances are recorded in other income (expense) and are recorded as foreign currency translation adjustments in the consolidated statements of comprehensive loss.

#### Income tax provision

Income tax provision consists primarily of a provision for income taxes in foreign jurisdictions in which we conduct business. We maintain a full valuation allowance for deferred tax assets including net operating loss carryforwards and research and development credits and other tax credits.

#### Consolidated results of operations

##### Comparison of the three months ended June 30, 2017 and 2016

The following table sets forth our results of operations expressed as dollar amounts, percentage of total revenue and year-over-year change (in thousands):

| Three Months Ended June 30, | 2017     |                                 | 2016     |                                 | 2017 vs 2016 |             |
|-----------------------------|----------|---------------------------------|----------|---------------------------------|--------------|-------------|
|                             | Amount   | As a%<br>of<br>Total<br>Revenue | Amount   | As a%<br>of<br>Total<br>Revenue | \$<br>Change | %<br>Change |
| Revenue                     |          |                                 |          |                                 |              |             |
| Product revenue             | \$18,046 | 98 %                            | \$19,104 | 99 %                            | \$(1,058)    | (6 )%       |
| Royalty                     | 438      | 2                               | 229      | 1                               | 209          | 91          |
| Total revenue               | 18,484   | 100                             | 19,333   | 100                             | (849 )       | (4 )        |
| Cost of revenue             | 12,236   | 66                              | 13,332   | 69                              | (1,096 )     | (8 )        |
| Gross profit                | 6,248    | 34                              | 6,001    | 31                              | 247          | 4           |
| Operating expenses:         |          |                                 |          |                                 |              |             |
| Sales and marketing         | 9,375    | 51                              | 10,648   | 55                              | (1,273 )     | (12 )       |
| Research and development    | 4,335    | 23                              | 3,977    | 21                              | 358          | 9           |



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|                                    |            |        |            |        |         |       |
|------------------------------------|------------|--------|------------|--------|---------|-------|
| General and administrative         | 6,444      | 35     | 5,487      | 28     | 957     | 17    |
| Total operating expenses           | 20,154     | 109    | 20,112     | 104    | 42      | —     |
| Loss from operations               | (13,906 )  | (75 )  | (14,111 )  | (73 )  | 205     | 1     |
| Total other income/(expenses), net | 1,872      | 10     | 68         | —      | 1,804   | 2,653 |
| Loss before income taxes           | (12,034 )  | (65 )  | (14,043 )  | (73 )  | 2,009   | 14    |
| Income tax provision               | 56         | —      | 9          | —      | 47      | 522   |
| Net loss                           | \$(12,090) | (65 )% | \$(14,052) | (73 )% | \$1,962 | 14 %  |

Product revenue. Product revenue was \$18.0 million for the three months ended June 30, 2017 compared to \$19.1 million for the three months ended June 30, 2016, a decrease of \$1.1 million or 6%. Product revenue from sales of iTotal CR, iDuo and iUni was \$13.3 million for the three months ended June 30, 2017 compared to \$15.7 million for the three months ended June 30, 2016, a decrease of \$2.5 million or 15.6%. Product revenue from sales of iTotal PS was \$4.8 million for the three months ended June 30, 2017 compared to \$3.4 million for the three months ended June 30, 2016, an increase of \$1.4 million or 42%.

The following table sets forth, for the periods indicated, our product revenue by geography expressed as U.S. dollar amounts, percentage of product revenue and year-over-year change (in thousands):

| Three Months Ended June 30, | 2017     |                           | 2016     |                           | 2017 vs 2016 |          |
|-----------------------------|----------|---------------------------|----------|---------------------------|--------------|----------|
|                             | Amount   | As a % of Product Revenue | Amount   | As a % of Product Revenue | \$ Change    | % Change |
| United States               | \$15,219 | 84 %                      | \$15,002 | 79 %                      | \$217        | 1 %      |
| Germany                     | 2,428    | 13                        | 3,650    | 19                        | \$(1,222)    | (33)     |
| Rest of world               | 399      | 3                         | 452      | 2                         | (53)         | (12)     |
| Product revenue             | \$18,046 | 100 %                     | \$19,104 | 100 %                     | \$(1,058)    | (6)%     |

Product revenue in the United States was generated through our direct sales force and independent sales representatives. Product revenue outside the United States was generated through our direct sales force and distributors. The percentage of product revenue generated in the United States was 84% for the three months ended June 30, 2017 compared to 79% for the three months ended June 30, 2016. We believe the lower level of revenue as a percentage of product revenue outside the United States in the three months ended June 30, 2017 was due to the introduction of the iTotal PS in the United States and the change in the reimbursement of our iUni and iDuo partial implants in Germany, partially offset by the increase in exchange rate for Germany.

