Annual Report **2009**

Restoring Quality of Life Through Innovation®

MAKO
SURGICAL CORP.®

We are a medical device company that markets both our RIO® Robotic Arm Interactive Orthopedic system and our proprietary RESTORIS® Family of Implant Systems for minimally invasive orthopedic knee procedures. Our RIO system is a surgeon-interactive tactile surgical platform that incorporates a robotic arm and patient-specific visualization technology and prepares the knee joint for the insertion and alignment of MAKO's resurfacing RESTORIS implants through a minimal incision. Our FDA-cleared RIO system allows surgeons to provide a precise, consistently reproducible tissue-sparing, bone resurfacing procedure called MAKOplasty® to a large, yet underserved patient population suffering from early to mid-stage osteoarthritic knee disease. Our stock is traded on The NASDAQ Global Market under the ticker symbol "MAKO".

Dear MAKO Stakeholder,

MAKO Surgical Corp. had a successful year in 2009, despite the unprecedented global financial and economic crisis that impacted our industry, our customers, and our business. During 2009, we continued our quest to improve orthopedic surgical outcomes for patients through advanced robotic technology by commercially launching our RIO® Robotic Arm Interactive Orthopedic, or RIO, system, and our proprietary RESTORIS® MCK multicompartmental knee implant system. The RIO system is an important expansion of our first generation platform, enabling and expanding the application of our precision MAKOplasty® procedure to multicompartmental knee resurfacing using our RESTORIS implants. Subsequent to the RIO's introduction, we upgraded all seventeen previously installed Tactile Guidance System™ units to RIO units. In addition, we sold and commercially installed nineteen RIO units and finished the year with an installed base of 36 RIO systems. During 2009, 1,602 MAKOplasty procedures were performed and, as of December 31, 2009, 2,384 MAKOplasty procedures had been performed since the procedure's introduction in June 2006.

We continued our focus on demonstrating both the clinical and economical value of MAKOplasty to our customers. As of March 1, 2010, MAKOplasty had been featured in fifteen peer reviewed journal articles and in numerous posters and podium presentations at key medical meetings. We also focused on clinical education in 2009, hosting eight BioSkills courses, which are designed to bring together current and prospective MAKOplasty surgeons to share best practices, and we intend to host more of these meetings in 2010. We continued our commitment to product research and development, spending $13.1 million in 2009 as compared to $12.5 million in 2008. These efforts bore fruit in 2009 with the introduction of the RIO and RESTORIS systems. Additionally, we made strides in the development of additional applications for the RIO system during 2009 and, in February 2010, we received 510(k) marketing clearance from the Food and Drug Administration for an application that assists a surgeon in performing a total hip arthroplasty using the RIO system. We also continued to build our intellectual property portfolio in 2009, which, as of December 31, 2009, consisted of more than 250 licensed or owned patents and patent applications relating to the areas of robotics, haptics, computer-assisted surgery, and implants.

We continue to manage our company based upon specific strategic financial and operating goals adopted by our board of directors. One of these goals is to ensure that we utilize our capital efficiently and that our business remains well capitalized. To this end, we completed a public offering of our common stock in August 2009, issuing 8,050,000 shares, resulting in net proceeds to the company of approximately $54.3 million, after underwriting discounts and commissions and expenses.

Our success to date is the result of the dedication and hard work of an extraordinary team of highly talented, motivated and principled individuals that comprise Team MAKO. We expanded the size of Team MAKO by approximately 28% from 187 employees at the end of 2008 to 240 employees as of March 1, 2010 and, in that process, we added a number of key individuals to our senior leadership team. Members of Team MAKO participate in our employee incentive programs that assist us in the recruitment and retention of our extraordinary employees while also aligning the interests of these employees with the long-term interests of our stockholders.

We are focused on producing successful business results for 2010 and continuing to demonstrate the value proposition inherent in our MAKOplasty solution. We intend to continue to drive the commercialization of MAKOplasty towards the achievement of a greater portion of the large orthopedic market by establishing new commercial sites, increasing the volume of knee MAKOplasty procedures, and continuing the development of additional applications for the RIO system. We thank you for your continued support of our efforts to achieve our goal of ***restoring quality of life through innovation®***.

Sincerely,

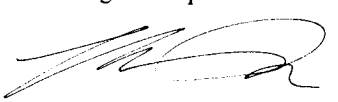
MAURICE R. FERRÉ, M.D.
President & CEO
MAKO Surgical Corp.

2555 Davie Road
Ft. Lauderdale, Florida 33317

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

DATE	Thursday, June 10, 2010
TIME	10:00 a.m., Eastern Time
PLACE	2555 Davie Road Fort Lauderdale, Florida 33317
ITEMS OF BUSINESS	1. To elect two Class III directors, each to serve until the 2013 annual meeting of stockholders and until his successor is duly elected and qualified; 2. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2010; and 3. To consider and act upon any other business properly brought before the annual meeting or at any adjournment or postponement of the annual meeting.
RECOMMENDATIONS OF THE BOARD	Our board of directors recommends a vote FOR the director nominees set forth in proposal 1 and FOR proposal 2 in the attached proxy statement.
RECORD DATE	You are entitled to vote at the 2010 annual meeting of stockholders, and at any adjournment or postponement of the meeting, if you were a stockholder at the close of business on Monday, April 12, 2010.
ADMISSION	Admission to the annual meeting will be limited to stockholders and our invited guests. If you are a stockholder of record, you may be asked to present proof of identification for admission to the annual meeting. If your shares are held in the name of a broker, bank or other nominee, you may be asked to present proof of identification and a statement from your broker, bank or other nominee, reflecting your beneficial ownership of MAKO Surgical Corp. common stock as of April 12, 2010, as well as a proxy from the record holder to you, for admission to the annual meeting. Please be prepared to provide this documentation if requested.
VOTING BY PROXY	Please submit a proxy as soon as possible so that your shares can be voted at the annual meeting in accordance with your instructions. For specific instructions regarding voting, please refer to the *Questions and Answers* beginning on page 1 of the proxy statement and the instructions on your proxy card.
IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDERS MEETING TO BE HELD ON JUNE 10, 2010	**This notice of meeting, the proxy statement, the proxy card and our 2009 annual report to stockholders are available at *www.proxyvote.com*.**

By Order of the Board of Directors,
MAKO Surgical Corp.



MENASHE R. FRANK
Secretary

Fort Lauderdale, Florida
April 28, 2010

This Notice of Annual Meeting of Stockholders, attached proxy statement and accompanying proxy card are being distributed on or about April 28, 2010.

PROXY STATEMENT
TABLE OF CONTENTS

PROXY STATEMENT
FOR
2010 ANNUAL MEETING OF STOCKHOLDERS
To Be Held June 10, 2010

QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

Q: Why am I receiving these materials?

A: The enclosed proxy statement is being solicited on behalf of the board of directors of MAKO Surgical Corp. ("MAKO," "we," "us" or "our company"), a Delaware corporation, and is for use at our 2010 annual meeting of stockholders. The annual meeting will take place at 10:00 a.m., Eastern Time, on June 10, 2010 at our headquarters, 2555 Davie Road, Fort Lauderdale, Florida 33317. You are invited to attend the annual meeting and requested to vote on the proposals described in this proxy statement.

Q: Are proxy materials available on the Internet?

A: Yes. Your proxy card contains a control number that provides you with access to *www.proxyvote.com,* where you may view this proxy statement and our 2009 annual report and vote online.

Q: What is the proxy card?

A: The proxy card enables you to appoint Menashe R. Frank and Fritz L. LaPorte as your representatives at the annual meeting. By completing and returning the proxy card, you are authorizing Messrs. Frank and LaPorte, as your proxies, to vote your shares at the meeting as you have instructed them on the proxy card. This way, you can vote your shares whether or not you attend the meeting.

Q: What does it mean if I receive more than one proxy card?

A: It means that you hold your shares in multiple accounts at the transfer agent or with brokers or other custodians of your shares. Please complete and return all the proxy cards you receive to ensure that all your shares are voted.

Q: Who can vote at the annual meeting?

A: Stockholders of record who owned shares of MAKO common stock on April 12, 2010 may vote at the annual meeting. As of April 12, 2010, there were 33,672,720 shares of MAKO common stock outstanding, each entitled to one vote.

Q: How many shares must be present to hold the annual meeting?

A: To hold the annual meeting and conduct business, a majority of the company's outstanding shares as of April 12, 2010, or 16,836,361 shares, must be present in person or by proxy at the meeting. This is called a quorum. Shares are counted as present at the meeting if the stockholder either:

- Is present and votes in person at the meeting; or
- Has properly submitted a proxy; or
- Has voted by telephone or over the Internet.

Both abstentions and broker non-votes are counted as present for the purposes of determining the presence of a quorum.

Q: What am I voting on?

A: We are asking you to vote on the following items:

- Item 1: The election of two Class III directors to serve until the 2013 annual meeting of stockholders and until their successors are duly elected and qualified;
- Item 2: The ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2010; and
- Any other business properly brought before the annual meeting or at any adjournment or postponement of the annual meeting.

Q: What are the voting choices on Item 1, the election of directors?

A: You may vote either FOR each director nominee or WITHHOLD your vote from any one or more of the nominees.

Q: What vote is needed to elect directors?

A: Each of the two director nominees will be elected to our board of directors by a plurality of the votes cast. This means that the two nominees receiving the highest number of votes FOR election will be elected (assuming a quorum is present). Abstentions and broker non-votes are not considered as FOR votes or WITHHOLD votes for the nominees and will have no effect on the election of directors.

Please note that unlike prior years, stock exchange rules do not give brokers discretionary authority to vote on the election of directors. This means that your broker, bank, or other nominee cannot vote your shares unless you provide it with voting instructions. Therefore, if you hold shares of our common stock in street name and do not provide voting instructions to your broker, bank, or other nominee, your shares will not be voted on the election of directors. See below for more information about holding shares in street name and broker discretionary voting.

Q: What are the voting choices on Item 2, the ratification of the appointment of the independent auditors?

A: You may vote FOR, AGAINST, or ABSTAIN on Item 2.

Q: What vote is needed to ratify the appointment of the independent auditors?

A: The ratification of Ernst & Young LLP as our independent registered public accounting firm for 2010 will be approved if a majority of the shares present at the meeting in person or by proxy vote FOR approval (assuming a quorum is present). If you abstain from voting on this Item, it will have the same effect as a vote AGAINST the proposal. If you are a beneficial owner of shares held in street name and do not provide the organization that holds your shares with specific voting instructions, the organization that holds your shares has the authority to vote your shares in its discretion.

Q: What is the difference between holding shares as a registered shareholder and holding shares in street name?

A: If your shares are owned directly in your name with our transfer agent, Continental Stock Transfer & Trust Company, you are considered a registered shareholder of those shares.

If your shares are held by a broker, bank, or other nominee, you hold those shares in street name. Your broker, bank, or other nominee will ask you how you want your shares to be voted. If you provide the broker, bank, or other nominee with voting instructions, your shares will be voted as you direct. If you do not provide voting instructions, one of two things can happen, depending on the type of proposal:

- on the election of directors (Item 1), your broker, bank, or other nominee may not vote your shares in its discretion, and as a result, your shares will not be voted on this proposal; and
- on the ratification of the appointment of the independent auditor (Item 2), your broker, bank, or other nominee may vote your shares in its discretion.

Q: How do I vote?

A: BY MAIL: Please complete and sign your proxy card and mail it in the enclosed pre-addressed envelope.

BY TELEPHONE: Please follow the "Vote by Phone" instructions that accompanied your proxy card. If you vote by telephone, you do not have to mail in your proxy card.

BY INTERNET: Please follow the "Vote by Internet" instructions that accompanied your proxy card. If you vote by Internet, you do not have to mail in your proxy card.

IN PERSON: We will pass out a written ballot to anyone who wants to vote in person at the annual meeting. However, if you hold your shares in street name, you must request a proxy card from your broker in order to vote at the meeting.

Q: How will my shares be voted?

A: If you mark your voting instructions on the proxy card, your shares will be voted as you instruct. If an additional proposal that is not on the proxy card is properly presented for a vote at the annual meeting, your shares will be voted in the best judgment of Messrs. Frank and LaPorte. If you submit your proxy card but do not mark your voting instructions on the proxy card, your shares will be voted as follows:

- FOR the named nominees as directors;
- FOR ratification of Ernst & Young LLP as our independent registered public accounting firm for 2010; and
- According to the best judgment of Messrs. Frank and LaPorte if a proposal that is not on the proxy card comes up for a vote at the meeting.

Q: Can I change my vote?

A: You may revoke your proxy and change your vote by:

- Signing another proxy card with a later date and returning it before the polls close at the annual meeting;
- Voting on a later date over the Internet or by telephone (only your latest Internet or telephone proxy submitted by the deadlines printed on your proxy card and prior to the annual meeting will be counted); or
- Voting in person at the annual meeting.

Your presence at the annual meeting will not in itself revoke your proxy.

Q: Will my shares be voted if I do not provide my proxy?

A: If you are a registered shareholder, your shares will not be voted unless you vote as instructed above, or attend the Annual Meeting and vote your shares in person, so please vote your shares.

If you hold your shares in street name, your broker, bank, or other nominee may vote on your behalf only on routine matters if you do not furnish voting instructions. For the Annual Meeting, the ratification of the appointment of independent auditors (Item 2) is considered a routine matter. However, the election of directors (Item 1) is considered a non-routine matter. As a result, if you hold shares of our common stock in street name and do not provide voting instructions to your broker, bank, or other nominee, your shares will not be voted on Item 1, so please vote your shares.

Q: Who counts the votes?

A: Voting results will be tabulated and certified by a representative of Broadridge Financial Solutions, Inc., who was appointed by our board of directors to act as the Inspector of Election for the annual meeting.

Q: Where can I find the voting results of the annual meeting?

A: The preliminary voting results will be announced at the annual meeting. The final voting results will be tallied by the Inspector of Election and disclosed in a Current Report on Form 8-K, which we will file with the Securities and Exchange Commission, or SEC, within four business days after the annual meeting.

Q: Who will bear the cost of soliciting votes for the meeting?

A: We are paying for the distribution and solicitation of the proxies. As a part of this process, we reimburse brokers, nominees, fiduciaries and other custodians for reasonable and customary fees and expenses in forwarding proxy materials to our stockholders. We do not intend to engage a proxy solicitation firm. Our employees may solicit proxies through mail, telephone, the Internet or other means, but they do not receive additional compensation for providing those services.

Q: When are stockholder proposals due for next year's annual meeting?

A: Any stockholder who meets the requirements of the proxy rules under the Securities Exchange Act of 1934, as amended, or the Exchange Act, may submit to our board of directors proposals to be considered for submission to the stockholders at, and included in the proxy materials for, our 2011 annual meeting of stockholders. In order to be considered for inclusion in the proxy materials to be disseminated by our board of directors, your proposal must comply with the requirements of Rule 14a-8 under the Exchange Act and be received at MAKO Surgical Corp., 2555 Davie Road, Fort Lauderdale, Florida 33317 no later than December 29, 2010.

In addition, our bylaws also provide for separate procedures a stockholder must follow to recommend a person for nomination as a director or to propose business to be considered by stockholders at a meeting outside the processes of Rule 14a-8. To be considered timely under these bylaw provisions, the stockholder's notice must be received by our corporate secretary at our principal executive offices at the address set forth above no later than December 29, 2010. Our bylaws specify requirements as to the form and content of a stockholder's notice. If we do not receive the notice on a timely basis or if the notice does not otherwise comply with our bylaws, we will not be required to present the proposal at the 2011 annual meeting.

We were not notified by any stockholder of the intention to present a stockholder proposal from the floor at this year's annual meeting. The enclosed proxy card grants Messrs. Frank and LaPorte discretionary authority to vote the proxies held by them on any matter properly brought before the annual meeting.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of our common stock as of April 12, 2010 by: (i) each director and nominee; (ii) each of the executive officers named in the 2009, 2008, and 2007 Summary Compensation Table set forth below under "Executive Compensation," referred to as a named executive officer; (iii) all of the directors, nominees, and executive officers as a group; and (iv) each person, or group of affiliated persons, known by us to beneficially own more than 5% of our common stock. Unless otherwise indicated, the persons or entities identified in the table have sole voting and investment power with respect to all shares shown as beneficially owned by them, subject to applicable community property laws.

Information with respect to beneficial ownership has been furnished by each director, executive officer or beneficial owner of more than 5% of our common stock. We have determined beneficial ownership in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities. In addition, the rules include shares of common stock issuable pursuant to the exercise of stock options or warrants that are either immediately exercisable or exercisable within 60 days after April 12, 2010, which is June 11, 2010. These shares are deemed to be outstanding and beneficially owned by the person holding the options or warrants for the purpose of computing the percentage ownership of that person, but they are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Except as otherwise noted below, the address for each person or entity listed in the table is c/o MAKO Surgical Corp., 2555 Davie Road, Fort Lauderdale, FL 33317.

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percent of Common Stock Beneficially Owned
Current Directors		
S. Morry Blumenfeld, Ph.D.(1)	957,753	2.84%
Marcelo G. Chao(2)	—	*
Christopher C. Dewey(3)	864,815	2.56%
Charles W. Federico (4)	26,910	*
Maurice R. Ferré, M.D.(5)	1,084,361	3.20%
John G. Freund, M.D.(6)	3,825,856	11.15%
Frederic H. Moll, M.D.(7)	172,352	*
William D. Pruitt(8)	7,699	*
John J. Savarese, M.D.(9)	2,820,404	8.27%
Named Executive Officers Who Are Not Directors		
Fritz L. LaPorte(10)	223,935	*
Rony A. Abovitz(10)	198,751	*
Ivan Delevic(10)	28,937	*
Steven J. Nunes(10)	94,064	*
All Directors, Nominees, and Executive Officers as a Group (17 persons)(11)	10,545,262	29.28%
Other Beneficial Owners		
Entities affiliated with FMR LLC (12) 82 Devonshire Street Boston, MA 02109	4,979,384	14.79%
Entities affiliated with Lumira Capital Corp.(13) Attn: Gerry Brunk 20 Bay Street, 11th Floor Toronto, Ontario, Canada M5J 2N8	1,889,661	5.61%
MK Investment Company(14) c/o Del Plata Consulting Services Zonamerica, Ruta 8, KM 17.5 Montevideo, Uruguay, 91600	1,888,666	5.61%
Entities affiliated with Montreux Equity Partners(9) Attn: John J. Savarese, M.D. 3000 Sand Hill Road Building 1, Suite 260 Menlo Park, CA 94025-7073	2,820,404	8.27%
Skyline Venture Partners V, L.P.(6) Attn: John G. Freund, M.D. 525 University Avenue, Suite 520 Palo Alto, CA 94301	3,825,856	11.15%
Entities affiliated with The TCW Group, Inc.(15) 865 South Figueroa Street Los Angeles, CA 90017	1,809,090	5.37%

* Denotes less than 1%.

(1) Consists of 72,147 shares held by MediTech Advisors LLC in trust for its partners and 885,606 shares held by Ziegler MediTech Equity Partners LP, which includes 64,516 shares that Ziegler MediTech Equity Partners LP has the right to acquire through the exercise of warrants. The partners of MediTech Advisors LLC are Eitan Machover, Samuel Cubac, Grosvenor LLC and Allandale Ltd. The members of Grosvenor LLC are

Dr. Blumenfeld and certain of his family members. The general partner of Ziegler MediTech Equity Partners LP is Ziegler MediTech Partners, LLC. The board of managers of Ziegler MediTech Partners LLC consists of Dr. Blumenfeld, Eitan Machover, Sam Cubac, S. Charles O'Meara, Donald I. Grande and Thomas S. Ross. The partners of MediTech Advisors LLC and Dr. Blumenfeld and the other directors of Ziegler MediTech Partners LLC may be deemed to share voting and investment power over the shares held by MediTech Advisors LLC and Ziegler MediTech Equity Partners LP. Each of these individuals disclaims beneficial ownership of such shares, except to the extent of his or her pecuniary interest.

(2) Mr. Chao resigned as Managing Director of The Exxel Group, an affiliate of MK Investment Company. Accordingly, Mr. Chao no longer shares voting and investment power over the shares held by MK Investment Company and is no longer deemed to have beneficial ownership of such shares. Mr. Chao's term as a director will expire at the annual meeting.

(3) Includes 117,634 shares that Mr. Dewey has the right to acquire through the exercise of warrants. Mr. Dewey has pledged 700,000 shares to a third party lender as collateral to secure any amounts that may become outstanding under a personal loan.

(4) Includes 16,910 shares that Mr. Federico has the right to acquire through the exercise of vested options.

(5) Consists of 825,113 shares of restricted common stock (of which 258,993 shares will be unvested as of June 11, 2010) issued to Dr. Ferré in connection with his employment, 17,065 shares of unrestricted common stock purchased by Dr. Ferré, 236,552 shares that Dr. Ferré has the right to acquire through the exercise of vested options, and 5,631 shares that Dr. Ferré has the right to acquire through the exercise of warrants. Dr. Ferré has pledged all 566,120 vested shares of restricted common stock to a third party lender as collateral to secure any amounts that may become outstanding under a personal loan.

(6) Consists of 3,825,856 shares held by Skyline Venture Partners V, L.P., which includes 630,607 shares that Skyline Venture Partners V, L.P. has the right to acquire through the exercise of warrants. Dr. Freund is a Managing Director of Skyline Venture Management V, LLC, the general partner of Skyline Venture Partners V, L.P. and may be deemed to share voting and investment power over the shares held by Skyline Venture Partners V, L.P. Dr. Freund disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest.

(7) Includes 19,344 shares that Dr. Moll has the right to acquire through the exercise of warrants and 10,540 shares that Dr. Moll has the right to acquire through the exercise of vested options.

(8) Consists of 7,699 shares that Mr. Pruitt has the right to acquire through the exercise of vested options.

(9) Consists of (a) 2,676,033 shares held by Montreux Equity Partners IV, L.P. ("MEP IV"), which includes 420,157 shares that MEP IV has the right to acquire through the exercise of warrants and (b) 144,371 shares held by Montreux IV Associates, L.L.C. ("Associates IV"), which includes 29,676 shares that Associates IV has the right to acquire through the exercise of warrants. Montreux Equity Management IV, LLC ("MEM IV") is the sole general partner of MEP IV and the manager of Associates IV. Daniel K. Turner III, Howard D. Palefsky, Manish Chapekar and John J. Savarese are the managers of MEM IV and may be deemed to share voting and investment power over the shares held by each of MEP IV and Associates IV. Each of these individuals disclaims beneficial ownership of such shares, except to the extent of his or her pecuniary interest.

(10) Represents shares that may be acquired through the exercise of vested options.

(11) Includes exercisable options to purchase 1,052,681 shares of our common stock and exercisable warrants to purchase 1,287,565 shares of our common stock.

(12) Based on Amendment No. 1 to Schedule 13G filed with the SEC on February 16, 2010 by FMR LLC. Fidelity Management & Research Company ("Fidelity"), a wholly owned subsidiary of FMR LLC and an investment adviser, is the beneficial owner of 4,979,384 shares of our common stock as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940 (the "Funds"). Edward C. Johnson 3d and FMR LLC, through its control of Fidelity, and the Funds each has sole power to dispose of the 4,979,384 shares owned by the Funds. Members of the family of Edward C. Johnson 3d, Chairman of FMR LLC, are the predominant owners, directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC. The Johnson family group and all other Series B shareholders have entered into a shareholders' voting agreement under which all Series B

voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC. Neither FMR LLC nor Edward C. Johnson 3d, Chairman of FMR LLC, has the sole power to vote or direct the voting of the shares owned directly by the Fidelity Funds, which power resides with the Funds' Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the Funds' Boards of Trustees.