In April 2015, we entered into a fully paid up, worldwide license agreement with Wright Medical for a single lump-sum payment by Wright Medical to us upon entering into the agreement. At the same time we also entered into a worldwide license agreement with MicroPort for a single lump-sum payment by MicroPort to us upon entering into the license agreement and the payment to us of a fixed royalty at a high single to low double digit percentage of net sales on patient-specific instruments and associated implant components in the knee. Royalty revenue related to these agreements was \$0.4 million for the three months ended June 30, 2017 compared to \$0.2 million for the three months ended June 30, 2016. The increase in royalty revenue was due to the timing of payments received and recognized as royalty revenue in the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

Cost of revenue, gross profit and gross margin. Cost of revenue was \$12.2 million for the three months ended June 30, 2017 compared to \$13.3 million for the three months ended June 30, 2016, a decrease of \$1.1 million or 8%. The decrease was due primarily to a decrease in production and personnel costs associated with the decrease in product revenue coupled with vertical integration and other cost saving initiatives, offset by increases in material purchase prices. Gross profit was \$6.2 million for the three months ended June 30, 2017 compared to \$6.0 million for the three months ended June 30, 2016, an increase of \$0.2 million or 4%. Gross margin increased 300 basis points to 34% for the three months ended June 30, 2017 from 31% for the three months ended June 30, 2016. This increase in gross margin was driven primarily by savings from vertical integration efforts and other cost saving initiatives and the increase in royalty revenue due to the timing of the fourth quarter 2016 royalty payment received in April 2017, offset by a decrease in the average sales price.

Sales and marketing. Sales and marketing expense was \$9.4 million for the three months ended June 30, 2017 compared to \$10.6 million for the three months ended June 30, 2016, a decrease of \$1.3 million or 12%. The decrease was due primarily to a \$1.1 million decrease in salaries, incentives, commissions and related costs and a \$0.2 million

decrease in marketing and other expenses. Sales and marketing expense decreased as a percentage of total revenue to 51% for the three months ended June 30, 2017 from 55% for the three months ended June 30, 2016.

Research and development. Research and development expense was \$4.3 million for the three months ended June 30, 2017 compared to \$4.0 million for the three months ended June 30, 2016, an increase of \$0.4 million or 9%. The increase was due primarily to a \$0.5 million increase in personnel costs, offset by a \$0.1 million

decrease in other expenses. Research and development expense increased as a percentage of total revenue to 23% for the three months ended June 30, 2017 from 21% for the three months ended June 30, 2016.

General and administrative. General and administrative expense was \$6.4 million for the three months ended June 30, 2017 compared to \$5.5 million for the three months ended June 30, 2016, an increase of \$1.0 million or 17%. The increase was due primarily to a \$0.6 million increase in patent litigation expense, a \$1.0 million increase in personnel costs, a \$0.2 million increase in business insurance and a \$0.1 million increase in various other general and administrative expenses, offset by a \$0.6 million refund of previously paid medical device excise tax and a \$0.3 million decrease in patent support and other general legal costs. General and administrative expense increased as a percentage of total revenue to 35% for the three months ended June 30, 2017 from 28% for the three months ended June 30, 2016.

Total other income/(expense), net. Other income/(expense), net other income was \$1.9 million for the three months ended June 30, 2017 compared to \$0.1 million for the three months ended June 30, 2016, an increase of \$1.8 million, or 2,653%. The increase was primarily due to an increase of \$2.1 million in foreign currency exchange transaction income, offset by \$0.3 million increase in interest expense associated with long-term debt.

Income taxes. Income tax provision was \$56,000 and \$9,000 for the three months ended June 30, 2017 and 2016, respectively. We continue to generate losses for U.S. federal and state tax purposes and have net operating loss carryforwards creating a deferred tax asset. We maintain a full valuation allowance for deferred tax assets.

#### Comparison of the six months ended June 30, 2017 and 2016

The following table sets forth our results of operations expressed as dollar amounts, percentage of total revenue and year-over-year change (in thousands):

| Six Months Ended June 30,          | 2017       |                                 | 2016       |                                 | 2017 vs 2016 |       |
|------------------------------------|------------|---------------------------------|------------|---------------------------------|--------------|-------|
|                                    | Amount     | As a%<br>of<br>Total<br>Revenue | Amount     | As a%<br>of<br>Total<br>Revenue | \$           | %     |
| Revenue                            |            |                                 |            |                                 |              |       |
| Product revenue                    | \$38,425   | 99 %                            | \$39,086   | 99 %                            | \$(661)      | (2 )% |
| Royalty                            | 514        | 1                               | 497        | 1                               | 17           | 3     |
| Total revenue                      | 38,939     | 100                             | 39,583     | 100                             | (644)        | (2 )  |
| Cost of revenue                    | 26,196     | 67                              | 26,919     | 68                              | (723)        | (3 )  |
| Gross profit                       | 12,743     | 33                              | 12,664     | 32                              | 79           | 1     |
| Operating expenses:                |            |                                 |            |                                 |              |       |
| Sales and marketing                | 20,191     | 52                              | 21,762     | 55                              | (1,571)      | (7 )  |
| Research and development           | 8,895      | 23                              | 8,375      | 21                              | 520          | 6     |
| General and administrative         | 14,902     | 38                              | 11,782     | 30                              | 3,120        | 26    |
| Total operating expenses           | 43,988     | 113                             | 41,919     | 106                             | 2,069        | 5     |
| Loss from operations               | (31,245)   | (80)                            | (29,255)   | (74)                            | (1,990)      | (7 )  |
| Total other income/(expenses), net | 2,058      | 5                               | 182        | —                               | 1,876        | 1,031 |
| Loss before income taxes           | (29,187)   | (75)                            | (29,073)   | (73)                            | (114)        | —     |
| Income tax provision               | 63         | —                               | 13         | —                               | 50           | 385   |
| Net loss                           | \$(29,250) | (75)%                           | \$(29,086) | (73)%                           | \$(164)      | (1 )% |

Product revenue. Product revenue was \$38.4 million for the six months ended June 30, 2017 compared to \$39.1 million for the six months ended June 30, 2016, a decrease of \$0.7 million or 2%, due principally to decreased sales of our base product lines, which include iTotals CR, iDuo and iUni.