(13) Consists of (a) 1,188,312 shares held by Lumira Capital I Limited Partnership ("LC I"), the general partner of which is Lumira Capital I (GP) Inc., which includes 23,854 shares that LC I has the right to acquire through the exercise of warrants, (b) 418,664 shares held by Lumira Capital I Quebec Limited Partnership ("LCIQ "), the general partner of which is Lumira Capital I (QGP) Inc., which includes 8,404 shares that LCIQ has the right to acquire through the exercise of warrants, and (c) 282,685 shares held by MLII Co-Investment Fund NC Limited Partnership ("MLII.NC"), the general partner of which is MLII (NCGP) Inc. Lumira Capital Management Corp. ("Lumira Management"), a subsidiary of Lumira Capital Corp., may be deemed to share voting and investment power over the shares held by LC I pursuant to a management agreement with LC I. Lumira Management also provides services to each of LCIQ and MLII.NC. The directors of Lumira Capital Corp. are Anthony Pullen, Kenneth Horton, James Oborne and Peter van der Velden. The directors of Lumira Management, Lumira Capital I (GP) Inc., and MLII (NCGP) Inc. are Stephen Cummings and Peter van der Velden. The directors of Lumira Capital I (QGP) Inc. are Bernard Coupal, Murray Ducharme, Maurice Forget, Jean Page and Peter van der Velden. Lumira Capital I (GP) Inc., Lumira Capital I (QGP) Inc., MLII (NCGP) Inc. and each of the individuals may be deemed to share voting and investment power over these shares. Lumira Capital I (GP) Inc., Lumira Capital I (QGP) Inc., MLII (NCGP) Inc., Lumira Management, Lumira Capital Corp., Each of the individuals disclaim beneficial ownership of such shares, except to the extent of its, his or her pecuniary interest.

(14) Consists of 1,888,666 shares held by MK Investment Company ("MK Investment"), which includes 16,129 shares that MK Investment has the right to acquire through the exercise of warrants. The directors of MK Investment are Mirta Carballal, Diego Muñoz, and Alfredo Arocena. The directors of MK Investment may be deemed to share voting and investment power over the shares held by this entity. Each of these individuals disclaims beneficial ownership of such shares, except to the extent of his or her pecuniary interest.

(15) Based on a Schedule 13G filed with the SEC on February 11, 2010 by The TCW Group, Inc. on behalf of itself and its subsidiaries, Trust Company of the West, TCW Asset Management Company and TCW Investment Management Company (collectively, "TCW"). TCW has shared voting power with respect to 1,437,707 shares and shared dispositive power with respect to all of the shares.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that our directors and officers, and persons who beneficially own more than 10% of our common stock, file with the SEC initial reports of ownership and reports of changes in ownership of our common stock. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish our company with copies of all Section 16(a) reports they file. To our knowledge, based solely on a review of the copies of such reports furnished to the company and written representations of the reporting persons, through April 12, 2010, all Section 16(a) filing requirements applicable to our officers, directors and greater than 10% stockholders were complied with subject to the following exceptions: one late Form 4 report for one transaction for each of Charlie W. Federico, Maurice R. Ferré, John G. Freund, M.D., Frederic H. Moll, M.D., William D. Pruitt, and John J. Savarese, M.D., one late Form 4 report for three transactions for Charlie W. Federico, and one late Form 3 report for Skyline Venture Partners V L.P., a 10% stockholder.

ELECTION OF DIRECTORS

GENERAL INFORMATION

Our board of directors currently has nine authorized seats and is divided into three classes, with three Class I directors, three Class II directors, and three Class III directors. The term of our three Class III directors will expire at the 2010 annual meeting and two Class III nominees are to be elected at the annual meeting to serve a three-year term expiring at the 2013 annual meeting of stockholders and until a successor has been elected and qualified. Christopher C. Dewey and John J. Savarese, M.D. have been nominated by our board of directors to serve as Class III directors.

The Class III director seat being vacated by Marcelo G. Chao, whose term as a director will expire at the 2010 annual meeting, will not be filled at the annual meeting, resulting in a vacancy in Class III of our board of directors. Our corporate governance and nominating committee recommended to our board of directors that such vacancy be eliminated in accordance with the provisions of our bylaws. Based on such recommendation, our board of directors approved a decrease in the number of authorized seats on the board from nine to eight seats, to be effective immediately upon the election of the two Class III nominees. Accordingly, if the two Class III nominees are elected as directors at the annual meeting, immediately following the annual meeting, our board of directors will have eight authorized seats and will be divided into three classes with three directors in each of Class I and Class II and two directors in Class III.

Unless our stockholders specify otherwise, the shares represented by the accompanying proxy will be voted for the election of the nominees recommended by the board of directors. Our board of directors has no reason to believe that the listed nominees will be unable or unwilling to serve as directors if elected. However, if any nominee should be unable to serve or will not serve, then the shares represented by the accompanying proxy will be voted for another nominee selected by our board of directors. As discussed above, if both director nominees are elected, our board of directors will have one vacancy, which vacancy will be immediately eliminated by the board of directors as discussed above. Proxies cannot be voted for a greater number of persons than the two nominees named.

The names of the nominees and directors, their ages as of April 12, 2010 and certain other information about them are set forth below.

Each director will be elected by a plurality of the votes cast at the annual meeting (assuming a quorum is present). Consequently, any shares not voted at the annual meeting, whether due to abstentions, broker non-votes or otherwise, will have no impact on the election of directors.

Our board of directors unanimously recommends that the nominees identified below be elected as directors and urges you to vote "FOR" them. Shares of common stock represented by executed, but unmarked, proxies will be voted "FOR" these nominees.

NOMINEES AND DIRECTORS CONTINUING IN OFFICE

Name of Nominee or Director	Age	Principal Occupation	Director Since
Class III Director Nominees with term expiring at the 2013 annual meeting:			
Christopher C. Dewey(1)	65	Vice Chairman, National Holdings Corporation	2004
John J. Savarese, M.D.(2)	41	Managing Director, Montreux Equity Partners	2008
Class II Directors with term expiring at the 2012 annual meeting:			
Charles W. Federico(2)(3)(4)	61	Former President and Chief Executive Officer, Orthofix International N.V.; Director, Orthofix International N.V.	2007
Maurice R. Ferré, M.D.	49	President, Chief Executive Officer and Chairman, MAKO Surgical Corp.	2004
Frederic H. Moll, M.D.(2)	58	Chief Executive Officer and Director, Hansen Medical, Inc.	2007
Class I Directors with term expiring at the 2011 annual meeting:			
S. Morry Blumenfeld, Ph.D.(1)	72	Founder, Meditech Advisors LLC and Meditech Advisors Management LLC	2005
John G. Freund, M.D.(2)	56	Managing Director, Skyline Ventures	2008
William D. Pruitt(3)	69	President, Pruitt Enterprises, LP	2008

(1) Member, Compensation Committee

(2) Member, Corporate Governance and Nominating Committee

(3) Member, Audit Committee

(4) Lead Director

The principal occupations and positions for at least the past five years of our directors and director nominees are described below. There are no family relationships among any of our directors or executive officers.

Class III Director Nominees for Election for a Three-Year Term Expiring at the 2013 Annual Meeting of Stockholders

Christopher C. Dewey has served as one of our directors since our inception in November 2004. Since January 2007, Mr. Dewey has served as Vice Chairman of the board of directors of National Holdings Corporation, a financial services organization operating through its subsidiary, National Securities. From December 2006 to December 2008, Mr. Dewey served as acting Chief Executive Officer and director of Z-KAT, Inc., a surgical navigation medical device company that incorporated MAKO Surgical Corp. Mr. Dewey has over 25 years of experience in finance, most recently as Executive Vice President of Jefferies & Company, Inc., the principal operating subsidiary of Jeffries Group, Inc., a securities and investment banking firm, from 1994 to December 2006. Mr. Dewey co-founded several companies, including Robotic Ventures LLC, Bonds Direct Securities LLC and Cannon Group Inc., a motion picture company that went public in 1972. Mr. Dewey currently serves on the board of Orthosensor, Inc., a medical device company. Mr. Dewey holds an M.B.A. from The Wharton School of the University of Pennsylvania. Mr. Dewey's long career in the financial services industry and as the chief executive officer and a director of our predecessor company, and his resulting expertise in corporate transactions and financial markets, along with his familiarity with our business and industry, led to the conclusion that he should serve as a director of our company.

John J. Savarese, M.D. has served as one of our directors since October 2008. Since June 2003, Dr. Savarese has been a Managing Director at Montreux Equity Partners, a healthcare investment firm. Prior to joining Montreux Equity Partners, Dr. Savarese served as Director of Business Development and Marketing at NeurogesX and worked in the Life Sciences Investment Banking division of Credit Suisse First Boston. Currently, Dr. Savarese serves on the board of directors of several medical device and pharmaceutical companies. Dr. Savarese's clinical experience in

Orthopedic and General Surgery was gained at the Cornell Medical College/Hospital for Special Surgery. Dr. Savarese holds an M.B.A from Stanford University and an M.D. from Duke University Medical School. Montreux Equity Partners was one of the investors in our October 2008 private placement. In connection with the private placement, we agreed that Montreux Equity Partners was entitled to appoint one representative to our board of directors so long as its affiliated funds hold at least 25% of the shares of our common stock that they purchased in the private placement. Dr. Savarese was appointed to our board pursuant to that agreement. We believe that Dr. Savarese is qualified to serve as a director of our company due to his historical experience as an executive and an investor in the healthcare industry, his governance experience as a director of several other medical device and healthcare companies, and his clinical background in orthopedic surgery.

Class II Directors with a Term Expiring at the 2012 Annual Meeting of Stockholders

Charles W. Federico, our Lead Director, has served as one of our directors since June 2007. From 2001 to April 2006, Mr. Federico served as President and Chief Executive Officer of Orthofix International N.V., a global diversified medical device company, and, from 1996 to 2001, President of Orthofix Inc. From 1985 to 1996, Mr. Federico was President of Smith & Nephew Endoscopy (formerly Dyonics, Inc.). From 1981 to 1985, Mr. Federico served as Vice President of Dyonics. Previously, he held management and marketing positions with General Foods Corporation, Puritan Bennett Corporation and LSE Corporation. Mr. Federico is a Trustee of the Orthopedic Research and Education Foundation and was a corporate governance panel member at the 2009 Florida Directors Institute. Mr. Federico is a director of Orthofix International N.V., chairman of the board and a member of the nominating and corporate governance and compensation committees of SRI/Surgical Express, Inc., and a director, chairman of the compensation committee, and member of the audit committee of BioMimetic Therapeutics, Inc. Mr. Federico previously served as the lead director and a member of the compensation and audit committees of Power Medical Interventions, Inc. and as a director of Alveolus, Inc. Mr. Federico holds a B.S. in marketing from Fordham University. Mr. Federico's leadership experience in the public and private sectors, his long career as an executive of a publicly traded medical device company, his experience serving on the board of directors for both public and private companies, and his resulting skills in the areas of corporate governance, corporate transactions, and enterprise risk management, as well his familiarity with our industry, led to the conclusion that he should serve as a director of our company.

Maurice R. Ferré, M.D. our founding President, Chief Executive Officer and current Chairman of our board of directors, has been with us since our inception in November 2004. In May 2004, Dr. Ferré became Chief Executive Officer of Z-KAT, Inc., a surgical navigation medical device company that incorporated MAKO Surgical Corp. Dr. Ferré served as Vice President of Strategic Development at GE Navigation, a division of GE Healthcare, from April 2002 until April 2004. In 1993, Dr. Ferré founded Visualization Technology, Inc., a medical device company for image-guided surgery, and served as its Chief Executive Officer until the company was acquired by GE Healthcare in April 2002. Dr. Ferré holds a B.A. in biology from Bennington College and a Masters in Public Health and an M.D. from Boston University. Dr. Ferré's experience as an executive of our company and other medical device companies and his resulting skills in the areas of corporate transactions, operations and manufacturing, business development, brand marketing, corporate communications and enterprise risk management, along with his familiarity with our business and industry and role as our President and Chief Executive Officer, led to the conclusion that he should serve as a director of our company and Chairman of the Board.

Frederic H. Moll, M.D. has served as one of our directors since August 2007. In September 2002, Dr. Moll co-founded Hansen Medical, Inc., a medical robotics company, and serves as its Chief Executive Officer and is a member of its board of directors. In November 1995, Dr. Moll co-founded Intuitive Surgical, Inc., a medical device company, and served as its first Chief Executive Officer and later, its Vice President and Medical Director until September 2003. In 1989, Dr. Moll co-founded Origin Medsystems, Inc., a medical device company, which later became an operating company within Guidant Corporation, a medical device company, following its acquisition by Eli Lilly in 1992. Dr. Moll served as Medical Director of Guidant's surgical device division until November 1995. Dr. Moll holds a B.A. from the University of California, Berkeley, an M.S. from Stanford University and an M.D. from the University of Washington School of Medicine. Dr. Moll's leadership experience in the medical device industry, his long career as an executive of a publicly-traded company, his medical background, and his resulting skills in the areas of business development, corporate transactions, corporate communications and enterprise risk management led to the conclusion that he should serve as a director of our company.

Class I Directors with a Term Expiring at the 2011 Annual Meeting of Stockholders

S. Morry Blumenfeld, Ph.D. has served as one of our directors since July 2005. In 2003, Dr. Blumenfeld founded Meditech Advisors LLC and Meditech Advisors Management LLC, a member of Ziegler MediTech Partners, LLC, the sole general partner of Ziegler Meditech Equity Partners, LP, a private equity fund specializing in investments in healthcare and medical device companies. In April 2002, Dr. Blumenfeld retired as Managing Director of GE Medical Systems in Israel after more than 34 years with the company, where he helped initiate both GE's CT and MR business lines. Currently, he serves on the board of directors of a number of medical device and technology companies, including Oridion Systems Ltd., where he is a member of the compensation committee, and several private companies. Dr. Blumenfeld holds a B.A.Sc in engineering physics and a Ph.D. in molecular physics from the University of Toronto. Dr. Blumenfeld's leadership experience and international business, corporate transactions, and corporate governance expertise garnered from his business experience, as well as his familiarity with our industry, led to the conclusion that he should serve as a director of our company.

John G. Freund, M.D. has served as one of our directors since October 2008. Since 1997, Dr. Freund has been a Managing Director of Skyline Ventures, a venture capital firm. From September 1995 to September 1997, Dr. Freund was a Managing Director in the Alternative Assets Group at Chancellor Capital Management, an investment firm. In 1995, Dr. Freund co-founded Intuitive Surgical, Inc., a medical device company, and served on Intuitive's board of directors until March 2000. From June 1988 to December 1994, Dr. Freund held various positions at Acuson Corporation, a medical device company, including Executive Vice President. From 1982 to 1988, Dr. Freund was at Morgan Stanley & Co., Inc., an investment banking firm, where he was the co-founder of the Healthcare Group in the Corporate Finance Department and later was the original healthcare partner at Morgan Stanley Venture Partners, a venture capital firm affiliated with Morgan Stanley. Dr. Freund served on the board of directors of Hansen Medical, Inc., a medical device company, from November 2002 to March 2010 and is currently a director and member of the audit committee and the nominating and corporate governance committee of XenoPort Inc., a biotech company, a director and member of the nominating and corporate governance committee of MAP Pharmaceuticals, Inc., a biotech company, a director and member of the contracts and governance committee and the nominating committee of the SmallCap World Fund, and a director and member of the contracts committee and the nominating and governance committee of each of The Growth Fund of America, Inc. and Fundamental Investors, Inc., each of which are U.S.-registered investment funds. Dr. Freund also is a director of a number of private companies. Dr. Freund received an M.D. from Harvard Medical School in 1980 and an M.B.A. from Harvard Business School in 1982, where he was a Baker Scholar. Skyline Ventures was one of the investors in our October 2008 private placement. In connection with the private placement, we agreed that Skyline Ventures was entitled to appoint one representative to our board of directors so long as its affiliated funds hold at least 25% of the shares of our common stock that they purchased in the private placement. Dr. Freund was appointed to our board pursuant to that agreement. We believe that Dr. Freund is qualified to serve as a director of our company due to his leadership experience in the life sciences industry, his experience as a director of several other medical device and biotech companies, his medical background, and his resulting skills in the areas of business development, corporate transactions, corporate communications, and enterprise risk management.

William D. Pruitt has served as one of our directors since June 2008. Mr. Pruitt is president of Pruitt Enterprises, LP. Mr. Pruitt has been an independent board member of The PBSJ Corporation, an international professional services firm, since July 2005, has been the chairman of the PBSJ audit committee since 2003, and is a member of the PBSJ compensation committee. Mr. Pruitt served as chairman of the audit committee of KOS Pharmaceuticals, Inc., a fully integrated specialty pharmaceutical company, until its sale in 2006. He was also chairman of the audit committee for Adjoined Consulting, Inc., a full-service management consulting firm, until it was merged into Kanbay International, a global consulting firm, in February 2006. Mr. Pruitt also has served as a director and chairman of the audit committee of Coral Gables Trust Company since December 2009. From 2002 to 2004, Mr. Pruitt provided market consultancy services to Ernst & Young LLP, our independent registered public accounting firm. From 1980 to 1999, Mr. Pruitt served as the managing partner for the Florida, Caribbean and Venezuela operations of the independent auditing firm of Arthur Andersen LLP. Mr. Pruitt holds a Bachelor of Business Administration from the University of Miami and is a Certified Public Accountant (inactive). Mr. Pruitt's experience in financial matters as a certified public accountant and as a former managing partner of an accounting firm and the skills he acquired through these positions in the areas of financial matters, public accounting, corporate transactions and enterprise risk management, as well as his background as a director and audit committee member of publicly-traded companies, led to the conclusion that he should serve as a director of our company.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

INDEPENDENT DIRECTORS

Our board of directors has determined that eight of the nine directors currently serving on our board are independent directors under the independence standards of The NASDAQ Global Market; specifically, Messrs. Chao, Dewey, Federico and Pruitt and Drs. Blumenfeld, Freund, Moll, and Savarese are independent. Mr. Chao is retiring from our board of directors when his current term as a director expires at the annual meeting of stockholders.

In making determinations of independence with respect to Messrs. Chao and Drs. Blumenfeld, Freund, and Savarese, each of whom is affiliated with a principal stockholder of our company, our board considered the relationship between the director and the respective stockholder and determined, in each case, that the relationship was not relevant to the director's independence.

In accordance with the requirements of NASDAQ, our independent directors meet in regularly convened executive sessions at least twice per year, in conjunction with regularly scheduled board meetings.

BOARD LEADERSHIP STRUCTURE

Our board of directors does not have a policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board as our board of directors believes it is in the best interest of the company to make that determination based on the current position and direction of the company and the membership of the board of directors. Dr. Ferré, our company's Chief Executive Officer, currently serves as Chairman of the Board. Our board of directors has determined that this combined role is in the best interests of the company's stockholders at this time because Dr. Ferré is the person best qualified to serve as Chairman of the Board given his history with our company and his skills and experience within the industry that we operate. Further, our board of directors believes that this leadership structure is appropriate at this time as it establishes a single leader with one vision setting the tone and direction for our company. Our board of directors believes that there is no single best organizational model that would be most effective in all circumstances and therefore retains the authority to modify this structure to best address our company's unique circumstances as and when appropriate.

In March 2009, our board of directors established the position of Lead Director to supplement the combined Chief Executive Officer and Chairman of the Board position. Charles W. Federico currently serves as our Lead Director. The Lead Director works closely with the Chairman of the Board and our Chief Executive Officer to assure that our board is able to more effectively and pro-actively execute its fundamental duties on an ongoing basis and to enhance our board's ability to oversee and monitor the operations of our company. The primary responsibilities of the Lead Director include the following, among other things:

- Presiding at all meetings of the board at which the Chairman of the Board is not present, including all executive sessions of the independent directors and establishing agendas for the executive sessions in consultation with the other directors and the Chairman of the Board;
- Working with the Chairman of the Board to establish meeting agendas for the board of directors and its committees;
- Reviewing all board materials;
- Advising the Chairman of the Board regarding any director and stockholder concerns;
- Interviewing, along with the chairman of the corporate governance and nominating committee, all candidates for our board of directors;
- Soliciting suggestions from the chairs of the board's committees;
- Participating with the Chairman of the Board and the company's executive officers in certain strategic planning and implementation tasks.

THE BOARD'S ROLE IN RISK OVERSIGHT

Our board of directors is responsible for overseeing the operational and strategic risk management processes that have been designed and implemented by our company's senior management. Our board of directors has delegated to its audit committee primary responsibility for reviewing the company's policies with respect to risk assessment and risk management. Each committee of our board of directors also oversees the management of company risks that fall within the committee's areas of responsibility. For examples, the audit committee addresses significant financial risk exposures facing the company and the steps management has taken to monitor, control and report such exposures; the compensation committee addresses significant risk exposures facing the company with respect to compensation; and the corporate governance and nominating committee oversees corporate governance risks. Each committee reports to the full board of directors on a regular basis, including, as appropriate, an update on the committee's risk oversight activities. Our board of director's role in our company's risk oversight has not affected our leadership structure.

Our company has created a Risk Management Committee comprised of senior management from each operating division of the company that is responsible for identifying, assessing, and developing a mitigation strategy for significant enterprise risks that could impact our company's ability to meet our objectives and execute our strategic plan. Our Risk Management Committee periodically meets to identify, assess, and prioritize internal and external significant risks and to develop processes for responding to, mitigating, and monitoring such risks. The Risk Management Committee provides a summary of its activities and findings directly to the audit committee and, as appropriate, to the other committees and the full board of directors.

MEETINGS AND ATTENDANCE

During 2009, our board of directors held twelve meetings. Each of our incumbent directors attended at least 75% of the aggregate number of meetings of the board and the committees on which the director served, which were held during such director's term of office. None of the members of the standing committees of our board of directors, described in detail below, was an officer or employee of our company.

We have no policy requiring our directors to attend our annual stockholders meetings; however, our corporate governance guidelines provide that directors should make every effort to attend all annual and special meetings of stockholders, as well as meetings of our board of directors and meetings of the board committees of which they are members. Eight of our directors attended our 2009 annual stockholders meeting.

BOARD COMMITTEES AND MEETINGS

Our board of directors has a standing audit committee, compensation committee, and corporate governance and nominating committee. The board has adopted, and may amend from time to time, a written charter for each of the committees. We maintain a website at *www.makosurgical.com* and make available on that website, free of charge, copies of each of the committee charters. We are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this proxy statement.

We provide below information on the standing committees of our board of directors, including the membership, functions and number of meetings of each committee held in 2009. As part of its standard practices and in light of Mr. Chao's resignation from our board, our board of directors will reconstitute the membership of each committee at our board's annual meeting immediately following the 2010 annual stockholders meeting.