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The following table sets forth, for the periods indicated, our product revenue by geography expressed as U.S. dollar amounts, percentage of product revenue and year-over-year change (in thousands):

| Six Months Ended June 30, | 2017     |                           | 2016     |                           | 2017 vs 2016 |          |
|---------------------------|----------|---------------------------|----------|---------------------------|--------------|----------|
|                           | Amount   | As a % of Product Revenue | Amount   | As a % of Product Revenue | \$ Change    | % Change |
| United States             | \$31,183 | 81 %                      | \$29,709 | 76 %                      | \$1,474      | 5 %      |
| Germany                   | 6,393    | 17                        | 8,372    | 21                        | \$(1,979)    | (24 )    |
| Rest of world             | 849      | 2                         | 1,005    | 3                         | (156 )       | (16 )    |
| Product revenue           | \$38,425 | 100 %                     | \$39,086 | 100 %                     | \$(661 )     | (2 )%    |

Product revenue in the United States was generated through our direct sales force and independent sales representatives. Product revenue outside the United States was generated through our direct sales force and distributors. The percentage of product revenue generated in the United States was 81% for the six months ended June 30, 2017 compared to 76% for the six months ended June 30, 2016. We believe the lower level of revenue as a percentage of product revenue outside the United States in the six months ended June 30, 2017 was due to the introduction of the iTOTAL PS in the United States and the change in the reimbursement of our iUni and iDuo partial implants in Germany, partially offset by the increase in exchange rate for Germany.

Royalty revenue was \$0.5 million for the six months ended June 30, 2017 and 2016.

Cost of revenue, gross profit and gross margin. Cost of revenue was \$26.2 million for the six months ended June 30, 2017 compared to \$26.9 million for the six months ended June 30, 2016, a decrease of \$0.7 million or 3%. The decrease was due primarily to a decrease in production and personnel costs associated with the decrease in sales volume, coupled with vertical integration and other cost saving initiatives, offset by increases in material purchase prices. Gross profit was \$12.7 million for the six months ended June 30, 2017 compared to \$12.7 million for the six months ended June 30, 2016, an increase of \$0.1 million or 1%. Gross margin increased 100 basis points to 33% for the six months ended June 30, 2017 from 32% for the six months ended June 30, 2016. This increase in gross margin was driven primarily by savings from vertical integration efforts and other cost saving initiatives, offset by a decrease in the average sales price.

Sales and marketing. Sales and marketing expense was \$20.2 million for the six months ended June 30, 2017 compared to \$21.8 million for the six months ended June 30, 2016, a decrease of \$1.6 million or 7%. The decrease was due primarily to a \$1.6 million decrease in salaries, incentives and related costs, and a \$0.6 million decrease in marketing and other expense, offset by \$0.6 million increase in sales commissions. Sales and marketing expense decreased as a percentage of total revenue to 52% for the six months ended June 30, 2017 from 55% for the six months ended June 30, 2016.

Research and development. Research and development expense was \$8.9 million for the six months ended June 30, 2017 compared to \$8.4 million for the six months ended June 30, 2016, an increase of \$0.5 million or 6%. The increase was due primarily to a \$0.6 million increase in personnel costs, a \$0.1 million increase in revenue share expense, offset by a \$0.2 million decrease in consulting and other expenses. Research and development expense increased as a percentage of total revenue to 23% for the six months ended June 30, 2017 from 21% for the six months ended June 30, 2016.

General and administrative. General and administrative expense was \$14.9 million for the six months ended June 30, 2017 compared to \$11.8 million for the six months ended June 30, 2016, an increase of \$3.1 million or 26%. The increase was due primarily to a \$2.0 million increase in patent litigation expense, a \$1.8 million increase in personnel costs, a \$0.5 million increase in business insurance, offset by a \$0.6 million decrease in patent support and

other general legal costs and a \$0.6 million refund of previously paid medical device excise tax. General and administrative expense increased as a percentage of total revenue to 38% for the six months ended June 30, 2017 from 30% for the six months ended June 30, 2016.

Total Other income/(expense), net. Other income/(expense), net was \$2.1 million net other income for the six months ended June 30, 2017 compared to \$0.2 million for the six months ended June 30, 2016, an increase of \$1.9 million, or 1,031%. The increase was primarily due to an increase of \$2.5 million in foreign currency exchange transaction income, offset by \$0.6 million increase in interest expense associated with long-term debt.

Income taxes. Income tax provision was approximately \$63,000 for the six months ended June 30, 2017 and \$13,000 for the six months ended June 30, 2016. We continue to generate losses for U.S. federal and state tax purposes and have net operating loss carryforwards creating a deferred tax asset. We maintain a full valuation allowance for deferred tax assets.