Audit Committee

Our audit committee consists of Messrs. Pruitt, Chao, and Federico, each of whom our board of directors has determined to be an independent director. Our board of directors has determined that Mr. Pruitt qualifies as an audit committee financial expert within the meaning of SEC regulations and is financially sophisticated within the meaning of the NASDAQ listing standards. In making this determination, our board considered the nature and scope of experience that Mr. Pruitt has previously had with reporting companies. Mr. Pruitt currently serves as the chair of the audit committee. The audit committee held nine meetings in 2009. The functions of this committee include, among other things:

- Overseeing the audit and other services of our independent registered public accounting firm and being directly responsible for the appointment, compensation, retention and oversight of the independent registered public accounting firm, who will report directly to the audit committee;
- Reviewing and pre-approving the engagement of our independent registered public accounting firm to perform audit services and any permissible non-audit services;
- Overseeing compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002;
- Reviewing our annual and quarterly financial statements and reports and discussing the financial statements and reports with our independent registered public accounting firm and management;
- Reviewing and approving all related person transactions;
- Reviewing with our independent registered public accounting firm and management significant issues that may arise regarding accounting principles and financial statement presentation, as well as matters concerning the scope, adequacy and effectiveness of our internal controls over financial reporting;
- Establishing procedures for the receipt, retention and treatment of complaints received by us regarding internal control over financial reporting, accounting or auditing matters; and
- Preparing the audit committee report for inclusion in our proxy statement for our annual meeting.

Both our independent registered public accounting firm and management periodically meet privately with our audit committee.

Compensation Committee

Our compensation committee consists of Mr. Chao, Dr. Blumenfeld, and Mr. Dewey, each of whom our board has determined to be an independent director. Each member of our compensation committee is a non-employee director, as defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, and an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code of 1986. The compensation committee held eight meetings in 2009.

Mr. Chao serves as the chair of the compensation committee. The functions of this committee include, among other things:

- Determining the compensation and other terms of employment of our Chief Executive Officer and other executive officers and reviewing and approving corporate performance goals and objectives relevant to such compensation;
- Administering and implementing our incentive compensation plans and equity-based plans, including approving option grants, restricted stock and other awards;
- Evaluating and recommending to our board of directors the equity incentive compensation plans, equity-based plans and similar programs advisable for us, as well as modifications or terminations of existing plans and programs;
- Reviewing and approving the terms of any employment-related agreements, severance arrangements, change-in-control and similar agreements/provision and any amendments, supplements or waivers to the foregoing agreements with our Chief Executive Officer and other executive officers;
- Reviewing and discussing the Compensation Discussion and Analysis required in our annual report and proxy statement with management and determining whether to recommend to the board the inclusion of the Compensation Discussion and Analysis in the annual report or proxy; and
- Preparing the compensation committee report for inclusion in our proxy statement for our annual meeting.

In making decisions concerning executive compensation, the compensation committee typically considers, but is not required to accept, the recommendations of Dr. Ferré, our President and Chief Executive Officer, regarding the performance and proposed base salary, bonus target and equity awards for our named executive officers, including Dr. Ferré. The compensation committee may also request the assistance of Fritz L. LaPorte, our Chief Financial Officer, and our human resources department in evaluating the financial, accounting and tax implications of various compensation awards paid to the named executive officers. Neither Mr. LaPorte nor our human resources employees, however, recommend or determine the amounts or types of compensation paid to the named executive officers. Dr. Ferré and certain of our other executive officers may attend compensation committee meetings, as requested by the chairman of the compensation committee and depending on the issues to be discussed by the compensation committee, but none of these executive officers, including Dr. Ferré, attends any portion of the compensation committee meetings during which his compensation is discussed and approved.

In the third quarter of 2007, as we discuss below under "Compensation Discussion and Analysis," the compensation committee retained Radford Surveys and Consulting to conduct a review of the pre-IPO equity ownership levels for senior management at other pre-IPO medical device and biotechnology companies in later stages of financing, and provide an analysis of how the then-current equity holdings of our senior management, including each of the then named executive officers, compared to the median of the surveyed companies. In 2008, the compensation committee did not engage a compensation consultant in making decisions concerning executive compensation. In late 2009, the compensation committee engaged Radford Surveys and Consulting to provide consulting services to the committee related to 2010 executive compensation.

Additional information regarding the compensation committee and our policies and procedures regarding executive compensation, including the role of executive officers and compensation consultants in recommending executive compensation, is provided below under "Compensation Discussion and Analysis."

Corporate Governance and Nominating Committee

Our corporate governance and nominating committee consists of Mr. Federico and Drs. Freund, Moll, and Savarese each of whom our board has determined to be an independent director. The corporate governance and nominating committee held three meetings in 2009.

Mr. Federico serves as the chair of the corporate governance and nominating committee. The functions of this committee include, among other things:

- Evaluating director performance on the board and applicable committees of the board;
- Interviewing, evaluating, nominating and recommending individuals for membership on our board of directors;
- Evaluating nominations by stockholders of candidates for election to our board;
- Reviewing and recommending to our board of directors any amendments to our corporate governance documents; and
- Making recommendations to the board regarding management succession planning.

NOMINATION PROCESS

Under our corporate governance guidelines, the corporate governance and nominating committee is responsible for identifying and recommending to our board of directors qualified candidates for board membership. In considering potential candidates for board membership, the corporate governance and nominating committee considers the entirety of each candidate's credentials. Qualifications for consideration as a director nominee may vary according to the particular areas of expertise being sought as a complement to the existing composition of the board. However, at a minimum, candidates for the board must possess:

- high personal and professional ethics and integrity;
- an ability to exercise sound judgment;
- an ability to make independent analytical inquiries;

- a willingness and ability to devote adequate time and resources to diligently perform board duties; and
- appropriate and relevant business experience and acumen.

In addition to the aforementioned minimum qualifications, the corporate governance and nominating committee may take into account other factors when considering whether to nominate a particular person. These factors include:

- whether the person possesses specific industry expertise and familiarity with general issues affecting our business;
- whether the person's nomination and election would enable our board to have a member that qualifies as an "audit committee financial expert" as this term is defined by the SEC in Item 407 of Regulation S-K, as may be amended;
- whether the person would qualify as an independent director;
- the importance of continuity of the existing composition of the board; and
- the importance of diversified board membership, in terms of both the individuals involved and their various experiences and areas of expertise.

A director candidate should have expertise, skills, knowledge and experience that, when taken together with that of other board members, will lead to a board of directors that is effective, collegial and responsive to our needs.

While the corporate governance and nominating committee does not have a formal policy relating specifically to the consideration of diversity in indentifying director nominees, the committee does, as noted above, consider the importance of a diversified board membership, including diversity of viewpoint, background, industry knowledge and perspective, as part of its overall evaluation of candidates for director nominees.

The corporate governance and nominating committee may seek to identify director candidates based on input provided by a number of sources, including (i) committee members, (ii) our other directors, (iii) our stockholders, (iv) our Chief Executive Officer and (v) third parties. The corporate governance and nominating committee also has the authority to consult with or retain advisors or search firms to assist in the identification of qualified director candidates. In 2010, the corporate governance and nominating committee retained a search firm to assist it in identifying and assessing potential director candidates meeting the criteria established by the committee, interviewing and screening such candidates, and acting as an intermediary with such candidates.

The corporate governance and nominating committee gives appropriate consideration to candidates for board membership recommended for nomination by stockholders and evaluates such candidates in the same manner as other candidates identified to the committee. Stockholders who wish to nominate director candidates for election by stockholders at the annual meeting may do so in the manner disclosed in the Questions and Answers section of this proxy statement in accordance with the provisions of our bylaws. Members of the corporate governance and nominating committee will discuss and evaluate possible candidates in detail prior to recommending them to the board.

The corporate governance and nominating committee is also responsible for initially assessing whether a candidate would be an independent director. Our board of directors, taking into consideration the recommendations of the corporate governance and nominating committee, is responsible for selecting the nominees for election to the board by the stockholders and for appointing directors to the board to fill vacancies and newly created directorships, with primary emphasis on the criteria set forth above. The board, taking into consideration the assessment of the corporate governance and nominating committee, also determines whether a nominee or appointee would be an independent director.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of our compensation committee is or has been an officer or employee of the company. None of our executive officers served on the board of directors or compensation committee of any other entity that has or has had an executive officer who served as a member of our board of directors or compensation committee during 2009. Each of Dr. Blumenfeld and Mr. Dewey had relationships with the company during 2009 that were disclosed as related person transactions. See "Certain Relationships and Related Person Transactions – Research and Development Agreement" and "Certain Relationships and Related Person Transactions – Z-KAT Asset Purchase" below.

CORPORATE GOVERNANCE GUIDELINES AND CODE OF BUSINESS CONDUCT AND ETHICS

Our board of directors has adopted a Code of Business Conduct and Ethics applicable to all of our directors, officers, and employees, including, without limitation, our principal executive officer, principal financial officer, controller, and persons performing similar functions. In addition, our board of directors also has adopted Corporate Governance Guidelines to assist our board in exercising its duties. The Code of Business Conduct and Ethics and our Corporate Governance Guidelines are available, free of charge, on the Investor Relations section our website at *www.makosurgical.com*. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding any waivers from or amendments to any provision of the Code of Business Conduct and Ethics by disclosing such information on the same website. We are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this proxy statement.

COMMUNICATIONS WITH THE BOARD OF DIRECTORS

You can contact our board of directors to provide comments, to report concerns, or to ask a question, at the following address: Corporate Secretary, MAKO Surgical Corp., 2555 Davie Road, Fort Lauderdale, Florida, 33317. You may submit your concern anonymously or confidentially by postal mail. You may also indicate whether you are a stockholder, customer, supplier or other interested party. Communications are distributed to the board of directors, or to any individual director or directors as appropriate, depending on the facts and circumstances outlined in the communication. In that regard, our board of directors has requested that certain items that are unrelated to the duties and responsibilities of the board should be excluded, such as:

- Product complaints
- Product inquiries
- New product suggestions
- Resumes and other forms of job inquiries
- Surveys
- Business solicitations or advertisements

In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that any communication that is filtered out must be made available to any non-management director upon request.

You may also communicate online with our board of directors as a group by visiting the Investor Relations section of our website at *www.makosurgical.com*.

CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

POLICIES AND PROCEDURES FOR RELATED PERSON TRANSACTIONS

We have adopted a Related Person Transactions Policy pursuant to which our executive officers, directors and principal stockholders, including their immediate family members, are not permitted to enter into a related person transaction with us without the consent of our audit committee, other independent committee of our board of directors, or the full board. Any request for us to enter into a transaction with an executive officer, director, principal stockholder or any of such person's immediate family members in which the amount involved exceeds $120,000 must be presented to our audit committee for review, consideration and approval. All of our directors, executive officers and employees are required to report to our audit committee any such related person transaction. In approving or rejecting the proposed transaction, our audit committee shall take into account, among other factors it deems appropriate, whether the proposed related person transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances, the extent of the person's interest in the transaction and, if applicable, the impact on a director's independence. After consideration of these and other factors, the audit committee may approve or reject the transaction. Under the policy, if we should discover related person transactions that have not been approved, the audit committee will be notified and will determine the appropriate action, including ratification, rescission or amendment of the transaction.

RESEARCH AND DEVELOPMENT AGREEMENT

In August 2009, we entered into a Research and Development Agreement, or the R&D Agreement, with a third-party sensor company associated with the potential future development of intellectual property and technology related to sensing devices. The R&D Agreement required an initial payment of $50,000 and requires future payments ranging from $250,000 to $1,000,000 in the event that we decide to enter into a licensing and supply agreement with the third-party sensor company following the end of the research and development period.

S. Morry Blumenfeld and Christopher C. Dewey, members of our board of directors, hold approximately five percent (5%) and ten percent (10%), respectively, of the issued and outstanding stock of the third-party sensor company. The members of the audit committee of our board of directors having no financial interest in the R&D Agreement approved the terms of the R&D Agreement.

RECENT SALE OF SECURITIES

In August 2009, we completed a public offering of our common stock, issuing 8,050,000 shares at an offering price to the public of $7.25 per share, resulting in net proceeds, after underwriting discounts and commissions and expenses, of approximately $54.3 million. Set forth below is information regarding two of the participating investors who were existing stockholders deemed to be affiliates of our company by virtue of their representation on the board.

Investor (1)	Common Shares (#)	Purchase Price ($)
Montreux Equity Partners IV, L.P. (2)	632,000	$4,582,000
Skyline Venture Partners V, L.P. (3)	758,000	$5,495,500

(1) See the section of this proxy entitled "Principal Stockholders" for more detail on shares beneficially owned by these investors.

(2) Montreux Equity Partners IV, L.P. was an existing stockholder at the time of the public offering and is represented on the board of directors by John J. Savarese, M.D.

(3) Skyline Venture Partners V, L.P. was an existing stockholder at the time of the public offering and is represented on the board of directors by John G. Freund, M.D.

Each of these existing stockholders participated in the public offering on the same terms as the other purchasers. The members of the audit committee of our board of directors having no financial interest in the public offering approved the terms of the public offering and the participation of these existing stockholders.

Z-KAT ASSET PURCHASE

In February 2010, we completed the acquisition of substantially all of the intellectual property assets of Z-KAT, Inc., or Z-KAT. The terms of the asset purchase agreement between us and Z-KAT terminated our prior licenses with Z-KAT, including Z-KAT's nonexclusive sublicense to our intellectual property portfolio, and transferred to us ownership rights to certain intellectual property assets for core technologies in computer assisted surgery, or CAS, haptics and robotics, including U.S. and foreign patents and patent applications, proprietary software and documentation, trade secrets and trademarks owned by Z-KAT, and certain contractual and other rights to licensed patents, patent applications and other intellectual property licensed to Z-KAT. We paid the purchase price in full at the time of closing by issuing 230,458 shares of our common stock to Z-KAT in a private placement. In connection with the acquisition, we also entered into a new license agreement with Z-KAT pursuant to which we obtained an exclusive worldwide, fully transferable, perpetual, royalty-free and fully paid-up sublicense to certain intellectual property for technologies in CAS licensed by Z-KAT. This new license agreement expands our rights in this intellectual property from the field of orthopedics to the medical field generally. Certain of our rights under the asset purchase agreement and new license agreement remain subject to any prior license granted by Z-KAT, including the license from Z-KAT to Biomet Manufacturing Corp.

Z-KAT formed MAKO Surgical Corp. in November 2004 and Christopher C. Dewey, a member of our board of directors, Maurice R. Ferré, M.D., our President and Chief Executive Officer and Chairman of our board of directors, and Rony Abovitz, our Chief Visionary Officer and Co-Founder, collectively hold more than ten percent (10%) of the

outstanding stock of Z-KAT. The members of the audit committee of our board of directors having no financial interest in the asset purchase agreement and new license agreement approved the terms of the asset purchase agreement and new license agreement.

We believe that there has not been any other transaction or series of similar transactions during 2009, or any currently proposed transaction, to which we were or are to be a party in which the amount involved exceeds $120,000 and in which any director, executive officer or principal stockholder, or members of any such person's immediate family, had or will have a direct or indirect material interest, other than compensation described in "Executive Compensation." We intend that any such future transactions will be approved by our audit committee and will be on terms no less favorable to our company than could be obtained from unaffiliated third parties.

2009 DIRECTOR COMPENSATION

The following table sets forth information with respect to the compensation of all our non-employee directors during 2009.

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(1)	Total ($)
S. Morry Blumenfeld, Ph.D.	—	—	—
Gerald A. Brunk (2)	—	—	—
Marcelo G. Chao	—	—	—
Christopher C. Dewey	—	—	—
Charles W. Federico	$44,750(3)	$49,449(4)	$94,199
John G. Freund, M.D.	—	—	—
Frederic H. Moll, M.D.	$27,500(5)	$23,479(6)	$50,979
William D. Pruitt	$35,000(5)	$16,666(7)	$51,666
John J. Savarese, M.D.	—	—	—

(1) Amounts represent the aggregate grant date fair value of awards granted by the Company during 2009, as computed in accordance with Accounting Standards Codification ("ASC") 718, *Compensation-Stock Compensation*, disregarding any estimated forfeitures relating to service-based vesting conditions. The 2009 Director Option Awards Table below provides further detail on director option grants made in 2009.

(2) Mr. Brunk served as a director until the 2009 annual meeting of the stockholders held on June 11, 2009, when his term as director expired.

(3) Represents fees earned in cash in 2009, including an annual retainer of $20,000, an annual retainer as Lead Director of $16,000 which was prorated for the length of service as Lead Director during 2009, $1,000 for each board or committee meeting attended in 2009, and $500 for each telephonic or video board or committee meeting attended in 2009.

(4) As of December 31, 2009, Mr. Federico held options exercisable for 23,925 shares, 10,723 of which had vested and become exercisable.

(5) Represents fees earned in cash in 2009, including an annual retainer of $20,000, $1,000 for each board or committee meeting attended in 2009, and $500 for each telephonic or video board or committee meeting attended in 2009.

(6) As of December 31, 2009, Dr. Moll held options exercisable for 15,675 shares, 7,699 of which had vested and become exercisable.

(7) As of December 31, 2009, Mr. Pruitt held options exercisable for 13,200 shares, 4,949 of which had vested or become exercisable.

2009 Director Option Awards Table

Name	Grant Date	Number of Securities Underlying Options (#)(1)	Grant Date Fair Value of Option Awards ($)(2)
Charles W. Federico	1/27/09	3,300	$ 12,935
Charles W. Federico	3/26/09	825	$ 3,486
Charles W. Federico	6/5/09	3,300	$ 16,666
Charles W. Federico	6/11/09	3,300	$ 16,362
Frederic H. Moll, M.D.	1/27/09	3,300	$ 12,935
Frederic H. Moll, M.D.	8/24/09	2,475	$ 10,544
William D. Pruitt	6/5/09	3,300	$ 16,666

(1) Option awards granted to each named executive officer during 2009 vest over three years.

(2) Amounts represent the aggregate grant date fair value of awards granted by the Company during 2009, as computed in accordance with ASC 718, disregarding any estimated forfeitures relating to service-based vesting conditions.

We reimburse all of our directors for their reasonable out-of-pocket travel expenses associated with attending board or committee meetings in person. Drs. Blumenfeld, Freund, and Savarese and Messrs. Brunk, Chao, and Dewey did not receive any compensation for their services on the board of directors during 2009. Similarly, Dr. Ferré, our only employee director, does not receive any compensation for his services as a director.

Annual Cash Compensation

Each member of our board whose directorship did not initially arise in conjunction with either a direct or indirect (through an investing fund) investment in our company received an annual retainer of $20,000, a fee of $1,000 for each board meeting or committee meeting attended in person during 2009, $500 for each telephonic or video board or committee meeting attended during 2009, and, with respect to our lead director only, an additional annual retainer of $16,000. Accordingly, during fiscal year 2009, Dr. Moll and Messrs. Federico and Pruitt each received an annual retainer of $20,000, a fee of $1,000 for each board meeting or committee meeting attended in person during 2009, $500 for each telephonic or video board or committee meeting attended during 2009, and with respect to Mr. Federico only, an additional prorated annual retainer of $12,250 for his partial year of service as lead director. Drs. Blumenfeld, Ferré, Freund, and Savarese and Messrs. Brunk, Chao, and Dewey did not receive any compensation in connection with their service on our board of directors during fiscal year 2009.

Equity Compensation

On a case-by-case basis, non-employee directors may be entitled to receive options, in an amount determined by our board of directors or its compensation committee in its respective discretion, to purchase shares of common stock upon initial election or appointment to the board of directors. In determining the number of options granted to a director upon initial election or appointment, the compensation committee uses its judgment and, consistent with our compensation objectives, maintains the flexibility necessary to recruit qualified and experienced directors. Furthermore, our lead director is entitled to an annual grant of options to purchase 3,300 shares of our company's common stock and certain non-employee directors, specifically Dr. Moll and Messrs. Federico and Pruitt, are entitled to an annual grant of options to purchase 3,300 shares of our company's common stock. In each case, the exercise price is equal to the fair market value of our common stock on the day of grant and one-third of the option grant vests on the first anniversary of the grant date with the remaining two-thirds of the option grant vesting ratably over the ensuing twenty-four months. We refer to the annual anniversary grant as the Anniversary Grant and the annual lead director grant as the Leader Director Grant. Historically, the Anniversary Grants were granted in connection with the anniversary date of each director's initial election to our board of directors. In August 2009, the compensation committee approved the granting of all Anniversary Grants in connection with the annual meeting of stockholders, beginning with the 2010 annual meeting. Until February 2008, all outstanding options granted to our non-employee

directors were issued under our 2004 Stock Incentive Plan. Thereafter, all options granted to our non-employee directors will be issued under our 2008 Omnibus Incentive Plan.

The first anniversary dates of service for Mr. Federico and Dr. Moll were June 5, 2008 and August 24, 2008, respectively. On January 27, 2009, the compensation committee approved an Anniversary Grant to each of Mr. Federico and Dr. Moll in recognition of their first anniversary dates of service in 2008. Accordingly, on January 27, 2009, each of Mr. Federico and Dr. Moll were granted an option to purchase 3,300 shares of our common stock with an exercise price per share of $7.10, which was the closing price per share of our common stock on the grant date. In connection with Mr. Federico's election as lead director on March 26, 2009 for a term through our 2009 annual meeting of stockholders, the compensation committee approved a prorated Lead Director Grant to Mr. Federico. Accordingly, on March 26, 2009, Mr. Federico was granted an option to purchase 825 shares of our common stock with an exercise price of $7.55, which was the closing price per share of our common stock on the grant date. On June 5, 2009, the compensation committee approved an Anniversary Grant to each of Messrs. Federico and Pruitt in recognition of their 2009 anniversary dates of service and each of them were granted an option to purchase 3,300 shares of our common stock with an exercise price per share of $8.70, which was the closing price per share of our common stock on the grant date. In connection with Mr. Federico's reelection to the position of Lead Director on June 11, 2009, the compensation committee approved a Lead Director Grant to Mr. Federico and he was granted an option to purchase 3,300 shares of our common stock with an exercise price per share of $8.55, which was the closing price per share of our common stock on the grant date. The compensation committee approved an Anniversary Grant to Dr. Moll on August 24, 2009 in recognition of his 2009 anniversary date of service and he was granted an option to purchase 2,475 shares of our common stock with an exercise price per share of $7.66, which was the closing price per share of our common stock on the grant date. Each option vests over three years as follows: one-third on the first anniversary of the grant date and two-thirds ratably over the remaining twenty-four months.

EXECUTIVE OFFICERS

Our executive officers, their respective ages as of April 12, 2010, and their positions with our company are as follows:

Name	Age	Position
Maurice R. Ferré, M.D.	49	President, Chief Executive Officer and Chairman
Fritz L. LaPorte	40	Senior Vice President of Finance and Administration, Chief Financial Officer and Treasurer
Ivan Delevic	44	Senior Vice President of Strategic Marketing and Business Development
Menashe R. Frank	43	Senior Vice President, General Counsel and Secretary
James E. Keller(1)	58	Senior Vice President of Regulatory Affairs and Quality Assurance
Richard Leparmentier(2)	42	Senior Vice President of Engineering
Duncan H. Moffat	49	Senior Vice President of Operations
Steven J. Nunes	51	Senior Vice President of Sales and Marketing

(1) Mr. Keller joined our company on March 22, 2010.

(2) Mr. Leparmentier joined our company on March 29, 2010.

The principal occupations and positions for at least the past five years of the executive officers named above are as follows:

Maurice R. Ferré, M.D. Please see "Election of Directors" above.

Fritz L. LaPorte, our Senior Vice President of Finance and Administration, Chief Financial Officer and Treasurer, has been with us since our inception in November 2004. From 2001 to November 2004, Mr. LaPorte served as Chief Financial Officer of Z-KAT, Inc. From 1997 to 2000, Mr. LaPorte served as the Director of Finance for Holy Cross Hospital, Inc., a 580-bed acute care facility in Fort Lauderdale, Florida. From 1993 to 1997, Mr. LaPorte served as a Senior Auditor in the Assurance Healthcare Group of Ernst & Young LLP, our independent registered public accounting firm. Mr. LaPorte holds a B.B.A. in accounting from Florida Atlantic University and is a Certified Public Accountant.

Ivan Delevic, our Senior Vice President of Strategic Marketing and Business Development, joined our company in April 2009. Beginning in 2007 through April 2009, Mr. Delevic was a business development consultant to medical device companies through ATID Group Inc. and IDAT LLC, companies he founded in 2007. From 1996 to 2007, Mr. Delevic held various positions with General Electric's healthcare division, both domestically and internationally, including as General Manager for Molecular Imaging EMEA, Global Marketing and Sales Manager for Surgical Navigation, Business Development Manager with GE Healthcare's Global Business Development, Six Sigma Leader & Black Belt for Global Functional Imaging, and Sales Manager for Southeastern Europe. From 1992 to 1996, Mr. Delevic worked for Johnson & Johnson, Inc. as a Business Manager in Budapest, Hungary. Mr. Delevic holds a M.B.A. from the Technical University of Budapest through a joint program with Herriot-Watt University and a M.S. in Electrical Engineering from the Technical University of Budapest.

Menashe R. Frank, our Senior Vice President, General Counsel and Secretary, has been with us since our inception in November 2004. From July 2004 to November 2004, Mr. Frank was a legal consultant to Z-KAT, Inc. Mr. Frank was a corporate associate at the law firm of Hogan & Hartson LLP from 2001 to June 2004, and the law firm of Baker & McKenzie from 2000 to 2001. From 1998 to 2000, Mr. Frank served as Chief Legal Officer for Enticent.com, Inc., a marketing technology enterprise. He was also an associate in the business finance and restructuring department of the law firm of Weil, Gotshal & Manges LLP from 1996 to 1998. Mr. Frank holds a B.A. in political science from American University and a J.D. from the University of Miami School of Law.

James E. Keller, our Senior Vice President of Regulatory Affairs and Quality Assurance, joined our company in March 2010. From 2008 to 2009, Mr. Keller served as VP of Regulatory Affairs & Pharmacovigilence for Medicis Pharmaceutical Corp., a mid-cap diversified drug and Class 3 medical device company for the aesthetic and dermatology markets, where his responsibilities included the development of a regulatory strategy for domestic and international registration of new and revised products, adverse event investigation, reporting, and trending. From 2007 to 2008, Mr. Keller served as Vice President of Regulatory Affairs & Quality Assurance for F. Dohmen Company, a small healthcare services company, where his responsibilities included providing regulatory affairs and quality and compliance services to early-stage biotechnology and medical device firms and developing and implementing a corporate quality management system. From 2005 to 2007, Mr. Keller served as the Vice President of Clinical, Spinal & Biologics for the orthopedic and biologics division of Medtronic, a large medical device company, where his responsibilities included reengineering the regulatory and clinical operations organization and creating regulatory and clinical strategies for new biologic and drug/device combination products, pharmaceuticals, and Class 3 implantable medical devices. From 2001 to 2005, Mr. Keller served as Vice President of Regulatory Affairs & Quality Assurance for Light Sciences Corporation, an early-stage biotechnology development company. From 1996 to 2000, Mr. Keller served as Vice President of Regulatory Affairs for Mallinckrodt, a pharmaceutical and medical device company. Beginning in 1987, Mr. Keller held various positions with E.I. Du Pont de Nemours, including Associate Director of Regulatory Affairs with DuPont Pharmaceuticals and Manager of Regulatory Affairs, Quality Assurance and Government Affairs with DuPont Medical Products. Mr. Keller holds a B.S. in Microbiology from Clemson University and an M.B.A. from John M. Olin School of Business, Washington University.

Richard Leparmentier, our Senior Vice President of Engineering, joined our company in March 2010. From 2007 to 2010, Mr. Leparmentier served as U.S. VP of Design and Engineering for ASML, a Dutch lithography equipment company, where he managed a team of approximately 320 engineers across the U.S. and the Netherlands. From 1995 to 2006, Mr. Leparmentier held various positions with GE Healthcare, including Vice President of OEC-Surgery Engineering, a leader in surgical x-ray and navigation equipment, where he managed approximately 270 engineers and his responsibilities included new product development through both internal development and business development, Engineering Manager for radiography products in China, and Lead System Designer for radiographic products in Buc, France. Mr. Leparmentier holds an engineering degree in Biology and Micromechanics from Ecole Politechnique in France.

Duncan H. Moffat, our Senior Vice President of Operations, has been with us since April 2008. From 2001 to 2008, Mr. Moffat served as Vice President of Operations for the nuclear medicine business of Philips Medical Systems, a worldwide manufacturer of medical imaging equipment. From 1998 to 2001, Mr. Moffat served as Vice President of Operations for Lumisys, a start-up company providing digital x-ray products that was sold to Eastman Kodak in 2001. Beginning in 1982, Mr. Moffat held various positions with the Lucas companies, first with two Lucas affiliates in England, followed by a position as project manager with Lucas Control Systems Products, Hampton, Virginia, and then by a position as Director of Operations with Lucas Deeco Systems, Hayward, California, from 1995

to 1998. Mr. Moffat holds a Bachelor of Science in Electrical and Electronic Engineering, Strathclyde University, Glasgow, Scotland.

Steven J. Nunes, our Senior Vice President of Sales and Marketing, has been with us since May 2006. From September 2002 to May 2006, Mr. Nunes served as Director of Commercialization for GE Healthcare, a unit of General Electric Company, a diversified technology, media, and financial services company. From 1996 to April 2002, Mr. Nunes held various positions, including Vice President of Sales and Marketing, at Visualization Technology, Inc., a medical device company for image-guided surgery, which was later acquired by GE Healthcare. In 1990, Mr. Nunes established SJN Medical Inc., an independent distributor of surgical endoscopy products, and served as its President until the company was acquired in 1996. Mr. Nunes holds a B.A. in broadcast journalism from the University of Massachusetts-Amherst.

COMPENSATION DISCUSSION AND ANALYSIS

INTRODUCTION

The purpose of this Compensation Discussion and Analysis is to provide material information about the compensation of our executive officers named below under the caption, "Executive Compensation—2009, 2008, and 2007 Summary Compensation Table," whom we refer to as our named executive officers. In this section, we provide an analysis and explanation of our executive compensation program and the compensation derived by our named executive officers from this program. All share numbers in this section and the tables that follow reflect our one-for 3.03 reverse split of our common stock effected in February 2008.

EXECUTIVE SUMMARY

This Compensation Discussion and Analysis outlines our executive compensation program. In particular, it explains our compensation philosophy, which is to provide performance-oriented incentives that fairly compensate our executive officers and enable us to attract, retain and motivate executives with outstanding ability and potential. We then discuss the elements of our executive compensation program including base salary, cash bonuses, and long-term equity compensation. This Compensation Discussion and Analysis also provides a summary of the key provisions of our employments agreements with each of our named executive officers, including the change in control arrangements.

COMPENSATION PHILOSOPHY AND OBJECTIVES

Our compensation philosophy is to offer our executive officers, including the named executive officers, compensation and benefits that are competitive and that meet our goals of attracting, motivating, and retaining highly skilled management so that we can achieve our financial and strategic objectives to create long-term value for our stockholders. We believe that compensation should be determined within a framework that is intended to reward individual contribution and strong financial performance by our company. Within this overall philosophy, our objectives are to:

- offer a total compensation program that takes into consideration competitive market requirements and strategic business needs;
- determine total compensation based on our company's overall financial performance as well as individual contributions; and
- align the financial interests of our executive officers with those of our stockholders.

Our board of directors has delegated to its compensation committee the authority to make all final decisions regarding the compensation of our named executive officers, although on occasion the compensation committee has referred recommended actions to the board of directors for final resolution. In making such decisions, the compensation committee considers the various factors described below in this Compensation Discussion and Analysis with respect to particular compensation elements. In addition, the compensation committee considers whether our compensation programs for all employees, including our named executive officers, encourage unnecessary or excessive risk taking. We believe that our compensation programs are balanced and do not encourage unnecessary or excessive risk. We believe we have achieved this by striking an appropriate balance between short-term and long-term

incentives and by using a variety of key business measurement metrics that promote disciplined progress towards longer-term company goals to assess performance under our compensation program.

When making compensation decisions, the compensation committee also typically considers, but is not required to accept, the recommendations of Dr. Maurice R. Ferré, our President and Chief Executive Officer, regarding the performance and proposed base salary, bonus target and equity awards for our named executive officers, including Dr. Ferré. The compensation committee may also request the assistance of Mr. Fritz L. LaPorte, our Chief Financial Officer, and our human resources department in evaluating the financial, accounting and tax implications of various compensation awards paid to the named executive officers. Neither Mr. LaPorte nor our human resources employees, however, recommend or determine the amounts or types of compensation paid to the named executive officers. Dr. Ferré and certain of our other executive officers may attend compensation committee meetings, as requested by the chairman of the compensation committee and depending on the issues to be discussed by the compensation committee, but none of these executive officers, including Dr. Ferré, attends any portion of the compensation committee meetings during which his compensation is discussed and approved.

The compensation committee historically has not performed competitive reviews of our compensation programs with those of similarly-situated companies, nor have we engaged in formal "benchmarking" of compensation paid to our named executive officers. The compensation committee did not engage in such benchmarking in 2008 or 2009. In the third quarter of 2007, however, the compensation committee retained Radford Surveys and Consulting to conduct a review of the pre-IPO equity ownership levels for senior management at other pre-IPO medical device and biotechnology companies in later stages of financing, and provide an analysis of how the then current equity holdings of our senior management, including each of the then named executive officers, compared to the median of the surveyed companies. As discussed below under "Elements of our Executive Compensation Program—Long-Term Equity Compensation," the survey showed that the equity holdings of our senior management, including Dr. Ferré, were below the median. As a result, the compensation committee recommended, and the board of directors approved, additional equity grants, primarily in an effort to retain these executives following the completion of our initial public offering, consistent with our objectives. We made these additional equity grants to all of our named executive officers in 2007 with the exception of a grant of stock options to Dr. Ferré which we made effective upon the closing of our initial public offering in February 2008. We made these grants to bring the equity holdings of management in line with the approximate median of the surveyed companies for retention purposes.

Radford Surveys and Consulting used the following survey sources to conduct their analysis: (i) the 2006 Radford Biotechnology Pre-IPO Executive Report, which included thirty pre-IPO biotechnology and pharmaceutical companies with outside investment levels between $40 and $80 million; (ii) the Dow Jones Venture Capital — Compensation Pro Database, which included pre-IPO companies that had classified themselves as a medical device company and were in the "later stage" rounds of financings (generally, any round after the second round of financing); and (iii) the Top 5 Pre-IPO Life Sciences Industry (Medical Device) Survey, which included ten pre-IPO medical device companies that had completed series C rounds of financing. We do not know the component companies that were surveyed by Radford Surveys and Consulting as the companies' names were not included in the report that Radford provided to the compensation committee.

In analyzing pre-IPO ownership levels, our company was compared to the 50th percentile of the surveyed companies. While we compared our senior management to the median of the survey results for equity holding purposes, we do not believe it is appropriate to emphasize this target, as it was used for the limited purpose of determining equity holdings as a pre-IPO company and it was not seen as an indication that we intended to "benchmark" the equity holdings of our senior management at the median of a "peer group" of companies. Any such determinations as to whether or not we will "benchmark" in the future will be made by the compensation committee.

ELEMENTS OF OUR EXECUTIVE COMPENSATION PROGRAM

The principal elements of our executive compensation program have been base salary, cash bonus compensation and long-term equity compensation in the form of stock options or shares of restricted stock. We also have provided some named executive officers with limited perquisites and other benefits that the compensation committee believes were reasonable and consistent with the objectives of our executive compensation programs, as discussed below. We made grants of performance-based compensation with respect to 2009 performance under our 2009 Leadership Cash Bonus Plan applicable to all employees in management positions, including the named executive officers, and our 2009 Senior Vice President of Sales and Marketing Bonus Plan applicable to Steven J. Nunes, our Senior Vice

President of Sales & Marketing, and we made other grants of incentive compensation to certain of our employees, including some of the named executive officers. We discuss the grants more fully below.

As described more fully below, each of these forms of compensation enables the satisfaction of one or more of our compensation objectives: to attract and retain talented key employees, to reward superior individual and company performance and to align executive and stockholder interests. We combine the compensation elements for each executive officer in a manner that the compensation committee believes, in its discretion and judgment, is consistent with the executive's contributions to our company and our overall goals with respect to executive compensation. We have not adopted any policies with respect to the mix of long-term versus currently-paid compensation, but believe that both elements are necessary for achieving our compensation objectives. Currently-paid compensation provides financial stability for each of our named executive officers and immediate reward for superior company and individual performance, while long-term compensation rewards achievement of strategic long-term objectives and contributes toward overall stockholder value. Similarly, while we have not adopted any policies with respect to the mix of cash versus equity compensation, we believe that it is important to encourage or provide for a meaningful amount of equity ownership by our named executive officers to help align their interests with those of our stockholders, one of our compensation objectives.

Base Salary

We believe that a competitive base salary is an important component of compensation as it provides a degree of financial stability for our executive officers and is critical to recruiting and retaining our executives. Base salary is also designed to recognize the scope of responsibilities placed on each executive officer and reward each executive for his unique leadership skills, management experience and contributions. We make a subjective determination of base salary after considering such factors collectively. Our compensation committee has historically reviewed the base salaries of our named executive officers on a periodic basis, as the facts and circumstances may warrant.

As discussed below under "Employment Agreements," each of our named executive officers has entered into an employment agreement with us that established an initial base salary for such officer. In April 2009, when Mr. Ivan Delevic, our Senior Vice President Strategic Marketing and Business Development, joined our company, we established his initial base salary at an annual amount of $225,000 pursuant to such an agreement. We determined this salary amount as a result of an arm's length negotiation with Mr. Delevic over the terms of his employment. The members of our compensation committee believe, based on their collective experience and general awareness of compensation practices, that this salary amount is comparable to salaries offered by our competitors for similar positions.

In February 2009, the compensation committee awarded merit pay increases, reflected in the table below, to each of our named executive officers except for Mr. Delevic, who had not yet joined our company, to reflect the compensation committee's subjective review of each named executive officer's overall individual performances.

Name	Previous Salary	New Salary
Maurice R. Ferré, M.D.	$300,000	$327,000
Fritz L. LaPorte	$225,101	$245,360
Rony A. Abovitz	$225,101	$234,105
Steven J. Nunes	$177,910	$210,000

Cash Bonuses

We have designed our cash bonus compensation arrangements to reward achievement of strategic and financial goals that support our objective of enhancing stockholder value and to motivate executives to achieve superior performance in their areas of responsibility.

Annually, management presents to our board of directors a proposed operating plan that includes the proposed performance goals and criteria for our company for the upcoming year. Following an opportunity to review the operating plan and provide comments and suggested revisions, the board of directors adopts the operating plan, reserving the right, but not the obligation, to make modifications to the operating plan, and the related MAKO metrics scorecard, described below, throughout the upcoming year if any such modifications are required as a result of new information or changes in the company's objectives or strategic plan. Following our board of director's approval of the operating plan, management presents to our compensation committee the proposed leadership cash bonus plan and

MAKO metrics scorecard for the upcoming year. The leadership cash bonus plan is the plan under which our management level employees, including our named executive officers, are eligible to be compensated in the form of a cash bonus with respect to performance in the upcoming year. The MAKO metrics scorecard is a tool to measure the Company's overall performance and achievement of specific goals and objectives as set forth in our annual operating plan and is used in connection with determining employee compensation matters under the annual leadership cash bonus plan.

2009 Leadership Cash Bonus Plan

In December 2008, our board of directors reviewed and approved management's proposed operating plan for 2009, which included the performance goals and criteria for our company for 2009. Management then presented to our compensation committee the proposed 2009 Leadership Cash Bonus Plan and the proposed 2009 MAKO Metrics Scorecard as a tool to measure the Company's performance against the defined business objectives set forth in the operating plan. After the compensation committee considered the proposals, it made recommendations to management concerning the performance goals and criteria and approved a revised version of the performance goals and criteria. Thereafter, the compensation committee approved the 2009 Leadership Cash Bonus Plan, the 2009 MAKO Metrics Scorecard, and the use of the 2009 MAKO Metrics Scorecard in connection with determining employee compensation matters under the 2009 Leadership Cash Bonus Plan.

The 2009 Leadership Cash Bonus Plan provides that upon our achievement of specified measurable performance goals derived from our 2009 operating plan and set forth in the 2009 MAKO Metrics Scorecard, each management level employee, including our named executive officers, will be paid a cash performance bonus amount. The amount of this bonus will be a percentage of the employee's base salary based on a percentage of the MAKO Metrics Scorecard Percentage achieved by our company for the year. The 2009 MAKO Metrics Scorecard Percentage represents the weighted percentage of pre-defined goals that we achieved at the end of 2009, as determined by the compensation committee in its discretion. In connection with the determination of the amount of the bonus, there is a minimum and maximum MAKO Metrics Scorecard Percentage that governs any potential award.

Our compensation committee also sets potential bonus amounts for individual participants in the Leadership Cash Bonus Plan as measured by a percentage of base salary. For 2009, our compensation committee set the threshold, minimum and maximum percentages of base salary for our named executive officers at the following levels:

Name	Threshold (%)	Target (%)	Maximum (%)
Maurice R. Ferré, M.D.(1)	— (2)	50(2)	50(2)
Fritz L. LaPorte	20	25	50
Rony A. Abovitz	20	25	50
Ivan Delevic(3)	13.6	17	34
Steven J. Nunes	20	25	50

(1) Although Dr. Ferré's employment agreement, prior to the February 2010 amendment discussed below under "Executive Compensation – Employment Agreements," did not expressly provide for his inclusion in the Leadership Cash Bonus Plan for 2009, the compensation committee treated him as a participant for the purpose of determining whether he achieved specific measurable performance goals for 2009.

(2) Dr. Ferré's employment agreement provides for a target cash bonus equal to 50% of his base salary, which may be increased or decreased at the compensation committee's discretion.

(3) Our compensation committee prorated the percentage applicable to Mr. Delevic to reflect his partial year of service.

Our compensation committee set these percentages based on management's proposal and its subjective evaluation of the relative importance of our named executive officers' positions, the officers' past and expected future contributions, to the performance of our company, and, in the case of Dr. Ferré, the terms of the executive officer's employment agreement.

The performance goals and criteria that the committee chose to govern potential awards under the Leadership Cash Bonus Plan for 2009 relate to the following:

- commercial launch of our RIO® Robotic Arm Interactive Orthopedic System, or the RIO, our RESTORIS MCK multicompartmental knee implant system, or RESTORIS MCK, and our lateral knee application;
- installations and customer acceptance of RIO units, including the upgrade of Tactile Guidance System (or TGS) units to RIO units, revenue for TGS and RIO units, and target RIO materials cost of goods sold;
- number of MAKOplasty® procedures performed, total MAKOplasty revenue, MAKOplasty monthly utilization, and target MAKOplasty materials cost of goods sold;
- development of a plan for targeted cost reductions;
- achievement of 2009 budget;
- implementation of external customer satisfaction surveys with achievement of target results and achievement of target MAKOplasty procedure success rate;
- implementation of internal customer satisfaction surveys and achievement of target rapid response on-time delivery goals;
- achievement of target quality and reliability indicators relating to the RIO system;
- achievement of targets with respect to expanded applications of the RIO system;
- achievement of targets with respect to adoption of MAKOplasty related to the submittal of manuscripts to peer-reviewed journals and abstracts to orthopedic conferences, the completion of white papers, patient follow-up, and the economic value of MAKOplasty; and
- development and maintenance of a strategic plan.

We established a target metric and stretch metric for each goal. We believed it was more likely than not that we would achieve the target metric and reasonably possible that we would achieve the stretch metric. The determination of whether and to what extent these metrics were achieved during 2009 was made by the compensation committee. The target and stretch metrics for several product and financial related performance goals are set forth below; the specific metrics for our other performance goals involve confidential commercial or financial information, the disclosure of which would provide competitors and other third parties with insights into our confidential planning process and strategic plan, including related development timelines, that we believe would result in competitive harm to our company.

Performance Goal	Target Metric	Stretch Metric
RIO Commercial Launch	February 25, 2009	February 22, 2009
RIO Upgrades	17 by August 31, 2009	17 by June 30, 2009
RIO Revenue	$14,980,000	$16,478,000
RESTORIS MCK Launch	February 25, 2009	February 22, 2009
MAKOplasty Procedure Revenue	$6,867,000	$7,200,000
Total Operating Expenses (excluding depreciation and amortization)	$43,500,000	$42,400,000
Lateral Knee Application Launch	September 30, 2009	August 31, 2009

Following the compensation committee's review in February 2010 of 2009 performance under the 2009 Leadership Cash Bonus Plan, the committee authorized cash bonus awards of $154,998, $58,150, $55,483, $36,232 and $49,770 to be paid to Dr. Ferré and Messrs. LaPorte, Abovitz, Delevic and Nunes, respectively, following receipt of our 2009 year-end independent audit results confirming the accuracy of the auditable financial operating results contained in the 2009 MAKO Metrics Scorecard. These awards reflected achievement of 94.8% of the weighted metric levels established for 2009. In accordance with the terms of the 2009 Leadership Cash Bonus Plan, the dollar amount of each bonus was calculated as a percentage of the named executive officer's annual base salary.

2009 Senior Vice President of Sales & Marketing Bonus Plan

In February 2009, the compensation committee approved the 2009 Senior Vice President of Sales & Marketing Metric Scorecard, or 2009 S&M Metric Scorecard, as a tool to measure Mr. Nunes' incremental bonus under the 2009 Senior Vice President of Sales & Marketing Bonus Plan, or 2009 S&M Plan. The 2009 S&M Plan was designed to reward Mr. Nunes for achieving the Company's quarterly and annual sales-related performance goals set forth in the 2009 MAKO Metrics Scorecard. Under the 2009 S&M Plan, Mr. Nunes was eligible to receive a cash and/or equity bonus if a certain minimum threshold was achieved based on a point system derived from weighting the sales-related performance goals. Although Mr. Nunes did not achieve this minimum threshold in 2009 and did not receive an incremental bonus under the 2009 S&M Plan, in February 2010, the compensation committee authorized a cash bonus of $30,000 to Mr. Nunes in recognition of the favorable 2009 sales-related results.

Long-Term Equity Compensation

We grant stock options and restricted stock to our named executive officers, as we believe that such grants further our compensation objectives of aligning the interests of our named executive officers with those of our stockholders, encouraging long-term performance, and providing a simple and easy-to-understand form of equity compensation that promotes executive retention. We view such grants both as incentives for future performance and as compensation for past accomplishments.