#### Liquidity, capital resources and plan of operations

##### Sources of liquidity and funding requirements

From our inception in June 2004 through the six months ended June 30, 2017, we have financed our operations primarily through private placements of preferred stock, our initial public offering, or IPO, bank debt and product revenue beginning in 2007. Our product revenue has continued to grow from year-to-year; however, we have not yet attained profitability and continue to incur operating losses. As of June 30, 2017, we had an accumulated deficit of \$412.5 million.

On July 7, 2015, we closed our initial public offering of our common stock and issued and sold 10,350,000 shares of our common stock, including 1,350,000 shares of common stock issued upon the exercise in full by the underwriters of their over-allotment option, at a public offering price of \$15.00 per share, for aggregate offering proceeds of approximately \$155 million. We received aggregate net proceeds from the offering of approximately \$140 million after deducting underwriting discounts and commissions and offering expenses payable by us. Our common stock began trading on the NASDAQ Global Select Market on July 1, 2015.

On January 6, 2017, we entered into a senior secured \$50 million loan and security agreement with Oxford. Through the term loan facility with Oxford, the Company accessed \$15 million of borrowings on January 6, 2017 and a second \$15 million of borrowings on June 30, 2017, with an additional \$20 million available to borrow, at our option, through June 2018, subject to the satisfaction of certain revenue milestones and customary drawdown conditions. For further information regarding this facility, see "Note I-Debt and Notes Payable-2017 Secured Loan Agreement" to the consolidated financial statements appearing in this Quarterly Report on Form 10-Q.

Additionally, in January 2017, we filed a shelf registration statement on Form S-3 with the SEC. The shelf registration statement allows us to sell from time-to-time up to \$200 million of common stock, preferred stock, debt securities, warrants, or units comprised of any combination of these securities, for our own account in one or more offerings. The shelf registration statement is intended to provide us flexibility to conduct registered sales of our securities, subject to market conditions and our future capital needs. The terms of any offering under the shelf registration statement will be established at the time of such offering and will be described in a prospectus supplement filed with the SEC prior to the completion of any such offering.

On May 10, 2017, we filed with the SEC a prospectus supplement, pursuant to which we may issue and sell up to \$50 million of our common stock, par value \$0.0001 per share (the "Shares"). In connection with this offering, we entered into the Distribution Agreement with Canaccord. Pursuant to the Distribution Agreement, Canaccord will use commercially reasonable efforts consistent with its normal trading and sales practices and applicable state and federal laws, rules and regulations, and the rules of The NASDAQ Global Select Market to sell the Shares from time to time, as our agent. Sales of the Shares, may be made by any method deemed to be an "at-the-market" offering as defined in Rule 415 promulgated under the U.S. Securities Act of 1933, as amended, including sales made directly on or through The NASDAQ Global Select Market, on any other existing trading market for the Shares, or sales to or through a market maker other than on an exchange, in negotiated transactions at market prices prevailing at the time of sale or at prices related to such prevailing market prices, and/or any other method permitted by law. We are not obligated to sell any number of Shares under the Distribution Agreement. As of June 30, 2017, we sold 228,946 Shares under the Distribution Agreement resulting in net proceeds of \$1.0 million. We intend to use the net proceeds of the offering of



the Shares for general corporate purposes, which may include research and development costs, sales and marketing costs, clinical studies, manufacturing development, the acquisition or licensing of other businesses or technologies, repayment and refinancing of debt, including the Company's secured term loan facility, working capital and capital expenditures.

We expect to incur substantial expenditures in the foreseeable future in connection with the following:

- expansion of our sales and marketing efforts;
- expansion of our manufacturing capacity;

- funding research, development and clinical activities related to our existing products and product platform, including iFit design software and product support;
- funding research, development and clinical activities related to new products that we may develop, including other joint replacement products;
- pursuing and maintaining appropriate regulatory clearances and approvals for our existing products and any new products that we may develop; and
- preparing, filing and prosecuting patent applications, and maintaining and enforcing our intellectual property rights and position.

In addition, our general and administrative expense will increase due to the additional operational and reporting costs associated with our expanded operations and being a public company.

We anticipate that our principal sources of funds in the future will be revenue generated from the sales of our products, borrowings under our 2017 Secured Loan Agreement, future capital raises through the issuance of equity securities, and revenues that we may generate in connection with licensing our intellectual property. We will need to generate significant additional revenue to achieve and maintain profitability, and even if we achieve profitability, we cannot be sure that we will remain profitable for any substantial period of time. It is also possible that we may allocate significant amounts of capital toward products or technologies for which market demand is lower than anticipated and, as a result, abandon such efforts. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, or if we expend capital on projects that are not successful, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, and we may even have to scale back our operations. Our failure to become and remain profitable could impair our ability to raise capital, expand our business, maintain our research and development efforts or continue to fund our operations.

We may need to engage in additional equity or debt financings to secure additional funds. We may not be able to obtain additional financing on terms favorable to us, or at all. To the extent that we raise additional capital through the future sale of equity or debt, the ownership interest of our stockholders will be diluted. The terms of these future or debt securities may include liquidation or other preferences that adversely affect the rights of our existing common stockholders or involve negative covenants that restrict our ability to take specific actions, such as incurring additional debt or making capital expenditures.