We historically have made grants of equity to named executive officers in connection with their initial hire. We continued this practice when Mr. Delevic joined our company in April 2009, granting him an option to purchase 100,000 shares of our common stock. The number of stock options or shares of restricted stock granted to each named executive officer, including Mr. Delevic, in connection with such executive's initial hire, was determined based upon negotiations with each executive, represented the number necessary to recruit each executive from his then-existing position and reflected the compensation committee's subjective evaluation of the executive's experience and potential for future performance. In addition, we have made annual grants and additional discretionary grants, from time to time, as determined by the compensation committee or our board of directors, as applicable, taking into consideration such factors as individual performance and competitive market conditions. The compensation committee determined the timing of any such equity grant based on the achievement by the named executive officer and not any effort to time the grants in coordination with changes in our stock price.

We have used stock options and restricted stock, rather than other forms of long-term incentives, because they create value for the executive only if stockholder value is increased through an increased market price of our common stock. Prior to the completion of our initial public offering in February 2008, all stock option and restricted stock grants were made pursuant to our company's 2004 Stock Incentive Plan and our board of directors, based on the recommendation of our compensation committee, determined the exercise price based on internal or third-party valuation reports. Since the completion of our initial public offering, all option grants have been approved by the compensation committee and made pursuant to our 2008 Omnibus Incentive Plan, and the exercise price of stock options is based on the fair market value of our common stock on the grant date, which is equal to the closing price of our common stock on that date.

In connection with the compensation committee's annual review of each named executive officer's individual performance, the committee approved the grant of 303,000, 80,000, and 55,000 incentive stock options to Dr. Ferré and Messrs. LaPorte and Nunes, respectively, in February 2009 and 80,000 incentive stock options to Mr. Abovitz in April 2009. In April 2009, the compensation committee approved the grant of an additional 25,000 incentive stock options to Mr. Nunes after considering Mr. Nunes' potential for future retention, responsibilities, contributions to the company's growth, and the compensation packages offered to recently hired executive officers of the company. All of these options vest ratably on a quarterly basis over a four-year period starting on the date of grant.

In May 2009, the compensation committee undertook a review of Dr. Ferré's equity-based compensation. In connection with such review, the committee considered Dr. Ferré's performance, our company's interest in retaining and motivating Dr. Ferré during challenging economic conditions, and the review undertaken by Radford Surveys and Consulting in the third quarter of 2007 with respect to the pre-IPO equity ownership levels of our senior management as compared to other pre-IPO medical device and biotechnology companies in later stages of financing, as discussed under "Compensation Philosophy and Objectives" above. Following its review, the compensation committee

recommended, and the board of directors approved, the grant of 100,000 shares of restricted stock to Dr. Ferré, which shares vest ratably on a quarterly basis over a four-year period.

In late 2009, the compensation committee engaged Radford Surveys and Consulting to provide consulting services to the committee with respect to 2010 executive compensation, including an evaluation of the company's policies with respect to Dr. Ferré's long-term equity compensation. Radford proposed a long-term equity incentive strategy that will guide Dr. Ferré's long-term equity compensation through the end of 2014. The proposed strategy included awards to Dr. Ferré in 2010 of 75,000 shares of restricted stock with vesting to occur upon the satisfaction of certain performance targets and completion of a certain period of service and 100,000 non-qualified stock options which vest ratably on a quarterly basis over a four-year period. Following its review of the long-term equity incentive strategy proposed by Radford, the compensation committee approved the 2010 components of the strategy described above in order to retain Dr. Ferré and motivate his performance in an effort to continue to improve stockholder value. The compensation committee will consider the additional components proposed by Radford in subsequent years.

Employee Stock Purchase Plan

We have not adopted any formal employee equity ownership requirements or guidelines. In 2007, we adopted the 2008 Employee Stock Purchase Plan to encourage equity ownership by all of our employees, which became effective immediately upon completion of our initial public offering in February 2008. We offer subscriptions for shares of our common stock pursuant to the plan to eligible employees, including our named executive officers. Our named executive officers may participate in the plan on the same basis as all other eligible participants, who include substantially all of our salaried employees.

Perquisites and Other Benefits

As a general matter, we do not intend to offer perquisites or other benefits to any executive officer, including the named executive officers, with an aggregate value in excess of $10,000, because we believe we can provide better incentives for desired performance with compensation in the forms described above. We recognize that, from time to time, it may be appropriate to provide some perquisites or other benefits in order to attract, motivate and retain our executives, with any such decision to be reviewed and approved by the compensation committee as needed.

In connection with our hiring of Mr. Delevic, we agreed to reimburse him for reasonable relocation expenses up to a total of $128,500, subject to applicable payroll taxes for non-reimbursable items. We agreed to provide this benefit to Mr. Delevic as a result of an arm's length negotiation with Mr. Delevic over the terms of his employment with our company, to encourage Mr. Delevic to relocate from New Jersey to Fort Lauderdale, Florida and based on the compensation committee's subjective evaluation of Mr. Delevic's likely contributions to the future performance of our company and the terms of the relocation packages provided to previously hired executives. To protect us in the event Mr. Delevic's employment terminates within the first two years of employment, the relocation expense benefit is subject to pro rated recoupment from Mr. Delevic if his employment terminates for any reason, other than by Mr. Delevic for good reason, within such period.

EMPLOYMENT AGREEMENTS AND CHANGE IN CONTROL ARRANGEMENTS

Each of our named executive officers has an employment agreement that provides for severance payment arrangements following specified termination events. We have entered into these employment agreements because we believe they are necessary to retain our named executive officers and to obtain their agreement to post-employment restrictions, such as non-competition, non-solicitation and confidentiality, that protect our interests. We negotiated the severance provisions in the employment agreements with each of the named executive officers based on what the compensation committee believed, in its experience, to be a reasonable, but not overly generous, severance package to each executive and necessary to retain the executive. The terms of the employment agreements are discussed below under "Executive Compensation – Employment Agreements."

In February 2009, the compensation committee approved an amended and restated form of employment agreement for certain of our senior vice presidents because we believed it was necessary to expand the post-employment restrictions to provide greater protection to our company as it expands its business and to align our employment agreements with those utilized by similarly situated public companies. Following the committee's approval, we entered into amended and restated employment agreements with Messrs. LaPorte and Nunes and an amendment to Dr. Ferré's existing employment agreement. These amendments broadened the post-employment noncompetition and non-

solicitation restrictions so that the restrictions apply to any image guided surgical device and/or software used in combination with any surgical robotic device and/or software in the field of orthopedics. Mr. Delevic's employment agreement contains these expanded noncompetition and non-solicitation restrictions. In consideration for these changes, we also agreed to the following modifications to the employment agreements of Messrs. LaPorte and Nunes:

- Accelerated vesting of equity awards that vest based on time upon the occurrence of a change in control of our company or upon termination of employment as a result of death, disability, without cause or for good reason.
- Increased severance payments upon termination of employment and the occurrence of a change in control of our company.
- Eighteen month period of noncompetition and non-solicitation of employees and customers following termination of employment as a result of a change in control (lengthened from a twelve month period).

Dr. Ferré's employment agreement already provided for accelerated vesting of equity awards upon a change in control of our company. We had agreed to such accelerated vesting as a result of an arm's length negotiation with Dr. Ferré over the terms of his agreement. None of the named executive officers would automatically be entitled to severance payments under their employment agreements upon a change in control of our company, unless specific additional events occur, such as a material adverse change in responsibilities.

The compensation committee does not take into account severance packages in determining the amounts of other elements of compensation, such as base salary, cash bonus, stock option grants and restricted stock grants. See "Executive Compensation—Termination and Change in Control Payments" below for a description of the severance and change in control arrangements for our named executive officers.

EFFECT OF ACCOUNTING AND TAX TREATMENT ON COMPENSATION DECISIONS

In the review and establishment of our compensation programs, we consider the anticipated accounting and tax implications to us and our named executive officers. While we consider the applicable accounting and tax treatment, these factors alone are not dispositive, and we also consider the cash and non-cash impact of the programs and whether a program is consistent with our overall compensation philosophy and objectives.

Section 162(m) of the Internal Revenue Code imposes a limit on the amount of compensation that we may deduct in any one year with respect to covered employees, unless specific and detailed criteria are satisfied. Performance-based compensation, as defined in the Internal Revenue Code, is fully deductible if the programs are approved by stockholders and meet other requirements. In general, we have determined that we will not seek to limit executive compensation so that all of such compensation is deductible under Section 162(m). However, from time to time, we monitor whether it might be in our interests to structure our compensation programs to satisfy the requirements of Section 162(m). We seek to maintain flexibility in compensating our executives in a manner designed to promote our corporate goals and, as a result, our compensation committee has not adopted a policy requiring all compensation to be deductible. Our compensation committee will continue to assess the impact of Section 162(m) on our compensation practices and determine what further action, if any, is appropriate.

Sections 280G and 4999 of the Internal Revenue Code impose an excise tax on certain payments to executives made in connection with a change in control and make such payments non-deductible to the company. The effects of Sections 280G and 4999 generally are unpredictable and can have widely divergent and unexpected effects based on an executive officer's personal compensation history. To ensure that Dr. Ferré receives the level of benefits that we intend, the compensation committee determined that it would be appropriate to pay the cost of any excise tax imposed under Sections 280G and 4999, in the event such provisions became applicable, plus an amount needed to pay income taxes due on such additional payment. Dr. Ferré's employment agreement accordingly provides for such a gross-up payment, which the compensation committee believes is consistent with its goal of offering a total compensation program that takes into consideration competitive market requirements.

COMPENSATION COMMITTEE REPORT

The compensation committee has reviewed and discussed the above Compensation Discussion and Analysis with our management and, based on such review and discussion, has recommended to our board of directors that the Compensation Discussion and Analysis be included in this proxy statement and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

MAKO Surgical Corp.
COMPENSATION COMMITTEE

Marcelo G. Chao, Chairman
S. Morry Blumenfeld, Ph.D.
Christopher C. Dewey

EXECUTIVE COMPENSATION

The following table sets forth the compensation paid in 2009, 2008, and 2007 to our Chief Executive Officer, our Chief Financial Officer and each of the three other most highly compensated executive officers who were serving as executive officers on December 31, 2009. These five individuals are sometimes referred to collectively as the "named executive officers."

2009, 2008, and 2007 Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Stock Awards ($)(2)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	All Other Compensation ($)	Total ($)
Maurice R. Ferré, M.D.	2009	$322,859	—	$ 870,000	$ 1,356,652	$ 154,998	$ 3,675(4)	$2,708,184
President, Chief	2008	$300,000	—	—	$ 1,053,759	$ 150,000	$ 1,010(4)	$1,504,769
Executive Officer and Chairman	2007	$299,058	—	$2,752,492	$ 228,851	$ 97,500	$1,149,320(5)	$4,527,221
Fritz L. LaPorte.....	2009	$243,023	—	—	$ 358,192	$ 58,150	$ 3,542(4)	$ 662,907
Senior Vice President	2008	$219,499	—	—	—	$ 56,275	$ 909(4)	$ 276,683
of Finance and Administration, Chief Financial Officer and Treasurer	2007	$175,686	—	—	$ 476,949	$ 57,379	—	$ 710,014
Ivan Delevic (6).....	2009	$147,714	—	—	$ 390,040	$ 36,232	$ 66,767(7)	$ 640,753
Senior Vice President of Strategic Marketing and Business Development								
Steve J. Nunes.....	2009	$206,298	$30,000	—	$ 343,767	$ 49,770	$ 3,315(4)	$ 633,150
Senior Vice President	2008	$176,748	$35,000	—	$ —	$ 44,478	$ 718(4)	$ 256,944
of Sales and Marketing	2007	$167,731	—	—	$ 238,475	$ 46,366	—	$ 452,572
Rony A. Abovitz (8).....	2009	$233,066	—	—	$ 296,360	$ 55,483	$ 3,629(4)	$ 588,538
Senior Vice President	2008	$219,128	—	—	—	$ 56,275	$ 758 (4)	$ 276,161
and Chief Technology Officer	2007	$172,772	—	—	$ 678,262	$ 56,336	$ 26,815(9)	$ 934,185

(1) Amounts represent discretionary cash bonus payments made to Mr. Nunes in respect of his performance in 2009 and 2008 as determined by the compensation committee. Payments were made in the first quarter of the year following the year in which the bonuses were earned.

(2) Amounts represent the aggregate grant date fair value of awards granted by the Company during 2009, 2008 and 2007, as computed in accordance with ASC 718, disregarding any estimated forfeitures relating to service-based vesting conditions. For a discussion of the assumptions made in the valuation of these awards, see Note 8 to Financial Statements in our Form 10-K for the year ended December 31, 2009.

(3) Amounts represent cash bonus payments made to the named executive officer pursuant to our Leadership Cash Bonus Plan. All payments were made in the first quarter of the year following the year in which the bonuses were earned.

(4) Amounts represent matching contributions under our 401(k) plan.

(5) On September 5, 2007, our board of directors forgave approximately $1,149,000 of outstanding loans, including accrued interest, that we made to Dr. Ferré.

(6) Mr. Delevic joined our company on April 27, 2009.

(7) Amount represents $30,000 signing bonus and $36,767 of temporary housing and travel expense. As part of our employment agreement with Mr. Delevic, we agreed to cover Mr. Delevic's costs of temporary housing and personal travel expense during the initial one-year employment period.

(8) Effective March 29, 2010, Mr. Abovitz transitioned to the non-executive officer position of Chief Visionary Officer and Co-Founder of the Company.

(9) On September 5, 2007, our board of directors forgave approximately $25,000 of outstanding loans that we made to Mr. Abovitz.

2009 GRANTS OF PLAN-BASED AWARDS

The following table sets forth information with respect to grants of plan-based awards during 2009 to the named executive officers:

Name	Grant Date	Date of Committee Action	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) Threshold ($)	Target ($)	Maximum ($)	All Other Stock Awards: Number of Shares of Stock (#)(2)	All Other Option Awards: Number of Securities Underlying Options (#)(2)	Exercise or Base Price of Option Awards ($/Sh)(3)	Grant Date Fair Value of Stock and Option Awards($)(4)
Maurice R. Ferré, M.D.(5)			$163,500	$163,500	$163,500	—	—	—	—
	2/20/09	2/20/09	—	—	—	—	303,000	$ 8.06	$ 1,356,652
	5/22/09	5/22/09	—	—	—	100,000	—	$ 8.70	$ 870,000
Fritz L. LaPorte			49,072	61,340	122,680	—	—	—	—
	2/20/09	2/20/09	—	—	—	—	80,000	$ 8.06	$ 358,192
Ivan Delevic (6)			30,575	38,219	76,438	—	—	—	—
	4/27/09	4/27/09	—	—	—	—	100,000	$ 6.90	$ 390,040
Steve J. Nunes (1)			42,000	52,500	105,000	—	—	—	—
(7)			50,000	80,000	100,000	—	—	—	—
	2/20/09	2/20/09	—	—	—	—	55,000	$ 8.06	$ 246,257
	4/27/09	4/27/09	—	—	—	—	25,000	$ 6.90	$ 97,510
Rony A. Abovitz			46,821	58,526	117,053	—	—	—	—
	5/1/09	4/28/09	—	—	—	—	80,000	$8.06(8)	$ 296,360

(1) Represents the threshold, target and maximum amounts that could be earned by each named executive officer pursuant to our 2009 Leadership Cash Bonus Plan.

(2) Stock and option awards granted to each named executive officer during 2009 vest ratably quarterly over four years.

(3) Equals the closing price per share of our common stock on the date of grant unless otherwise noted.

(4) Represents the grant date fair value of the awards calculated in accordance with ASC 718.

(5) As discussed above in "Compensation and Discussion Analysis-Cash Bonuses," Dr. Ferré participates in the Leadership Cash Bonus Plan; however, his employment agreement provides for a target cash bonus equal to 50% of his base salary, which may be increased or decreased at the discretion of the compensation committee.

(6) Mr. Delevic's threshold, target and maximum amounts were pro-rated at the time the award was granted for the portion of 2009 during which he was employed by us.

(7) Represents the threshold, target and maximum amounts that could be earned by Mr. Nunes pursuant to the 2009 Senior Vice President of Sales and Marketing Bonus Plan.

(8) Equals the higher of $8.06 per share or the closing price per share of our common stock on the date of grant.

EMPLOYMENT AGREEMENTS

On September 18, 2007, we entered into a new employment agreement with Dr. Ferré, which was subsequently amended and restated on November 12, 2007 to permit Dr. Ferré to serve on the board of directors of Z-KAT, Inc., our predecessor company, if approved by a majority of our disinterested directors. The employment agreement expires on December 31, 2010, subject to automatic renewal for successive one-year terms unless either party gives 120 days' notice of its intention not to renew the agreement. Under the employment agreement, Dr. Ferré is entitled to an initial base salary of $300,000 and an opportunity to earn a performance bonus with a target of 50% of his base salary, which performance bonus may be higher or lower based on the attainment of performance criteria that we establish. For a description of severance arrangements, see "Termination and Change in Control Payments" below. As noted above, in February 2009, we entered into an amendment to Dr. Ferré's employment agreement that provided for broader post-employment noncompetition and non-solicitation restrictions. In February 2010, we entered into a second amendment to Dr. Ferré's employment agreement that provides for Dr. Ferré to participate in and be subject to the Company's leadership cash bonus plan for 2010 and beyond.

We entered into employment agreements, effective January 1, 2005, with each of Messrs. LaPorte and Abovitz and, effective May 15, 2006, with Mr. Nunes. Each of these agreements was amended on February 5, 2007 to expand the bases for termination for cause by our company and, with respect to Messrs. LaPorte and Abovitz, to provide for a term of three years from the effective date of the original agreement. In July 2008, we entered into a second amendment to Mr. Nunes' employment agreement to incorporate the 2008 Performance Bonus Plan for Mr. Nunes. In April 2009, we entered into an employment agreement with Mr. Delevic for a term of one year and in April 2010, we entered into an amendment to such employment agreement to provide certain clarifications with respect to Mr. Delevic's relocation benefits. Each of these agreements provides for automatic renewal for successive one-year terms. These employment agreements provided for an initial negotiated base salary of $150,000 for each of Messrs. LaPorte and Abovitz, $160,000 for Mr. Nunes and $225,000 for Mr. Delevic. See "Compensation Discussion and Analysis—Base Salary" above for the base salaries of the named executive officers as of December 31, 2009. Pursuant to these employment agreements, each of Messrs. LaPorte and Abovitz received options for 24,752 and 82,508 shares, respectively, of our common stock upon closing of the Series B redeemable convertible preferred stock financing in July 2005. Pursuant to Mr. Nunes' employment agreement, he received options to purchase 33,003 shares of our common stock on the effective date of his employment agreement and options to purchase an additional 16,501 shares of our common stock at the end of the 2006 calendar year upon approval of our board of directors. Mr. Delevic received options to purchase 100,000 shares of our common stock pursuant to his employment agreement. As part of our package to recruit Mr. Delevic to relocate to Fort Lauderdale, Florida, we agreed to provide Mr. Delevic with a signing bonus of $30,000 and reimbursement for up to $128,500 of his reasonable relocation expenses, including moving expenses, certain costs related to the purchase of a new home and the costs of travel and temporary housing during the initial twelve-month relocation period. In the event that Mr. Delevic's employment is terminated for any reason during the first 24 months following his employment, other than by Mr. Delevic for good reason, Mr. Delevic is required to repay a prorated share of the relocation benefit. Each executive is also eligible to participate in various benefits programs that are available to our employees generally. In addition, the employment agreements provided for certain payments to be made to Messrs. LaPorte, Abovitz, Delevic and Nunes upon termination of employment.

As noted above, in February 2009, we entered into amended and restated employment agreements with Messrs. LaPorte and Nunes that provided for broader post-employment noncompetition and non-solicitation restrictions; accelerated vesting of equity awards that vest based on time upon the occurrence of a change in control of our company or upon termination of employment as a result of death, disability, without cause or for good reason; increased severance payments upon termination of employment and the occurrence of a change in control of our company; and longer noncompetition and nonsolicitation periods following termination of employment as a result of a change in control.

For a description of the terms of our named executive officers' arrangements concerning terminations of employment, including an estimation of the payments to be made, see "Termination and Change in Control Payments" below.

2009 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth information with respect to outstanding equity awards of the named executive officers as of December 31, 2009:

	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#)		Option Exercise Price	Option Expiration	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested
Name	Exercisable	Unexercisable	($)	Date	(#)	($)
Maurice R. Ferré	—	—	—	—	6,446(1)	$ 71,551(1)
	—	—	—	—	19,338(2)	$ 214,652(2)
	—	—	—	—	108,292(3)	$ 1,202,041(3)
	—	—	—	—	87,500(4)	$ 971,250(4)
	19,824(5)	15,420(5)	$ 11.12	9/05/2017	—	—
	86,633(6)	111,386(6)	$ 9.30	2/20/2018	—	—
	56,812(7)	246,188(7)	$ 8.06	2/20/2019	—	—
Fritz L. LaPorte	69,867(8)	0(8)	$ 0.67	12/16/2014	—	—
	24,752(9)	0(9)	$ 1.27	7/18/2015	—	—
	29,561(10)	3,442(10)	$ 1.27	5/22/2016	—	—
	22,687(11)	10,316(11)	$ 2.48	3/26/2017	—	—
	33,002(12)	33,004(12)	$ 11.12	8/24/2017	—	—
	15,000(13)	65,000(13)	$ 8.06	2/20/2019	—	—
Ivan Delevic	12,500(14)	87,500(14)	$ 6.90	4/27/2019	—	—
Steve J. Nunes	29,561(15)	3,442(15)	$ 1.27	5/15/2016	—	—
	11,343(16)	5,158(16)	$ 2.48	3/26/2017	—	—
	16,500(17)	16,503(17)	$ 11.12	8/24/2017	—	—
	10,312(18)	44,688(18)	$ 8.06	2/20/2019	—	—
	3,125(19)	21,875(19)	$ 6.90	4/27/2019	—	—
Rony A. Abovitz	45,375(20)	0(20)	$ 1.27	7/18/2015	—	—
	36,952(21)	4,302(21)	$ 1.27	5/22/2016	—	—
	28,359(22)	12,895(22)	$ 2.48	3/26/2017	—	—
	47,572(23)	47,576(23)	$ 11.12	8/24/2017	—	—
	10,000(24)	70,000(24)	$ 8.06	5/1/2019	—	—

(1) The vesting of the shares subject to this restricted stock award is as follows: (i) 20,627 shares vested on May 22, 2006; and (ii) 61,881 shares vest ratably monthly over a 48 month period through May 22, 2010.

(2) The vesting of the shares subject to this restricted stock award is as follows: (i) 20,627 shares vested on March 26, 2007; and (ii) 61,881 shares vest ratably monthly over a 48 month period through March 26, 2011.

(3) The grant of 247,524 shares of restricted stock vest ratably on a quarterly basis though August 24, 2011.

(4) The grant of 100,000 shares of restricted stock vest ratably on a quarterly basis though May 22, 2013.

(5) The vesting of this stock option is as follows: (i) it vested with respect to 2,202 shares on December 5, 2007; and (ii) it vests with respect to 33,042 shares ratably quarterly over the remaining period through September 5, 2011.