At June 30, 2017, we had cash and cash equivalents and investments of \$71.2 million and \$0.8 million in restricted cash allocated to lease deposits. Based on our current operating plan, we expect that our existing cash and cash equivalents and investments as of June 30, 2017, borrowings under our 2017 Secured Loan Agreement, and anticipated revenue from operations, including from projected sales of our products, will enable us to fund our operating expenses and capital expenditure requirements and pay our debt service as it becomes due for at least the next 12 months from the date of filing. We have based this expectation on assumptions that may prove to be wrong, such as the revenue that we expect to generate from the sale of our products and the gross profit we expect to generate from those revenues, and we could use our capital resources sooner than we expect.

#### Cash flows

The following table sets forth a summary of our cash flows for the periods indicated, as well as the year-over-year change (in thousands):

|                                 | Six Months Ended June 30, |            |           |          |
|---------------------------------|---------------------------|------------|-----------|----------|
|                                 | 2017                      | 2016       | \$ Change | % Change |
| Net cash (used in) provided by: |                           |            |           |          |
| Operating activities            | \$(21,018)                | \$(27,001) | \$5,983   | 22 %     |
| Investing activities            | (7,356)                   | (53,751)   | 46,395    | 86       |
| Financing activities            | 32,604                    | 1,514      | 31,090    | 2,054    |

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|                                 |          |            |          |          |
|---------------------------------|----------|------------|----------|----------|
| Effect of exchange rate on cash | (2,280 ) | (134 )     | (2,146 ) | (1,601 ) |
| Total                           | \$1,950  | \$(79,372) | \$81,322 | 102 %    |

34

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Net cash used in operating activities. Net cash used in operating activities was \$21.0 million for the six months ended June 30, 2017 and \$27.0 million for the six months ended June 30, 2016, a decrease of \$6.0 million. These amounts primarily reflect net loss of \$29.3 million for the six months ended June 30, 2017 and \$29.1 million for the six months ended June 30, 2016. The net cash used in operating activities for the six months ended June 30, 2017 was affected by changes in our operating assets and liabilities, including \$2.8 million related to accounts payable and accrued liabilities, \$1.2 million related to accounts receivable, \$0.8 million related to prepaid expenses, \$0.4 million related to inventory, as well as an increase of \$0.6 million in stock compensation expense, a \$0.2 million decrease in the provision for bad debt on trade receivables and an increase of \$0.2 million in depreciation expense.

Net cash used in investing activities. Net cash used in investing activities was \$7.4 million for the six months ended June 30, 2017 and \$53.8 million for the six months ended June 30, 2016, a decrease of \$46.4 million. These amounts primarily reflect a decrease to purchase investments of \$34.9 million as well as a decrease in costs related to the acquisition of property, plant, and equipment of \$1.2 million, and an increase in matured investments of \$11.1 million, offset by an increase of restricted cash of \$0.8 million.

Net cash provided by financing activities. Net cash provided by financing activities was \$32.6 million for the six months ended June 30, 2017 and \$1.5 million for the six months ended June 30, 2016, an increase of \$31.1 million. The increase was primarily due to an increase in proceeds from issuance of debt of \$30.0 million, offset by debt issuance costs of \$0.4 million, an increase in proceeds from the issuance of common stock of \$1.0 million, a decrease in debt payments of \$0.1 million and an increase in net proceeds from the exercise of common stock options of \$0.4 million.

#### Contractual obligations and commitments

We described our contractual obligations and commitments under Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report filed on Form 10-K for the year ended December 31, 2016. On January 6, 2017, we entered into a senior secured \$50 million loan and security agreement with Oxford. Through the term loan facility with Oxford, we accessed the initial \$15 million of borrowings on January 6, 2017 and \$15 million of borrowings on June 30, 2017, with an additional \$20 million available, at our option, through June 2018, subject to the satisfaction of certain revenue milestones and customary drawdown conditions.

The credit facility is secured by substantially all of our personal property other than our intellectual property. Under the terms of the credit facility, we cannot grant a security interest in its intellectual property to any other party. The term loan under the credit facility bears interest at a floating annual rate calculated at the greater of 30 day LIBOR or 0.53%, plus 6.47%. We are required to make monthly interest only payments in arrears commencing on the second payment date following the funding date of each term loan, and continuing on the payment date of each successive month thereafter through and including the payment date immediately preceding the amortization date of February 1, 2019, which was extended to February 1, 2020 as we drew the second tranche of \$15 million under the term loan facility on June 30, 2017. Commencing on the amortization date, and continuing on the payment date of each month thereafter, we are required to make consecutive equal monthly payments of principal of each term loan, together with accrued interest, in arrears. All unpaid principal, accrued and unpaid interest with respect to each term loan, and a final payment in the amount of 5.0% of the amount of loans advanced, is due and payable in full on the term loan maturity date. The term loan facility has a term of five years and matures on January 1, 2022.

At our option, we may prepay all, but not less than all, of the term loans advanced by Oxford, subject to a prepayment fee and an amount equal to the sum of all outstanding principal of the term loans plus accrued and unpaid interest thereon through the prepayment date, a final payment, plus all other amounts that are due and payable, including Oxford's expenses and interest at the default rate with respect to any past due amounts.

#### Off-balance sheet arrangements

Through June 30, 2017, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

35

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### Critical accounting policies and significant judgments and use of estimates

We have prepared our consolidated financial statements in conformity with accounting principles generally accepted in the United States. Our preparation of these financial statements and related disclosures requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. The accounting estimates that require our most significant estimates include revenue recognition, accounts receivable valuation, inventory valuations, intangible valuation, equity instruments, impairment assessments, income tax reserves and related allowances, and the lives of property and equipment. We evaluate our estimates and judgments on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies are more fully described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical accounting policies and significant judgments and use of estimates” in our Annual Report on Form 10-K for the year ended December 31, 2016 and Note B to the consolidated financial statements appearing in this Quarterly Report on Form 10-Q.

### Recent accounting pronouncements

Information with respect to recent accounting developments is provided in Note B to the consolidated financial statements appearing in this Quarterly Report on Form 10-Q.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, which may result in potential losses arising from adverse changes in market rates, such as interest rates and foreign exchange rates. We do not enter into derivatives or other financial instruments for trading or speculative purposes and do not believe we are exposed to material market risk with respect to our cash and cash equivalents and investments.

### Interest rate risk

We are exposed to interest rate risk in connection with borrowings made under the 2017 Secured Loan Agreement, which bears interest at floating annual rate calculated at the greater of 30 day LIBOR or 0.53%, plus 6.47%. For variable rate debt, interest rate changes generally do not affect the fair value of the debt instrument, but do impact future earnings and cash flows, assuming other factors are held constant. A hypothetical 100 basis point change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

In addition, we are exposed to limited market risk related to fluctuation in interest rates and market prices. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates. As of June 30, 2017, we had cash and cash equivalents of \$39.2 million consisting of demand deposits and money market accounts on deposit with certain financial institutions. We had \$1.3 million as of June 30, 2017 and \$1.6 million as of December 31, 2016 held in foreign bank accounts that were not federally insured. A hypothetical 100 basis point change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

### Foreign currency exchange risk

Fluctuations in the rate of exchange between the U.S. dollar and foreign currencies could adversely affect our financial results. Approximately 19% of our product revenue for the six months ended June 30, 2017 and 24% of our product revenue for the six months ended June 30, 2016 were denominated in foreign currencies. We expect that foreign currencies will continue to represent a similarly significant percentage of our net sales in the future. Costs of revenue related to these sales are primarily denominated in U.S. dollars; however, operating costs, including sales and

marketing and general and administrative expense, related to these sales are largely denominated in the same currencies as the sales, thereby partially limiting our transaction risk exposure. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. In 2016, we began transferring excess cash residing in our German bank account to the U.S. As a result, intercompany loans with ConforMIS Europe GmbH, our wholly owned subsidiary, generated as a result of selling our products to customers in Germany, are no longer considered to be of a long-term investment nature, and gains and losses realized on intercompany loan balances, which are generated from

the sale of our products to foreign customers, are included in the consolidated statements of operations. For the six months ended June 30, 2017, we recognized \$2.5 million in foreign exchange transaction gain on intercompany loan balances included in foreign currency transaction gain. To date, we have not engaged in any foreign currency hedging transactions. As our international operations grow, we will continue to reassess our approach to managing the risks relating to fluctuations in currency rates. A 10% increase or decrease in foreign currency exchange rates would have resulted in additional income or expense of \$6.7 million for the six months ended June 30, 2017 and \$0.2 million for the six months ended June 30, 2016.

We do not believe that inflation and change in prices had a significant impact on our results of operations for any periods presented in our consolidated financial statements.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

##### Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three months ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of the Company's business, the Company is subject to litigation, claims and administrative proceedings on a variety of matters, including patent infringement, product liability, securities-related claims, and other claims in the United States and in other countries where the Company sells its products. An estimate of the possible loss or range of loss as a result of any of these matters cannot be made; however, management does not believe that these matters, individually or in the aggregate, are material to its financial condition, results of operations or cash flows.

On February 29, 2016, the Company filed a lawsuit against Smith & Nephew, Inc. ("Smith & Nephew") in the United States District Court for the District of Massachusetts Eastern Division, and the Company amended its complaint on June 13, 2016 (the "Smith & Nephew Lawsuit"). The Smith & Nephew Lawsuit alleges that Smith & Nephew's Visionaire® patient-specific instrumentation as well as the implants systems used in conjunction with the Visionaire instrumentation infringe nine of the Company's patents, and it requests, among other relief, monetary damages for willful infringement, enhanced damages and a permanent injunction.

On May 27, 2016, Smith & Nephew filed its Answer and Counterclaims in response to the Company's lawsuit, which it subsequently amended on July 22, 2016. Smith & Nephew denied that its Visionaire® patient-specific instrumentation as well as the implants systems used in conjunction with the Visionaire instrumentation infringe the patents asserted by the Company in the lawsuit. It also alleged two affirmative defenses: that the Company's asserted patents are invalid and that the Company is barred from relief under the doctrine of laches. In addition, Smith & Nephew asserted a series of counterclaims, including counterclaims seeking declaratory judgments that Smith & Nephew's accused products do not infringe the Company's patents and that the Company's patents are invalid. Smith & Nephew also alleged that ConforMIS infringes ten patents owned or exclusively licensed by Smith & Nephew: two patents that Smith & Nephew alleges are infringed by the Company's iUni and iDuo products; three patents that Smith & Nephew alleges are infringed by the Company's iTotal products; and five patents that Smith & Nephew licenses from Kinamed, Inc. of Camarillo, California and that it alleges are infringed by the Company's iUni, iDuo and iTotal products. Due to Smith & Nephew's licensing arrangement with Kinamed, Kinamed was named as a party to the lawsuit. Smith & Nephew and Kinamed requested, among other relief, monetary damages for willful infringement, enhanced damages and a permanent injunction. On March 9, 2017, the Court entered a stipulation of dismissal by the parties that dismissed from the lawsuit eight patents asserted by Smith & Nephew, including the patents involving Kinamed, and two patents asserted by ConforMIS.