(6) The vesting of this stock option is as follows: (i) it vested with respect to 12,376 shares on May 20, 2008; and (ii) it vests with respect to 185,643 shares ratably quarterly over the remaining period through February 20, 2012.

(7) The vesting of this stock option is as follows: (i) it vested with respect to 18,937 shares on May 20, 2009; and (ii) it vests with respect to 284,063 shares ratably quarterly over the remaining period through February 20, 2013.

(8) This option vested with respect to all 69,867 shares on December 16, 2004.

(9) The vesting of this stock option is as follows: (i) it vested with respect to 6,188 shares on July 18, 2006; and (ii) it vested with respect to 18,564 shares ratably monthly over a 36 month period through July 18, 2009.

(10) The vesting of this stock option is as follows: (i) it vested with respect to 8,251 shares on May 22, 2007; and (ii) it vests with respect to 24,752 shares ratably monthly over a 36 month period through May 22, 2010.

(11) The vesting of this stock option is as follows: (i) it vested with respect to 8,251 shares vested on March 26, 2008; and (ii) it vests with respect to 24,752 shares ratably monthly over a 36 month period through March 26, 2011.

(12) The vesting of this stock option is as follows: (i) it vests with respect to 33,003 shares ratably quarterly over four years beginning on August 24, 2007; and (ii) it vests with respect to 33,003 shares ratably quarterly over four years beginning on February 20, 2008 subject to a satisfactory 2007 performance evaluation, which was achieved.

(13) The vesting of this stock option is as follows: (i) it vested with respect to 5,000 shares on May 20, 2009; and (ii) it vests with respect to 75,000 shares ratably quarterly over the remaining period through February 20, 2013.

(14) The vesting of this stock option is as follows: (i) it vested with respect to 6,250 shares on July 27, 2009; and (ii) it vests with respect to 93,750 shares ratably quarterly over the remaining period through April 27, 2013.

(15) The vesting of this stock option is as follows: (i) it vested with respect to 8,251 shares on May 15, 2007; and (ii) it vests with respect to 24,752 shares ratably monthly over a 36 month period through May 15, 2010.

(16) The vesting of this stock option is as follows: (i) it vested with respect to 4,125 shares vested on March 26, 2008; and (ii) it vests with respect to 12,376 shares ratably monthly over a 36 month period through March 26, 2011.

(17) The vesting of this stock option is as follows: (i) it vests with respect to 16,502 shares ratably quarterly over four years beginning on August 24, 2007; and (ii) it vests with respect to 16,501 shares ratably quarterly over four years beginning on February 20, 2008 subject to a satisfactory 2007 performance evaluation, which was achieved.

(18) The vesting of this stock option is as follows: (i) it vested with respect to 3,437 shares on May 20, 2009; and (ii) it vests with respect to 51,563 shares ratably quarterly over the remaining period through February 20, 2013.

(19) The vesting of this stock option is as follows: (i) it vested with respect to 1,562 shares on July 27, 2009; and (ii) it vests with respect to 23,438 shares ratably quarterly over the remaining period through April 27, 2013.

(20) The vesting of this stock option is as follows: (i) it vested with respect to 20,627 shares on July 18, 2006, and (ii) it vested with respect to 61,881 shares ratably monthly over a 36 month period through July 18, 2009. As of December 31, 2009, Mr. Abovitz had exercised this option with respect to 37,133 shares.

(21) The vesting of this stock option is as follows: (i) it vested with respect to 10,313 shares on May 22, 2007; and (ii) it vests with respect to 30,941 shares ratably monthly over a 36 month period through May 22, 2010.

(22) The vesting of this stock option is as follows: (i) it vested with respect to 10,313 shares on March 26, 2008; and (ii) it vests with respect to 30,941 shares ratably monthly over a 36 month period through March 26, 2011.

(23) The vesting of this stock option is as follows: (i) it vests with respect to 47,574 shares ratably quarterly over four years beginning on August 24, 2007; and (ii) it vests with respect to 47,574 shares ratably quarterly over four years beginning on February 20, 2008 subject to a satisfactory 2007 performance evaluation, which was achieved.

(24) The vesting of this stock option is as follows: (i) it vested with respect to 5,000 shares on August 1, 2009; and (ii) it vests with respect to 75,000 shares ratably quarterly over the remaining period through May 1, 2013.

2009 OPTION EXERCISES AND STOCK VESTED

The following table sets forth information with respect to options exercised and stock vested during 2009:

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)(2)
Maurice R. Ferré, M.D.	—	—	145,110	$1,238,570
Fritz L. LaPorte	—	—	—	—
Ivan Delevic	—	—	—	—
Steve J. Nunes	—	—	—	—
Rony A. Abovitz	87,000	$756,064	—	—

(1) Value realized is the amount by which the market value of our common stock on the date of exercise exceeds the exercise price, multiplied by the number of shares for which the option was exercised.

(2) Value realized on vesting is determined by multiplying the number of vested shares by the price of our common stock on the vesting date. This amount is not intended to represent the value, if any, that is actually realized by the individual.

TERMINATION AND CHANGE IN CONTROL PAYMENTS

Dr. Ferré

The employment agreement for Dr. Ferré provides for the payment of severance benefits if Dr. Ferré is terminated without "cause" or if Dr. Ferré resigns for "good reason." Upon such a termination, Dr. Ferré will be entitled to receive all accrued but unpaid compensation, reimbursement of any outstanding reasonable business expenses, and one times the sum of (i) Dr. Ferré's annual salary and (ii) the average of the two highest cash bonuses received by him during the preceding three completed fiscal years in a lump sum payment; provided that if the termination occurs in anticipation of a change in control of our company or within two years thereafter, the applicable multiplier will be two instead of one, and he will be entitled to accelerated vesting of equity awards that vest based on the passage of time, a payment of a prorated bonus for the year of termination, and, assuming attainment of target performance goals, accelerated vesting of all equity awards that vest based on the attainment of performance goals at the greater of target levels or actual performance at the date of termination. Dr. Ferré is also entitled to a gross-up payment to the extent any payments payable to him in connection with a change in control become subject to an excise tax pursuant to sections 4999 and 280G of the Internal Revenue Code. In addition, all equity awards that vest based on the passage of time vest in the event of a termination of employment due to death or disability.

Under Dr. Ferré's employment agreement, "good reason" includes any of the following, in each case to the extent not corrected by us following thirty days' notice from Dr. Ferré:

- the assignment of duties materially inconsistent with Dr. Ferré's position and status or a materially adverse change in the nature of Dr. Ferré's duties, responsibilities and authorities from those described in his agreement;
- a material reduction in Dr. Ferré's annual salary or the setting of his annual target incentive opportunity in amounts materially less than those specified in his agreement;
- relocation of Dr. Ferré's principal work location more than twenty-five miles from our current headquarters;
- failure to elect or reelect Dr. Ferré to our board of directors or his removal from the board other than for cause;
- our failure to obtain an agreement from any successor to us to assume the agreement; or
- any other failure by us to perform any material obligation or provision of the agreement.

Under Dr. Ferré's employment agreement, "cause" includes any of the following, provided that Dr. Ferré has been provided a copy of the resolution adopted by at least three-quarters of the independent members of our board of directors at a meeting of the board (after reasonable notice to the executive and an opportunity for Dr. Ferré, together with his counsel, to be heard before the board) finding that he was guilty of the specified conduct:

- conviction for commission of a felony or a crime involving moral turpitude;
- willful commission of any act of theft, fraud, embezzlement or misappropriation against us; or
- willful and continued failure to perform duties, which failure is not remedied within thirty days after we provide notice.

Messrs. LaPorte, Abovitz, Delevic and Nunes

The employment agreements in effect for Messrs. LaPorte, Abovitz, Delevic and Nunes as of December 31, 2009 provide for the payment of severance benefits to the executive if we terminate the executive's employment without "cause" or if the executive resigns for "good reason." Upon such a termination, the executive will be entitled to receive all accrued but unpaid compensation, reimbursement of any outstanding reasonable business expenses and the additional benefits detailed below:

	Termination by Company Without Cause or by Employee for Good Reason				
Named Executive Officer	Severance Payment (termination unrelated to change in control)	Severance Payment (termination related to change in control)	Payment Method of Severance Payment	Continuation of Health Benefits	Accelerated Vesting of Equity Awards that Vest Based on the Passage of Time
Fritz L. LaPorte	9 months of annual base salary	18 months of annual base salary (1)	Lump sum	9 months	Yes
Rony A. Abovitz (2)	9 months of annual base salary	9 months of annual base salary	Monthly	9 months	No
Ivan Delevic	6 months of annual base salary	6 months of annual base salary	Monthly	6 months	No
Steven Nunes	9 months of annual base salary	18 months of annual base salary (1)	Lump sum	9 months	Yes

(1) The named executive officer will be entitled to this severance payment in the event he is terminated without cause or resigns for good reason in anticipation of a change of control or within nine months after a change in control.

(2) Effective March 29, 2010, the company entered into an amended and restated employment agreement with Mr. Abovitz pursuant to which the portion of severance determined on the basis of nine months' base salary and nine months' health benefits is now determined on the basis of twelve months' base salary and nine months' health benefits.

Under these employment agreements, "good reason" includes:

- a material adverse change of the executive's job responsibilities;
- a breach by us with respect to our compensation obligations under the employment agreement, which has not been cured within thirty days after the executive provides written notice or our notice of non-renewal;
- a decrease in executive's base salary not equally applied (on a percentage basis) to all employees subject to an employment agreement with us; or
- relocation of our headquarters to a location more than 100 miles from the location at the time the employment agreement was first executed.

Under the employment agreements in effect as of December 31, 2009, we have the right to terminate Messrs. LaPorte, Abovitz, Delevic, and Nunes for cause if such termination is approved by not less than two-thirds of our board of directors, provided the executive is given at least five days' advance notice of such meeting and is given the opportunity to speak at such meeting. Following the amendment and restatement of Mr. Abovitz's employment agreement in March 2010, we have the right to immediately terminate Mr. Abovitz for cause as determined by our Chief Executive Officer in his sole discretion. If we terminate the employment of any of these executives for cause or if the executive terminates his employment without good reason, the executive will be entitled to receive only accrued

but unpaid compensation and reimbursement of any outstanding reasonable business expenses. Termination for cause may include termination as a result of any act or failure to act on the part of the executive that constitutes:

- the willful, knowing or grossly negligent failure or refusal of the executive to perform his duties under the employment agreement or to follow the reasonable directions of the Chief Executive Officer which has continued for thirty days following written notice of such failure or refusal from the board;
- a breach by the executive of any fiduciary duty to us or any of our subsidiaries for which the executive is required to perform services under the employment agreement;
- material and willful misfeasance or malfeasance by the executive in connection with the performance of his duties under the employment agreement;
- the executive's commission of an act which is a fraud or embezzlement;
- the conviction of the executive for, or a plea of guilty or nolo contendere, to a criminal act that is a felony;
- a material breach or default by the executive of any provision of the employment agreement that has continued for thirty days following notice of breach or default from the board;
- the executive's willful and material breach or violation of any law, rule or regulation (other than traffic violations or similar offenses);
- abuse of drugs or alcohol to our detriment; or
- not maintaining his primary residence in the South Florida region.

Following the amendment and restatement of the employment agreements for Messrs. LaPorte and Nunes described above under "Compensation Discussion and Analysis – Employment Agreement and Change in Control Arrangements," the agreements for Messrs. LaPorte and Nunes also provide for the accelerated vesting of equity awards that vest based on time upon the occurrence of a change in control of our company or upon termination of employment as a result of death or disability, or, as described above, upon an involuntary termination of employment without cause or a voluntary termination for good reason. Following the amendment and restatement of Mr. Abovitz's employment agreement described above, his agreement also provides for the accelerated vesting of equity awards that vest based on time upon the occurrence of a change in control of our company.

Each employment agreement includes customary non-competition and non-solicitation restrictions applicable to the executive for a period of twelve months after the termination of the executive's employment (eighteen months if the termination is in connection with a change in control of our company for Messrs. LaPorte and Nunes), as well as customary confidentiality provisions. In addition, each of these employment agreements provides that all confidential information that the executive has access to, uses or creates during his employment and all intellectual property resulting from work done by him on our behalf is our property.

Acceleration of Equity

Pursuant to the terms of restricted stock and option award agreements we have entered into with our named executive officers, generally, with the one exception described below, no additional shares of common stock subject to any outstanding restricted stock and option awards will vest after termination of or by the executive for any reason. The terms of such restricted stock and option award agreements also provide that: (a) if the executive is terminated for cause, the executive will forfeit all rights to his options and the option will expire immediately; (b) for all terminations, other than for cause, death or disability, options expire on the ninetieth day after the termination date; and (c) upon death or disability, options expire twelve months after the date of death or the date of termination resulting from disability. In March 2010, in connection with the amendment and restatement of Mr. Abovitz's employment agreement, the compensation committee approved an option award agreement for Mr. Abovitz which provides for the continued vesting of the related option following a termination of Mr. Abovitz without cause or by Mr. Abovitz for good reason.

Under the terms of our 2004 Stock Incentive Plan and our 2008 Omnibus Incentive Plan, in the event of a change in control, if the successor entity does not assume, continue or substitute for outstanding options and restricted stock, all outstanding shares of our restricted common stock will vest, and either (i) all options will become immediately exercisable or (ii) our board of directors could elect to cancel any outstanding grants of options or restricted stock and pay an amount in cash or securities. These plans define a change in control as the dissolution or liquidation of our

company; a merger, consolidation or reorganization of our company in which our company is not the surviving entity; a sale of substantially all of our assets; or any transaction that results in any person (other than certain related persons) owning 50% or more of the combined voting power of all classes of our common stock.

As described above, pursuant to the terms of our employment agreements with Dr. Ferré and Messrs. LaPorte and Nunes that were in place as of December 31, 2009, in the event of a change in control or a termination of employment as a result of death, disability, without cause or for good reason, any unvested equity awards that vest on the passage of time would vest. A "change in control" of our company is defined under these employment agreements to mean any of the following:

- A transaction that results in any person (other than certain related persons) acquiring beneficial ownership of more than 50% of the voting power of the total combined voting power of our outstanding securities.
- A change in the majority of our directors over a two year period involving directors whose election or nomination for election by our stockholders has not been approved by a supermajority of the incumbent board.
- Our completion of an acquisition, merger, consolidation, reorganization, business combination or disposition of assets meeting specified criteria.
- The approval by our stockholders of a liquidation or dissolution of our company and the satisfaction or waiver of all material contingencies to such liquidation or dissolution.

Assuming a December 31, 2009 termination event, under the arrangements then in place, the aggregate severance and change in control benefits and payments to the named executive officers were estimated to be as follows:

		Change in Control		
Named Executive Officer	Termination by Company Without Cause or by Employee For Good Reason	Assuming No Termination	Assuming Termination by Company Without Cause or by Employee For Good Reason	Death or Disability
Maurice R. Ferré, M.D.	$4,077,796(1)	$3,408,400(2)	$5,401,913(3)	$3,572,696(4)
Fritz L. LaPorte	$ 571,366(5)	$ 320,302(2)	$ 755,386(6)	$ 384,381(7)
Ivan Delevic	$ 154,931(8)	—	$ 154,931(8)	$ 42,431(9)
Steve J. Nunes	$ 516,387(10)	$ 305,991(2)	$ 673,887(11)	$ 357,845(12)
Rony A. Abovitz	$ 240,360(13)	—	$ 240,360(13)	$ 61,682(14)

(1) Represents a severance payment of $656,998, which equals the sum of Dr. Ferré's base salary, as of December 31, 2009, a prorated cash bonus Dr. Ferré is entitled to with respect to his performance in 2009 as of December 31, 2009 of $154,998 and $175,000 which represents the average of the largest two cash bonuses received by Dr. Ferré for performance in 2009, 2008, and 2007, plus $12,398 associated with the continuation of healthcare coverage for Dr. Ferré and his family for one year plus $3,408,400 associated with the accelerated vesting of Dr. Ferré's equity awards.

(2) Represents accelerated vesting of the named executive officer's equity awards upon a change in control of our company.

(3) Represents a payment of $1,158,998, which equals the sum of two times Dr. Ferré's base salary, as of December 31, 2009, $154,998 prorated cash bonus Dr. Ferré is entitled to with respect to his performance in 2009 as of December 31, 2009 and $350,000 which represents two times the average of the largest two cash bonuses received by Dr. Ferré for performance in 2009, 2008, and 2007, plus $12,398 associated with the continuation of healthcare coverage for Dr. Ferré and his family for one year plus $3,408,400 associated with the accelerated vesting of Dr. Ferré's equity awards plus a gross-up payment of $822,117 as a result of these benefits to Dr. Ferré being subject to an excise tax pursuant to sections 4999 and 280G of the Internal Revenue Code. Dr. Ferré would have been entitled to these benefits, in lieu of a severance payment, if he had been terminated without cause as of December 31, 2009 in anticipation of a change in control of our company or within two years thereafter.

In determining the amount of the excise tax gross-up included in the table above, we made the following material assumptions: a section 4999 excise tax rate of 20%, a 35% federal income tax rate, and a 1.45% Medicare tax rate. We also assumed that no value will be attributed to reasonable compensation under any non-competition agreement. At the time of any change in control, a value may be so attributed, which would result in a reduction of amounts subject to the excise tax.

(4) Represents a prorated cash bonus Dr. Ferré is entitled to with respect to his performance in 2009 as of December 31, 2009 of $154,998 plus $9,298 associated with the continuation of healthcare coverage for Dr. Ferré and his family for nine months plus $3,408,400 associated with the accelerated vesting of Dr. Ferré's equity awards.

(5) Represents a severance payment of $242,170, which equals nine months of Mr. LaPorte's base salary as of December 31, 2009, and a prorated cash bonus Mr. LaPorte is entitled to with respect to his performance in 2009 as of December 31, 2009 of $58,150, plus $8,894 associated with the continuation of healthcare coverage for Mr. LaPorte and his family for a period of nine months plus $320,302 associated with the accelerated vesting of Mr. LaPorte's equity awards.

(6) Represents a payment of $426,190, which equals eighteen months of Mr. LaPorte's base salary as of December 31, 2009, and a prorated cash bonus Mr. LaPorte is entitled to with respect to his performance in 2009 as of December 31, 2009 of $58,150, plus $8,894 associated with the continuation of healthcare coverage for Mr. LaPorte and his family for nine months plus $320,302 associated with the accelerated vesting of Mr. LaPorte's equity awards.

(7) Represents a prorated cash bonus Mr. LaPorte is entitled to with respect to his performance in 2009 as of December 31, 2009 of $58,150 plus $5,929 associated with the continuation of healthcare coverage for Mr. LaPorte and his family for a period of six months plus $320,302 associated with the accelerated vesting of Mr. LaPorte's equity awards.

(8) Represents a severance payment of $148,732, which is the continuation of base salary, as of December 31, 2009, for a period of six months and a prorated cash bonus Mr. Delevic is entitled to with respect to his performance in 2009 as of December 31, 2009 of $36,232, plus $6,199 associated with the continuation of healthcare coverage for Mr. Delevic and his family for a period of six months. No additional severance payments would be payable upon or in connection with a change in control under the agreement in effect on December 31, 2009.

(9) Represents a prorated cash bonus Mr. Delevic is entitled to with respect to his performance in 2009 as of December 31, 2009 of $36,232, plus $6,199 associated with the continuation of healthcare coverage for Mr. Delevic and his family for a period of six months.

(10) Represents a severance payment of $207,270, which equals nine months of Mr. Nunes' base salary as of December 31, 2009, and a prorated cash bonus Mr. Nunes is entitled to with respect to his performance in 2009 as of December 31, 2009 of $49,770, plus $3,126 associated with the continuation of healthcare coverage for Mr. Nunes and his family for a period of nine months plus $305,991 associated with the accelerated vesting of Mr. Nunes's equity awards.

(11) Represents a payment of $364,770, which equals eighteen months of Mr. Nunes' base salary as of December 31, 2009, and a prorated cash bonus Mr. Nunes is entitled to with respect to his performance in 2009 as of December 31, 2009 of $49,770, plus $3,126 associated with the continuation of healthcare coverage for Mr. Nunes and his family for nine months plus $305,991 associated with the accelerated vesting of Mr. Nunes' equity awards.

(12) Represents a prorated cash bonus Mr. Nunes is entitled to with respect to his performance in 2009 as of December 31, 2009 of $49,770 plus $2,084 associated with the continuation of healthcare coverage for Mr. Nunes and his family for a period of six months plus $305,991 associated with the accelerated vesting of Mr. Nunes' equity awards.

(13) Represents a severance payment of $231,062, which is the continuation of base salary, as of December 31, 2009, for nine months and a prorated cash bonus Mr. Abovitz is entitled to with respect to his performance in 2009 as of December 31, 2009 of $55,483, plus $9,298 associated with the continuation of healthcare coverage for Mr. Abovitz and his family for a period of nine months. No additional severance payments would be payable upon or in connection with a change in control under the agreement in effect on December 31, 2009.

(14) Represents a prorated cash bonus Mr. Abovitz is entitled to with respect to his performance in 2009 as of December 31, 2009 of $55,483 plus $6,199 associated with the continuation of healthcare coverage for Mr. Abovitz and his family for a period of six months.

AUDIT COMMITTEE REPORT

Our audit committee is composed of three "independent" directors, as determined in accordance with Rule 5605(a)(2) of The NASDAQ Stock Market's regulations and Rule 10A-3 of the Securities Exchange Act of 1934, as amended. The audit committee operates pursuant to a written charter adopted by our board of directors, a copy of which is available on the Investor Relations page of our website at *www.makosurgical.com*.

As described more fully in its charter, the purpose of our audit committee is to assist the board of directors with its oversight responsibilities regarding the integrity of our company's financial statements, our compliance with legal and regulatory requirements, and assessing the independent registered public accounting firm's qualifications, independence and performance. Management is responsible for preparation, presentation and integrity of our financial statements as well as our financial reporting process, accounting policies, internal accounting controls and disclosure controls and procedures. The independent registered public accounting firm is responsible for performing an independent audit of our financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The audit committee's responsibility is to monitor and oversee these processes. The following is the audit committee's report submitted to our board of directors for 2009.

The audit committee has:

- reviewed and discussed our audited financial statements with management and Ernst & Young LLP, our independent registered public accounting firm;
- discussed with Ernst & Young LLP the matters required to be discussed by Statement on Auditing Standards No. 61, *Communications with Audit Committees*, as amended and adopted by the Public Company Accounting Oversight Board, or PCAOB, in Rule 3200T; and
- received from Ernst & Young LLP the written disclosures and the letter regarding their communications with the audit committee concerning independence as required by the applicable requirements of the PCAOB and discussed with Ernst & Young LLP the auditors' independence from our company and management.

In addition, the audit committee has met separately with management and with Ernst & Young LLP.

Based on the review and discussions referred to above, our audit committee recommended to the board of directors that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2009 for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

William D. Pruitt, Chairman
Marcelo G. Chao
Charles W. Federico

The foregoing audit committee report shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 and shall not otherwise be deemed filed under these acts, except to the extent we specifically incorporate it by reference into such filings.

RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our audit committee has appointed Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2010, and our board of directors has directed management to submit the appointment of Ernst & Young LLP for ratification by the stockholders at the annual meeting.