Between September 21, 2016 and March 1, 2017, Smith & Nephew filed sixteen petitions with the United States Patent & Trademark Office ("USPTO") requesting Inter Partes Review of the nine patents that the Company asserted against Smith & Nephew in the lawsuit. In its petitions, Smith & Nephew alleges that the Company's patents are obvious in light of certain prior art. As of July 26, 2017, the USPTO has granted six petitions seeking Inter Partes Review pertaining to four patents in the lawsuit and one patent that is no longer part of the lawsuit, and the USPTO has denied five petitions seeking Inter Partes Review pertaining to four patents in the lawsuit. Five of the petitions seeking Inter Parties Review of one additional patent in the lawsuit and one patent that is no longer part of the lawsuit remain to be decided. Smith & Nephew has filed a request for rehearing of one of the petitions that was denied and may file motions for reconsideration of the other petitions that were denied.

On January 27, 2017, Smith & Nephew filed a motion seeking a stay of the Smith & Nephew Lawsuit until any requested Inter Partes Reviews are resolved, and the Company filed an opposition to that motion. On April 27, 2017, the Court stayed certain aspects of the proceedings and indicated that it will make a final decision on the motion to stay after the USPTO has decided more of the petitions for Inter Partes Review. The Company is presently unable to predict the outcome of the motion to stay the proceedings, the existing petitions requesting Inter Partes Review of the Company's patents, including whether the USPTO will institute any of the remaining requested Inter Partes Reviews, or, if instituted, the outcome of any such Inter Partes Reviews. An adverse outcome of some or all of these potential Inter Partes Review proceedings and lawsuit could have a material adverse effect on the Company's business,

financial condition or results of operations. The Company is presently unable to predict the outcome of the lawsuit or to reasonably estimate a range of potential losses, if any, related to the lawsuit.

## ITEM 1A. RISK FACTORS

We operate in a rapidly changing environment that involves a number of risks that may have a material adverse effect on our business, financial condition and results of operations. For a detailed discussion of the risks that affect our business, please refer to the section entitled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. There have been no material changes to our risk factors as previously disclosed in our Annual Report on Form 10-K. Risk factors and other information included in this Quarterly Report on Form 10-Q should be carefully considered. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. Please see page 1 of this Quarterly Report on Form 10-Q for a discussion of some of the forward-looking statements that are qualified by these risk factors. If any of the risks actually occur, our business, financial condition, results of operations and future growth prospects could be materially and adversely affected.

We may be subject to adverse legislative or regulatory tax changes that could negatively impact our financial condition.

The rules dealing with U.S. federal, state and local income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect our stockholders or us. In recent years, many such changes have been made and changes are likely to continue to occur in the future. We cannot predict whether, when, in what form, or with what effective dates, tax laws, regulations and rulings may be enacted, promulgated or decided, which could result in an increase in our, or our stockholders’, tax liability or require changes in the manner in which we operate in order to minimize increases in our tax liability.

If Congress repeals, replaces or changes the Affordable Care Act or otherwise implements certain health care reforms that have been proposed, we could be subject to a regulatory and reimbursement scheme that has a material impact on our business.

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 or, collectively, the PPACA, changed how some healthcare providers are reimbursed by the Medicare program and some private third-party payors. Upon taking office, President Trump signed an executive order directing federal agencies to avoid enforcement of any provision of the PPACA, commonly referred to as “Obamacare”. An initial version of proposed legislation designed to repeal the PPACA, and replace it with a system of tax credits and dissolve an expansion of the Medicaid program was not adopted by the House of Representatives. However, the House of Representatives recently passed a similar bill called the American Health Care Act of 2017 (the AHCA), and the United States Senate is considering similar legislation. As a result, there is growing uncertainty regarding the future of the current PPACA framework. Changes to the PPACA, adoption of the AHCA or other legislative and regulatory changes in the health care field could adversely affect our business, including by decreasing the number of patients in the United States with health insurance, reducing the amount of funds currently available to patients as a result of repeal of significant portions of the PPACA, eliminating programs (such as the Comprehensive Care for Joint Replacement program) that are potentially beneficial to us, reducing the amount of funds available for procedures performed in outpatient and ambulatory care facilities, or the adoption of other changes in health care regulation and reimbursement that have been proposed or that may be proposed.

## ITEM 2. UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

### Use of proceeds from registered securities

On July 7, 2015, we closed our initial public offering, or IPO, of our common stock and issued and sold 10,350,000 shares of our common stock, including 1,350,000 shares of common stock issued upon the exercise in full by the underwriters, J.P. Morgan Securities LLC and Deutsche Bank Securities Inc., of their overallotment option, at a public offering price of \$15.00 per share, for aggregate offering proceeds of approximately \$155 million.

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The offer and sale of all of the shares in the offering was registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-204384), which was declared effective by the SEC on June 30, 2015.

We received aggregate net proceeds from the offering of approximately \$140 million after deducting underwriting discounts and commissions and offering expenses payable by us. None of the underwriting discounts

39

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and commissions or offering expenses were incurred or paid to any director or officer of ours, to any of their associates, to persons owning 10% or more of our common stock or to any affiliates of ours.

As of June 30, 2017, we have used the net proceeds from the offering as follows: \$10 million to purchase and install capital equipment to expand our manufacturing capacity, approximately \$66.6 million to expand and support our sales and marketing efforts, and approximately \$24.8 million to fund research, development and clinical activities and approximately \$38.6 million for other general corporate purposes. We have not used any of the net proceeds from our IPO to make payments, directly or indirectly, to any director or officer of ours, to any of their associates, to persons owning 10% or more of our common stock or to any affiliates of ours.

#### ITEM 5. OTHER INFORMATION

The Company filed with the SEC a prospectus supplement dated May 10, 2017 (the “Prospectus Supplement”), pursuant to which the Company may issue and sell shares of its common stock, par value \$0.0001 per share, having an aggregate offering price of up to \$50 million (the “Shares”) from time to time. The Company intends to use the net proceeds of the offering of the Shares for general corporate purposes, which may include research and development costs, sales and marketing costs, clinical studies, manufacturing development, the acquisition or licensing of other businesses or technologies, repayment and refinancing of debt, including the Company’s secured term loan facility, working capital and capital expenditures.

In connection with the offering, the Company entered into an Equity Distribution Agreement, dated as of May 10, 2017 (the “Distribution Agreement”), with Canaccord Genuity Inc., as sales agent (“Canaccord”). Pursuant to the Distribution Agreement, Canaccord will use commercially reasonable efforts consistent with its normal trading and sales practices and applicable state and federal laws, rules and regulations, and the rules of The NASDAQ Global Select Market to sell shares from time to time, as the Company’s agent. Sales of the Shares, if any, may be made by any method deemed to be an “at-the-market” offering as defined in Rule 415 promulgated under the U.S. Securities Act of 1933, as amended, including sales made directly on or through The NASDAQ Global Select Market, on any other existing trading market for the Shares, or sales to or through a market maker other than on an exchange, in negotiated transactions at market prices prevailing at the time of sale or at prices related to such prevailing market prices, and/or any other method permitted by law. The Company is not obligated to sell any number of Shares under the Distribution Agreement. As of June 30, 2017, we sold 228,946 Shares under the Distribution Agreement resulting in net proceeds of \$1.0 million.

The Company will pay Canaccord a commission, or allow a discount, equal to 3.0% of the gross sales price per share of all Shares sold through it as the Company’s agent under the Distribution Agreement, if any, and has agreed to provide Canaccord with customary indemnification and contribution rights. The Company has also agreed to reimburse Canaccord for legal fees and disbursements, not to exceed \$50,000 in the aggregate, in connection with entering into the Distribution Agreement.

The Distribution Agreement may be terminated by Canaccord or the Company at any time upon ten days’ notice to the other party, or by Canaccord at any time in certain circumstances, including the occurrence of a material and adverse change in the Company’s business or financial condition that impairs Canaccord’s ability to proceed with the offering to sell the shares.

The foregoing summary of the Distribution Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Distribution Agreement, which is filed as an exhibit to this Quarterly Report on Form 10-Q. The Shares will be issued pursuant to the Prospectus Supplement and the Company’s shelf registration statement on Form S-3 (File No. 333-215464), which was declared effective by the SEC on May 9, 2017.

#### ITEM 6. EXHIBITS

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index, which Exhibit Index is incorporated herein by reference.

40

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SIGNATURES

Pursuant to the requirements 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.

Date: August 7, 2017

CONFORMIS, INC.

By: /s/ Mark A. Augusti  
Mark A. Augusti  
President and Chief Executive Officer

Date: August 7, 2017

CONFORMIS, INC.

By: /s/ Paul Weiner  
Paul Weiner  
Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

| Exhibit Number | Description of Exhibit   |
|----------------|--|
| 10.1*          | Distribution Agreement, dated May 10, 2017, by and between ConforMIS, Inc. and Canaccord Genuity Inc. (incorporated herein by reference to Exhibit 10.1 of the Registrant’s Quarterly Report on Form 10-Q for the period ended March 31, 2017, filed with the Securities and Exchange Commission on May 10, 2017, File No, 001-37474). |
| 10.2           | Second Amendment to Loan and Security Agreement, dated June 30, 2017, by and among Registrant and Oxford Finance LLC (incorporated herein by reference to Exhibit 10.1 of the registrant’ Current Report on Form 8-K (File No. 001-37474) filed on July 3, 2017).  |
| 31.1*          | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 31.2*          | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 32.1*#         | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2*#         | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 101.INS        | XBRL Instance Document   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Database  |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document   |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document   |

\*Filed herewith.

This certification will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section. Such certification will not be # deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent specifically incorporated by reference into such filing.