Ernst & Young LLP has audited our financial statements since our inception in 2004. Representatives of Ernst & Young LLP will be present at the annual meeting, will have the opportunity to make a statement if they desire to do so, and will be available to respond to questions from stockholders.

Stockholder ratification of Ernst & Young LLP as our independent registered public accounting firm is not required by our bylaws or otherwise. Our board of directors is seeking such ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection of Ernst & Young LLP as our independent registered public accounting firm, our audit committee will consider whether to retain that firm for 2010.

A majority of the shares present in person or by proxy and entitled to vote at the annual meeting is required for ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2010.

Our board of directors recommends that you vote "FOR" the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2010. Shares of common stock represented by executed, but unmarked, proxies will be voted "FOR" such ratification.

PRINCIPAL ACCOUNTING FEES AND SERVICES

PRINCIPAL ACCOUNTING FEES AND SERVICES

Our auditors for the year ended December 31, 2009 were Ernst & Young LLP. We expect that Ernst & Young LLP will serve as our auditors for fiscal year 2010.

	2009	2008
Audit fees(1)	$ 644,000	$ 385,500
Audit-related fees(2)	—	50,000
Tax fees	—	—
All other fees(3)	1,500	1,500
Total fees	$ 645,500	$ 437,000

(1) Represents fees for our integrated audit in 2009 and financial statement audit in 2008 and reviews of our interim financial statements. Included in the audit fees for 2009 are fees totaling $62,000 incurred in connection with our equity financing which closed on August 19, 2009. Included in the audit fees for 2008 are fees totaling $38,000 incurred in connection with our equity financing which closed on October 31, 2008.

(2) Represents fees incurred in connection with providing consultation services in connection with the Company's reporting on internal control over financial reporting as of December 31, 2008 in anticipation of an audit of the Company's internal control over financial reporting in 2009.

(3) Represents subscription fees for the EY Online web-based research service.

PRE-APPROVAL POLICIES AND PROCEDURES

The audit committee has established a pre-approval policy that provides for the pre-approval of audit, audit-related, tax and other services specifically described by the committee on an annual basis. Unless a type of service is pre-approved under the policy, it will require separate pre-approval by the committee if it is to be provided by our independent registered public accounting firm. The policy authorizes the committee to delegate to one or more of its members pre-approval authority with respect to permitted services. Mr. Pruitt, our audit committee chairman, has the delegated authority to pre-approve such services up to a specified aggregate fee amount. These pre-approval decisions are presented to the full audit committee at its next scheduled meeting.

All audit and other fees for services set forth in the table above were pre-approved by our audit committee, which concluded that the provision of such services by Ernst & Young LLP was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

DELIVERY OF PROXY MATERIALS TO HOUSEHOLDS

Pursuant to the rules of the SEC, services that deliver our communications to stockholders that hold their stock through a bank, broker or other holder of record may deliver to multiple stockholders sharing the same address a single copy of our annual report to stockholders and this proxy statement. Upon oral or written request, we will promptly deliver a separate copy of the annual report to stockholders or this proxy statement to any stockholder at a shared address to which a single copy of the document was delivered. Stockholders sharing an address may also request delivery of a single copy of the annual report or proxy statement if they are currently receiving multiple copies of such documents. Stockholders may notify us of their requests by calling or writing to Menashe R. Frank, Senior Vice President, General Counsel and Secretary, MAKO Surgical Corp., 2555 Davie Road, Ft. Lauderdale, Florida 33317, telephone number: (954) 927-2044.

OTHER MATTERS

Our board of directors knows of no other matters to be presented at the annual meeting other than those mentioned in this proxy statement. If any other matters are properly brought before the annual meeting, it is intended that the proxies will be voted in accordance with the best judgment of the person or persons voting the proxies.

By Order of the Board of Directors,
MAKO Surgical Corp.

MENASHE R. FRANK
Secretary

Fort Lauderdale, Florida
April 28, 2010

We will furnish to any stockholder, without charge, a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. You may obtain a copy of the Form 10-K by writing to Menashe R. Frank, Senior Vice President, General Counsel and Secretary, MAKO Surgical Corp., 2555 Davie Road, Ft. Lauderdale, Florida 33317 or on our website at www.makosurgical.com.

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

FORM 10-K

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009
Commission file number: 001-33966

MAKO SURGICAL CORP.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-1901148**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
2555 Davie Road, Fort Lauderdale, FL	**33317**
(Address of Principal Executive Offices)	*(Zip Code)*

(954) 927-2044
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	*Name of Exchange on Which Registered*
Common stock, $0.001 par value per share	**The NASDAQ Global Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 (the "Exchange Act") 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☑	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2009 was approximately $134,589,080 (based on a closing price of $9.02 per share on The NASDAQ Global Market as of such date).

As of March 1, 2010, the registrant had outstanding 33,632,696 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement for the 2010 annual meeting of stockholders will be incorporated by reference into Part III of this Annual Report on Form 10-K when filed with the Securities and Exchange Commission.

MAKO SURGICAL CORP.

INDEX TO FORM 10-K

We have received or applied for trademark registration of and/or claim trademark rights, including in the following marks that appear in this report: "MAKOplasty®," "RIO®," "RESTORIS®," "Tactile Guidance System" and "TGS," as well as in the MAKO Surgical Corp. "MAKO" logo, whether standing alone or in connection with the words "MAKO Surgical Corp." All other trademarks, trade names and service marks appearing in this report are the property of their respective owners. Unless the context requires otherwise, the terms "registrant," "company," "we," "us" and "our" refer to MAKO Surgical Corp.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the U.S. federal securities laws. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements generally preceded by, followed by or that include the words "believe," "could," "expect," "intend," "may," "anticipate," "plan," "predict," "potential," "estimate" or similar expressions. These statements include, but are not limited to, statements related to:

- the nature, timing and number of planned new product introductions;
- market acceptance of the MAKOplasty solution;
- the effect of anticipated changes in the size, health and activities of population on the demand for our products;
- assumptions and estimates regarding the size and growth of certain market segments;
- our ability and intent to expand into international markets;
- the timing and anticipated outcome of clinical studies;
- assumptions concerning anticipated product developments and emerging technologies;
- the future availability from third-party suppliers, including single source suppliers, of implants for and components of our RIO® Robotic Arm Interactive Orthopedic system;
- the viability of maintaining our licensed intellectual property or our ability to obtain additional licenses necessary to our growth;
- the anticipated adequacy of our capital resources to meet the needs of our business;
- our continued investment in new products and technologies;
- the ultimate marketability of newly launched products and products currently being developed;
- the ability to implement new technologies successfully;
- our goals for sales and earnings growth;
- our ability to sustain sales and earnings growth;
- our success in achieving timely approval or clearance of products with domestic and foreign regulatory entities;
- the stability of certain domestic and foreign economic markets;
- the impact of anticipated changes in the U.S. healthcare industry and the medical device industry and our ability to react to and capitalize on those changes;
- future declarations of cash dividends; and
- the impact of any managerial changes.

Forward-looking statements reflect our current expectations and are not guarantees of performance. These statements are based on management's beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to these forward-looking statements include, among others, assumptions regarding demand for our products, expected pricing levels, raw material costs, the timing and cost of planned capital expenditures, competitive conditions and general regulatory and economic conditions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties. Although we believe that the assumptions on which the forward-looking statements contained herein are based are reasonable, any of those assumptions could prove to be inaccurate given the inherent uncertainties as to the occurrence or nonoccurrence of future events. There can be no assurance that the forward-looking statements contained in this report will prove to be accurate. The inclusion of a forward-looking statement in this report should not be regarded as a representation by us that our objectives will be achieved.

Forward-looking statements also involve risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict and could, among other things, cause actual results to differ from those contained in forward-looking statements made in this report. Such factors, among others, may have a material adverse effect on our business, financial condition and results of operations and may include, but are not limited to, factors discussed under Item 1A, "Risk Factors," and the following:

- a continued economic downturn or delayed economic recovery that may have a significant adverse effect on the ability of our customers to secure adequate funding, including access to credit, for the purchase of our products or that may cause our customers to delay a purchasing decision;
- changes in general economic conditions and interest rates;
- changes in the availability of capital and financing sources, for our company and our customers;
- changes in competitive conditions and prices in our markets;
- changes in the relationship between supply of and demand for our products;
- fluctuations in costs of raw materials and labor;
- changes in other significant operating expenses;
- unanticipated issues related to intended product launches;
- decreases in sales of our principal product lines;
- slow downs or inefficiencies in our product research and development efforts;
- increases in expenditures related to increased or changing government regulation or taxation of our business;
- unanticipated issues associated with any healthcare reform legislation that may be enacted;
- unanticipated changes in reimbursement to our customers for our products;
- unanticipated issues in securing regulatory clearance or approvals for new products or upgrades or changes to our products;
- developments adversely affecting our potential sales activities outside the United States;
- increases in cost containment efforts by group purchasing organizations;
- loss of key management and other personnel or inability to attract such management and other personnel;
- increases in costs of retaining a direct sales force and building a distributor network;
- unanticipated issues related to, or unanticipated changes in or difficulties associated with, the recruitment of agents and distributors of our products;
- unanticipated expenditures related to any future litigation; and
- unanticipated intellectual property expenditures required to develop, market and defend our products.

We caution you not to place undue reliance on these forward-looking statements, as they speak only as of the date they were made. We do not undertake any obligation to release any revisions to these forward-looking statements publicly to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. BUSINESS

OVERVIEW

We are an emerging medical device company that markets our advanced robotic arm solution and orthopedic implants for minimally invasive orthopedic knee procedures. We offer MAKOplasty, an innovative, restorative surgical solution that enables orthopedic surgeons to consistently, reproducibly and precisely treat patient specific, early to mid-stage osteoarthritic knee disease.

We were incorporated in Delaware in November 2004. In February 2008, our common stock began trading on The NASDAQ Global Market under the ticker symbol "MAKO" in connection with the closing of our initial public offering, or IPO.

MAKOplasty is performed using our proprietary RIO® Robotic Arm Interactive Orthopedic system, or RIO, and proprietary RESTORIS® unicompartmental and RESTORIS® MCK multicompartmental knee implant systems. The RIO is a technology platform that we believe has potential future application for other orthopedic procedures beyond the knee. The RIO utilizes tactile guided robotic arm technology and patient specific visualization to prepare the knee joint for the insertion and alignment of our resurfacing implants through a small incision in a minimally invasive, bone preserving and tissue sparing procedure. Our RESTORIS family of knee implants is designed to enable minimally invasive restoration of one or two of the diseased compartments of the knee joint. We believe MAKOplasty will empower physicians to address the needs of the large and growing, yet underserved population of patients with early to mid-stage osteoarthritic knee disease who desire a restoration of quality of life and reduction of pain, but for whom current surgical treatments are not appropriate or desirable due to the highly invasive nature of such procedures, the slow recovery and the substantial costs of rehabilitation, medication and hospitalization.

Unlike conventional knee replacement surgery, which requires extraction and replacement of the entire joint, MAKOplasty enables resurfacing of one or two specific diseased compartments of the joint, preserving significantly more soft tissue and healthy bone of the knee. We believe localized resurfacing can be optimized using our robotic arm technology, which offers consistently reproducible precision to surgeons to achieve optimal implant placement and alignment for smaller, more easily inserted modular implant components. We believe that the tissue sparing and bone conserving techniques enabled with MAKOplasty can offer substantial advantages to patients, surgeons and healthcare providers. Because of the minimally invasive nature of the procedure, smaller incisions are possible, which lead to less tissue damage and faster recoveries, thereby reducing the overall costs of rehabilitation, medication and hospitalization. In addition, because more of the patient's natural anatomy is preserved and less trauma is inflicted on the knee, we believe that patients who undergo MAKOplasty have the potential to experience better functionality and more natural knee movements, thereby achieving an improved post-operative quality of life. Significantly, the expansion of our RESTORIS family of implants for use in single and bicompartmental knee resurfacing procedures provides the ability to address a broader range of the patient population suffering from early to mid-stage osteoarthritis. Finally, because our RIO system is easy to use, we believe that our MAKOplasty solution makes resurfacing procedures accessible to orthopedic surgeons with a broad range of training and skills and has the potential to lead to greater adoption of knee resurfacing solutions for early to mid-stage osteoarthritis of the knee.

In May 2005, we obtained 510(k) marketing clearance from the U.S. Food and Drug Administration, or FDA, for a haptic imageless surgical guidance system. In November 2005, we obtained 510(k) marketing clearance from the FDA for version 1.0 of our Tactical Guidance System, or TGS, a CT based patient specific visualization system with a robotic arm, which was the predecessor device to our RIO system and enabled MAKOplasty for a single compartment of the knee joint using a standard unicompartmental implant. In January 2008, we received 510(k) marketing clearance from the FDA for version 1.2 of our TGS, which allowed for MAKOplasty using an alternative standard unicompartmental knee implant and incorporated several software upgrades developed and introduced since the commercial introduction of version 1.0. We commercially launched version 1.2 in the first quarter of 2008. In the third quarter of 2008, we commercially launched version 1.3 of our TGS (the modifications to which did not require 510(k) marketing clearance).

In the fourth quarter of 2008, we received 510(k) marketing clearance from the FDA for our RIO system, which is version 2.0 of our TGS, which we commercially launched in the first quarter of 2009. In the third quarter of 2009, we commercially launched version 2.1 of our RIO system (the modifications to which did not require 510(k) marketing clearance), which reflected further refinement of the RIO platform and knee application. In the fourth quarter of 2009, we commercially launched version 2.2 of our RIO system (the modifications to which did not require 510(k) marketing clearance), which enabled surgeons to treat lateral compartment knee arthritis.

In the first quarter of 2006, we received 510(k) marketing clearance for our tibial inlay knee implant system and in the fourth quarter of 2007 we received 510(k) marketing clearance for our tibial onlay knee implant system and for our combined inlay and onlay system, branded as RESTORIS. In the second quarter of 2008, we received 510(k) marketing clearance for our novel unicompartmental knee implant and 510(k) marketing clearance for our patellofemoral knee implant, predecessor components of our proprietary multicompartmental knee implant system. In the fourth quarter of 2008, we received 510(k) marketing clearance from the FDA for our multicompartmental knee implant system, branded as RESTORIS MCK. We commercially launched the RESTORIS MCK multicompartmental knee implant system in the second quarter of 2009.

As part of the original TGS sales contracts, TGS customers were entitled to receive an upgrade of their TGS unit to a RIO system at no additional charge, with the exception of one customer who had the right to receive it at a discounted price. During the first half of 2009, we upgraded all seventeen TGS units to RIO systems. In 2009, we commercially installed nineteen new RIO systems, bringing the total number of commercial MAKOplasty sites to 36 as of December 31, 2009. A total of 1,602 MAKOplasty procedures were performed in 2009 and as of December 31, 2009, 2,384 MAKOplasty procedures had been performed since commercial introduction in June 2006. As of March 1, 2010, we have 39 post-market studies of MAKOplasty, either recently completed or in progress, which are aimed at demonstrating the accuracy of the placement and alignment of our knee implants and the clinical value of the MAKOplasty procedure. To date, the results of these studies have been presented as peer-reviewed presentations at conferences in the United States and abroad. As of March 1, 2010, we have an intellectual property portfolio of more than 300 licensed or owned patents and patent applications relating to the areas of computer assisted surgery, robotics, haptics and implants.

We generate revenue from unit sales of our RIO system, sales of our implants and disposable products and the sale of extended warranty service contracts.

INDUSTRY BACKGROUND

The Growing Osteoarthritis Problem

Osteoarthritis is a common medical condition that leads to the degeneration of joints from aging and repetitive stresses, resulting in a loss of the flexibility, elasticity and shock-absorbing properties of the joints. As osteoarthritis disease progresses, the cartilage and other soft tissues protecting the surfaces of key joints in the body, including knees, hips and shoulders, deteriorate, resulting in substantial and chronic joint pain, numbness and loss of motor function. This pain can be overwhelming for patients and can have significant physical, psychological, quality of life and financial implications. According to estimates by the National Institutes of Health, or NIH, 27 million people in the U.S., age 25 and older, suffer from osteoarthritis.

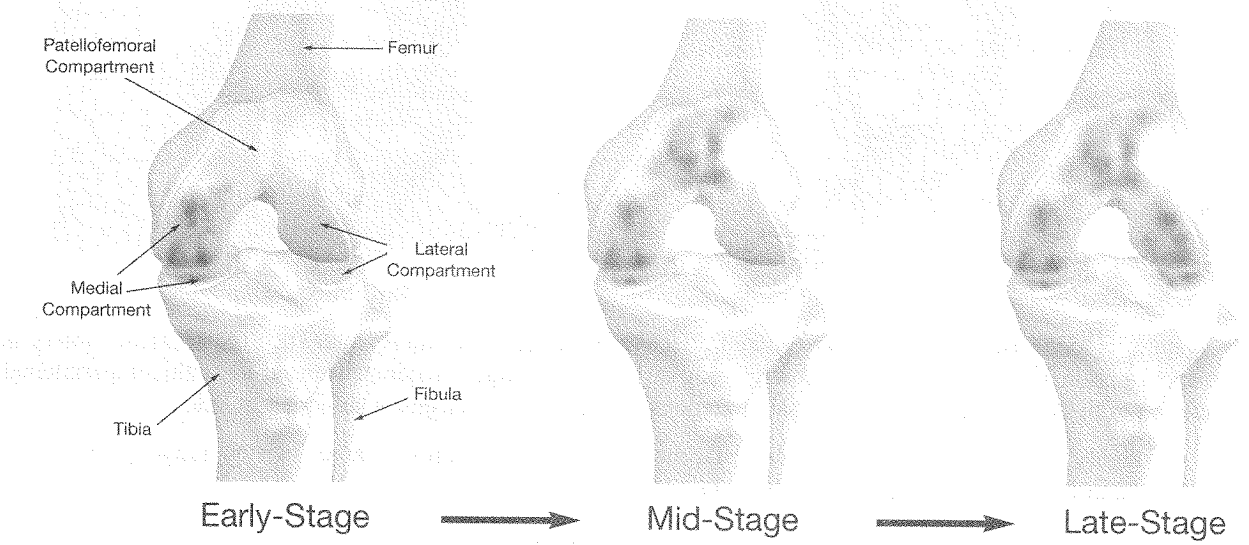
Compelling demographic trends, such as the growing, aging and more active population and rising obesity rates are expected to be key drivers in the continued growth of osteoarthritis. The NIH projects that by 2030, 20% of Americans, or approximately 72 million people, will be 65 years or older and will be at high risk of developing osteoarthritis. According to The Journal of the American Medical Association, it is estimated that of the U.S. population over the age of 20 approximately 68% was overweight and 34% was obese in 2007-2008. The Orthopaedic Industry Annual Report for the year ended June 15, 2009 reports that being overweight significantly increases the risk of developing knee osteoarthritis and that obese women had nearly four times the risk of suffering from osteoarthritis of the knee as non-obese women, and obese men had nearly five times the risk of suffering from osteoarthritis of the knee as non-obese men.

For the most severe cases of osteoarthritis, in which patients suffer from extreme pain, reconstructive joint surgery may be required. Reconstructive joint surgery involves the removal of the bone area surrounding the affected joint and the insertion of one or more manufactured implants as a replacement for the affected bone. According to The Orthopaedic Industry Annual Report, global sales of joint replacement products in 2008, including knees, hips, elbows,

wrists, digits and shoulders, were $12.7 billion, an increase in sales of nearly 9% over 2007, of which sales in the United States represented $6.7 billion. According to Frost & Sullivan, the joint implant market is expected to grow to approximately $9.7 billion by 2013, with knee and hip implant systems representing the two largest sectors.

Market for Osteoarthritis of the Knee

The knee joint consists of the medial, patellofemoral and lateral compartments. As depicted below by the shaded diseased areas of the knee joint, osteoarthritis of the knee usually begins with the deterioration of the soft tissue and cartilage in the medial (inner) compartment and progresses to either or both the patellofemoral (sub-kneecap) and lateral (outer) compartments. The progression of osteoarthritis of the knee can take many years, and even in the early stages, it can result in substantial pain for the patient and a reduction in the quality of life.



According to the Centers for Disease Control, there are currently more than 15 million people in the U.S. with osteoarthritis of the knee. According to a 2006 Duke University Survey of published literature, the growth of osteoarthritis of the knee among the U.S. population is expected to accelerate as the increasingly active population ages and obesity rates increase. As a result of this substantial clinical need, the market for orthopedic knee procedures in the U.S. has experienced tremendous growth over the past decade. According to data compiled by Orthopedic Network News, the U.S. knee implant market was greater than $3.7 billion in 2008, which represents growth of 9.2% from 2007 to 2008. In addition to the substantial costs of the procedure itself, total knee replacement and resurfacing procedures represent significant incremental costs to the healthcare system. These include costs associated with rehabilitation, medication, hospitalization and, over the long-term, costs incurred as a result of replacements or revisions that may be required due to wear and tear or improper placement.

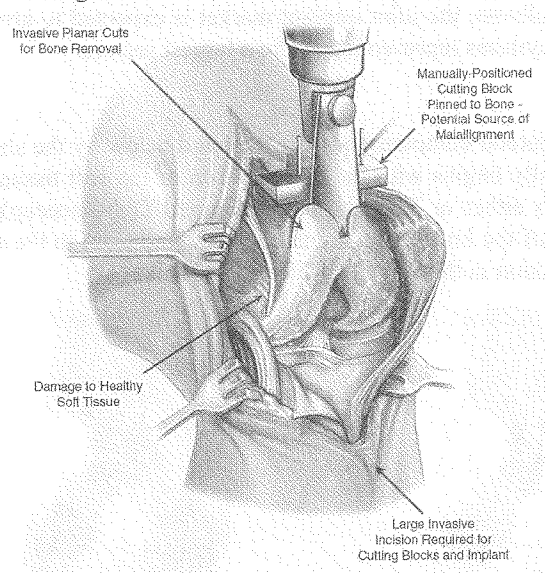
Current Orthopedic Knee Arthroplasty Approaches

Arthroplasty options for treating osteoarthritis of the knee have historically been limited to either total knee replacement surgery or knee resurfacing procedures.

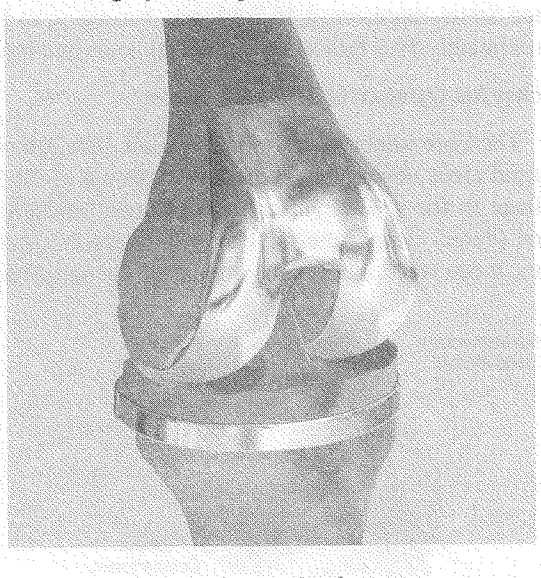
Total Knee Replacement.

Currently, most people who choose to surgically address osteoarthritis of the knee elect to undergo total knee replacement surgery. Total knee replacement is a highly invasive surgical procedure in which a patient's diseased knee joint is removed and replaced with a manufactured replacement knee joint comprised of several components that attempt to mimic the normal function of the knee joint. The procedure requires a large incision ranging from 4 to 12 inches to accommodate the complex scaffold of cutting blocks and jigs required to execute the blunt, planar cuts involved in total knee replacement surgery and to prepare the knee for insertion of the large implants. Both internal and external soft tissue damage is significant in this procedure as the entire knee joint is fully exposed and much of the bone and tissue surrounding it are removed. The bone cuts are also extensive, presenting a large surface area for bone bleeding. The implants are typically manufactured out of metal, ceramic or polymers and have an approximate useful life of between 15 and 20 years before they usually are revised or replaced.

The figures below illustrate a conventional total knee replacement surgery and implant:



Total Knee Replacement Surgery



Total Knee Implant

Despite its long history as an established and effective orthopedic procedure, total knee replacement surgery is not an ideal option for many patients suffering from early to mid-stage, unicompartmental or multicompartmental degeneration of the knee. Some of the principal limitations of total knee replacement surgeries include:

- highly invasive nature of the surgical procedure, which requires a large incision ranging from 4 to 12 inches to prepare and implant the large implants;
- significant damage to the bone and tissue surrounding the joint;
- substantial bone bleeding;
- required removal of all three compartments of the knee, regardless of which compartments are actually diseased;
- extended and often painful recovery time and rehabilitation;
- reduced mobility and range of motion; and
- likely implant replacement or revision in approximately 15 to 20 years when the implant reaches the end of its useful life.

For these and other reasons, many people who are eligible for total knee replacement surgery elect not to undergo or postpone the procedure, choosing instead to suffer significant pain and limited mobility.

Unicompartmental and Bicompartmental Knee Resurfacing.

Unicompartmental and bicompartmental knee resurfacing is a less invasive arthroplasty procedure in which only the arthritic region of the knee is removed and a small implant is inserted to resurface the diseased compartment of the knee. Unicompartmental and bicompartmental knee resurfacing procedures are ideal for patients with early to mid-stage osteoarthritis and are aimed at sparing the healthy bone, cartilage and other soft tissues typically removed in a conventional total knee replacement procedure. Today, these procedures are generally performed manually and require a level of training, expertise and precision that significantly exceeds what is required for the typical total knee replacement surgery. Orthopedic Network News has estimated that 49,400 unicompartmental knee resurfacing procedures were performed in 2008 in the United States, which represents a 6.9% increase from the estimated 46,200 such procedures performed in 2007 in the United States.

Unicompartmental and bicompartmental knee resurfacing are potentially more desirable procedures than total knee replacement surgery for patients suffering from early to mid-stage degeneration of the knee because they preserve more of the patient's natural anatomy and result in less trauma to the patient. As a result, patients experience less tissue loss and faster recoveries. However, despite the potential clinical, quality of life and cost benefits of these procedures, they have achieved only limited adoption to date, in part, as a result of the following limitations that make performing these procedures very difficult:

- the restricted room to maneuver and impeded line of sight due to the smaller incision and minimally invasive nature of the procedures which make it difficult to insert, place and align the implant properly; and
- the complex process of removing portions of the bone and resurfacing the knee joint in preparation for the implant.

The difficulties in manually executing unicompartmental or bicompartmental knee resurfacing procedures can result in inaccurate implant alignment, which can lead to reduced range of motion and premature implant failure. In light of the difficulties, many physicians choose not to recommend these procedures and many patients choose either to live with the osteoarthritic pain or to undergo total knee replacement surgery. We currently believe that up to 20% of patients who underwent total knee replacement surgeries had osteoarthritis in only one or two compartments of the knee, which we believe may qualify them as appropriate candidates for a either a unicompartmental or bicompartmental implant.

Introduction of Minimally Invasive Surgery

Over the past thirty years, one of the most significant medical trends has been the development of minimally invasive methods of performing surgical procedures. Compared to traditional, open surgical techniques, minimally invasive techniques that employ image guided surgical systems offer potentially superior benefits for patients, surgeons and hospitals. For patients, these techniques result in reduced procedure related pain and less scarring at the incision site leading to faster recovery times and shorter post-operative hospital stays, as well as better aesthetic outcomes. For the surgeon, these techniques reduce procedure related complications and have the potential to reduce risks associated with more invasive procedures. For the hospital, these procedures can result in reduced hospital stays from faster recovery times and lower rates of complications.

Despite the many benefits of minimally invasive techniques, however, they also present several notable limitations due to the restricted surgical space, including:

- restricted vision at the anatomical site;
- cumbersome handling of surgical instruments;
- difficult hand eye coordination; and
- limited tactile feedback.

Minimally invasive approaches have seen substantial adoption in various surgical fields where procedures can be performed within existing anatomical cavities of the human body. However, because of the limitations of minimally invasive techniques, they have been less successful for complex surgical procedures requiring cutting and replacement of large anatomical parts that nevertheless require precision and control.

Introduction of Robotics into Other Surgical Fields

We believe that the application of robotics technologies in minimally invasive surgical procedures represents the next generation in the evolution of the surgical technique. These technologies are being developed to provide surgeons with a more precise, repeatable and controlled ability to perform complex procedures by offering increased visual acuity and greatly improved tactile feedback. These characteristics empower surgeons to better control their surgical technique and limit the margin of error.

With the assistance of robotics technology, an increasing number of surgeons have been able to perform procedures previously limited to a small subset of highly skilled surgeons. In addition, robotics technology has allowed these procedures to be performed in a more minimally invasive manner, requiring only small incisions, which result in reduced procedure related trauma, fewer infections and post-procedure complications and reduced recovery and hospitalization periods.

Robotics technology has been successfully applied in a variety of diverse fields including urology, gynecology, cardiothoracic surgery and catheter based interventional cardiology and radiology. The success of robotics technologies in these applications has led to the growing adoption and commercialization of these technologies in the medical world.

The Use of Robotics in Orthopedic Surgical Procedures

Despite the success of robotics technology in other medical fields, only limited applications have been commercialized in the field of orthopedics to date, although we are aware of current orthopedic robotic development by other companies. Some orthopedic companies have introduced instruments that are smaller than their predecessors, which are marketed as "minimally invasive," but these instruments still require large incisions, trauma to the soft tissue and removal of large portions of the bone to perform the surgical procedure. Orthopedic companies have also introduced computer assisted surgical, or CAS, systems that are designed for use in open procedures. However, while these systems do provide a minimally invasive means of viewing the anatomical site, their benefits are marginal because they do not improve a surgeon's ability to make consistently reproducible and precise surgical movements through a small incision.

We believe that the limitations of currently available surgical options for knee disease have created a sizeable market for treatment of a large, growing and underserved population of patients with early to mid-stage osteoarthritis of the knee. We believe that robotics technology is the key to enabling surgeons to perform the kind of minimally invasive knee surgery that results in restoration of function and improved post-operative outcomes for such patients.

THE MAKO SOLUTION

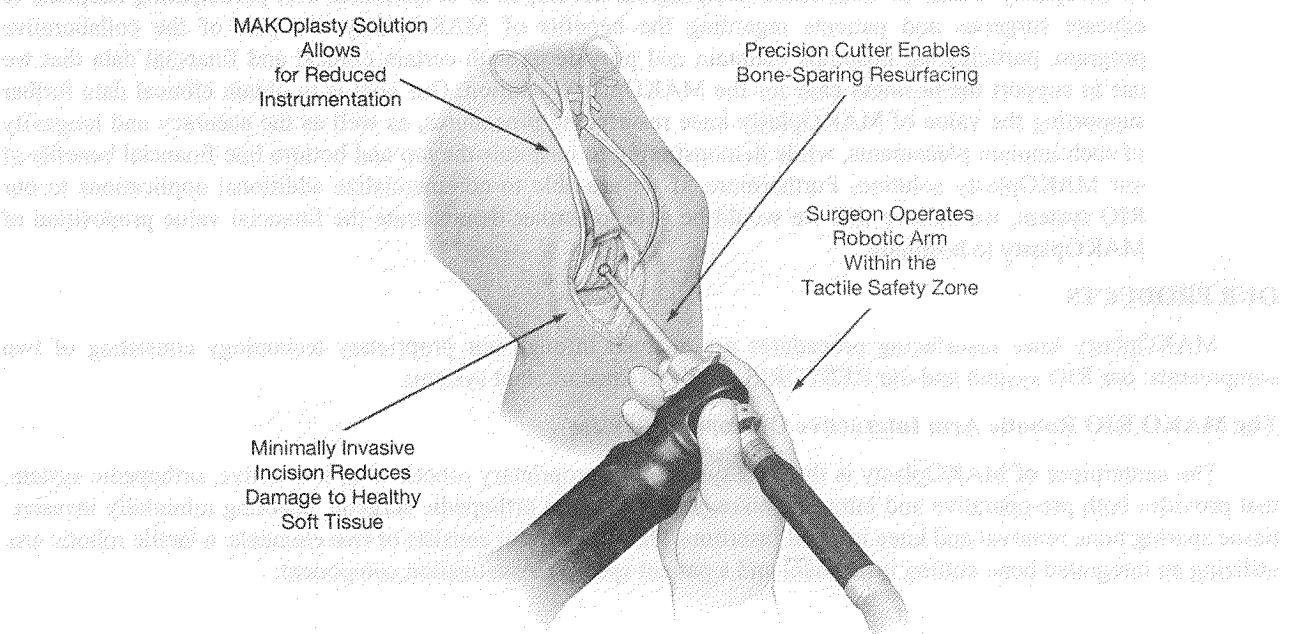
We have designed our MAKOplasty solution to provide the consistently reproducible precision, accuracy and dexterity necessary for a surgeon to successfully perform minimally invasive orthopedic arthroplasty procedures on the knee despite a limited field of vision in a confined anatomical space. Our MAKOplasty solution is composed of two critical components: the RIO system, which consists of the proprietary tactile robotic arm and our patient specific visualization system that provides both pre-operative and intra-operative guidance to the surgeon, and the RESTORIS family of knee implant systems that are designed for minimally invasive restoration of the diseased compartments of the joint. By integrating robotic arm and patient specific visualization technology with the touch and feel of the surgeon's skilled hand, MAKOplasty is designed to enable a level of surgical precision and accuracy that is beyond the scope of the typical surgeon's freehand capabilities, which we believe will result in broad adoption of our technologies by orthopedic surgeons and better outcomes for patients. We believe knee MAKOplasty offers the following key benefits to patients, surgeons and hospitals:

- *Minimally Invasive Targeted Knee Arthroplasty.* MAKOplasty enables surgeons to isolate and resurface just the diseased compartment or compartments of the knee joint through a minimally invasive incision, rather than replacing the entire joint. The precision of our RIO system robotic arm technology makes such minimally invasive targeted treatment possible by eliminating the complex scaffold of cutting blocks and jigs that would otherwise be required to execute the blunt, planar bone cuts and insert the large implants involved in conventional total knee replacement surgery or a manually executed resurfacing procedure. We believe that our solution will make minimally invasive orthopedic procedures, like unicompartmental and bicompartmental knee resurfacing, a viable option for a greatly expanded pool of patients and physicians.
- *Consistently Reproducible Precision.* We believe that MAKOplasty reduces the variability of procedure outcomes and increases efficacy through the consistently reproducible precision provided by our computer assisted and tactile robotic arm technology. We believe that the precision of our cutting process and placement and alignment of implants leads to significantly improved and reliable results, compared to conventional, manually executed unicompartmental and bicompartmental resurfacing procedures. The surgeon retains control of the actual movements of the robotic arm within a pre-established volume of space, the tactile "safety zone," which is tracked and bounded by the RIO system. We believe that the tactile safety zone enables improved placement and alignment of the resurfacing implant, while the visualization enables the procedure to be performed through a small incision without direct visualization. We believe that this consistently reproducible precision enables physicians to be trained in the use of MAKOplasty in a relatively short period of time and also will increase the number of physicians who are willing and able to perform unicompartmental and bicompartmental resurfacing procedures.

- *Proprietary Implants.* We believe that our proprietary knee resurfacing implants allow surgeons to customize a knee resurfacing solution for individual patients facing early to mid-stage osteoarthritis in one or two compartments of the knee joint. Our original RESTORIS unicompartmental implant system allows for a choice of tibial implant based on patient bone quality. Our RESTORIS MCK implant system provides for this same choice for medial or lateral unicompartmental disease and allows for the resurfacing of the patellofemoral compartment as well, either independently or in combination with the medial compartment in a bicompartmental knee MAKOplasty. Because all implants are sized and planned for based on patient-specific anatomical indications, the potential for favorable clinical outcomes is enhanced.
- *Ease of Use.* We believe that our RIO system leverages and complements the surgical skills and techniques already familiar to the surgeon, while providing substantial incremental control and precision that has not previously been possible. The customized, patient specific visualization system guides the surgeon through each step of the surgical procedure, while the tactile "safety zone" ensures that the surgeon does not apply the bone cutting instrument beyond the intended area of the knee joint. We believe that the RIO's ease of use makes resurfacing procedures accessible to orthopedic surgeons with a broad range of training and skills and has the potential to lead to greater adoption of knee resurfacing solutions for early to mid-stage osteoarthritis of the knee. We also believe that the ease of use provided by the RIO can enable physicians to shorten operating room time and potentially increase the number of procedures performed.
- *Improved Restorative Post-Operative Outcomes.* Due to the minimally invasive nature of the procedure, we believe that patients who undergo knee MAKOplasty are likely to experience less tissue loss, less visible scarring and a faster recovery, thereby reducing the cost of rehabilitation, physical therapy, medication and hospitalization. In addition, because more of the patient's natural anatomy is preserved and less trauma is inflicted on the knee, patients who undergo MAKOplasty have the potential to experience better mobility, comfort, range of motion and more natural knee movements to achieve an improved post-operative quality of life.
- *Reduced Costs for Patients and Hospitals.* The minimally invasive nature of the knee MAKOplasty solution aids hospitals and patients in reducing costs by shortening hospital stays and recovery periods and reducing the amount of rehabilitation and medication.

The comprehensive nature of the MAKOplasty solution also provides hospitals with the implants and disposable products necessary to perform the procedures. We believe that our complete knee arthroplasty solution represents a substantial improvement over currently available approaches.

The figure below illustrates a MAKOplasty knee resurfacing procedure.



OUR STRATEGY

Our goal is to continue to drive sales of the RIO system and generate recurring revenue through sales of implants, disposable products and service contracts by establishing MAKOplasty as the preferred surgical procedure for patients with early to mid-stage, unicompartmental and multicompartmental degeneration of the knee. We believe that we can achieve this objective by working with hospitals to demonstrate key benefits of MAKOplasty, such as consistently reproducible surgical precision, improved post-operative outcomes and reduced healthcare costs. Our strategy includes the following key elements:

- *Focus on key physicians and thought leaders to encourage adoption of our MAKOplasty solution.* We plan to continue to focus our marketing efforts on key orthopedic surgeons who currently perform the majority of unicompartmental and bicompartmental knee procedures or who are actively involved in the development of minimally invasive orthopedic approaches. We also plan to continue to focus our marketing efforts on the hospitals with which these key surgeons are affiliated and engage them to promote the benefits of MAKOplasty. Our strategy is to convince hospitals that through early adoption of MAKOplasty and acquisition of our RIO system, they can reinforce their reputations as leading institutions for the treatment of early to mid-stage osteoarthritis of the knee.

- *Drive volume sales of our RESTORIS family of knee implant systems and the disposable products for installed RIO systems.* We intend to increase the number of orthopedic surgeons who use our RIO system and work with the hospitals and their surgeons to promote patient education about the benefits of knee MAKOplasty. Our goal is to increase usage per RIO system to drive higher volume sales of our RESTORIS family of knee implant systems and disposable products.

- *Expand the market for multicompartmental knee resurfacing.* We plan to expand the market for multicompartmental knee resurfacing procedures by encouraging use of the MAKOplasty procedure for patients who, given only conventional surgical alternatives, would have opted for total knee replacement surgery or no surgery at all. Our current FDA cleared application of MAKOplasty is for unicompartmental and bicompartmental knee resurfacing procedures using the RESTORIS family of knee implant systems, allowing us the potential of accommodating varied patient profiles and surgeon preferences. We believe that the potential benefits of our MAKOplasty solution and the combination of these product offerings will facilitate our efforts to expand and capture the market for multicompartmental knee resurfacing.

- *Demonstrate the clinical and financial value proposition of MAKOplasty.* We intend to continue to collaborate with leading surgeons and early adopting hospitals through such programs as our MAKOplasty Center of Excellence to build clinical and financial data that support the benefits of MAKOplasty. The MAKOplasty Center of Excellence is a program developed in conjunction with participating hospitals to educate surgeons and patients regarding the benefits of MAKOplasty. As part of the collaborative program, participating hospitals maintain and provide us with certain clinical and financial data that we use to support the business case for the MAKOplasty solution. Our goal is to obtain clinical data further supporting the value of MAKOplasty knee resurfacing procedures, as well as the accuracy and longevity of such implant placements, while demonstrating to hospitals the top and bottom line financial benefits of our MAKOplasty solution. Furthermore, if we are able to commercialize additional applications to our RIO system, we believe that we would be able to further demonstrate the financial value proposition of MAKOplasty to hospitals.

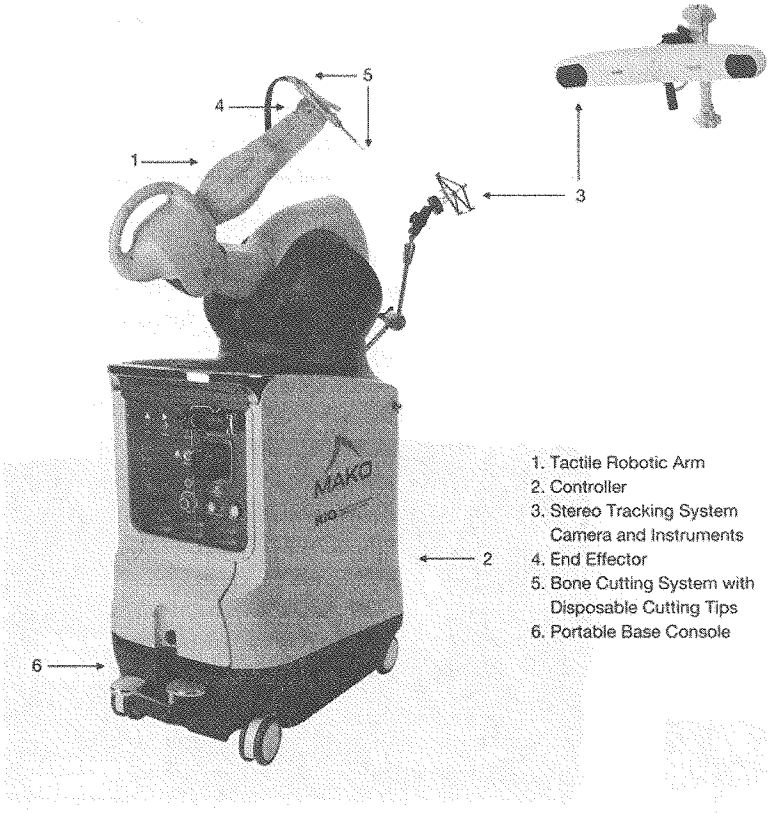
OUR PRODUCTS

MAKOplasty knee resurfacing procedures are enabled through our proprietary technology consisting of two components: our RIO system and our RESTORIS family of knee implant systems.

The MAKO RIO Robotic Arm Interactive Orthopedic System

The centerpiece of MAKOplasty is the RIO system, our proprietary robotic arm, interactive, orthopedic system, that provides both pre-operative and intra-operative guidance to the orthopedic surgeon, enabling minimally invasive, tissue sparing bone removal and knee implant insertion. The RIO system consists of two elements: a tactile robotic arm utilizing an integrated bone cutting instrument and a patient specific visualization component.

The figures below identify the key components of the RIO system's tactile robotic arm, stereo tracking system and instruments:

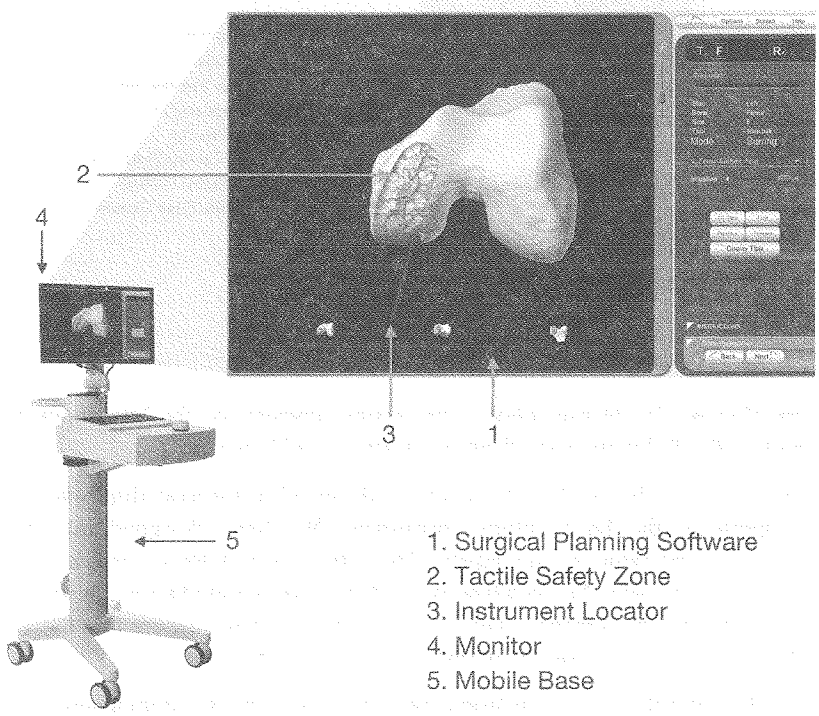


Tactile Robotic Arm System. The tactile robotic arm system consists of the key components identified in the figures above and incorporates the following specifications, features and benefits:

- *Tactile Robotic Arm* — The tactile robotic arm is designed to respond fluidly to movements initiated by the surgeon operating the bone cutting instrument. We have designed the robotic arm to achieve substantial dexterity and range of movement. The robotic arm helps enforce a tactile safety zone that is established by the patient specific visualization system by providing tactile resistance when the boundaries of the tactile safety zone are reached. This tactile resistance helps ensure that the surgeon does not apply the bone cutting instrument beyond the intended area of the knee joint.
- *Controller* — The controller is the electronic hardware and firmware component of our computing system which interfaces with our proprietary surgical planning and execution software to allow the surgeon to safely guide the tactile robotic arm. The controller governs the basic, low-level functions of the tactile robotic arm, such as the tactile constraints and the safety circuit.
- *Stereo Tracking System Camera and Instruments* — During a MAKOplasty procedure, the location of the tactile safety zone is updated continuously based on bone tracking data supplied to the computer system by an infrared stereo tracking system, which consists of a special camera that is directed toward a series of spheres and arrays attached to the patient's anatomy by bone pins. The tracking system assists the robotic arm system in locating and physically tracking the patient's anatomy and coordinating its real time position with the cutting instrument of the robotic arm. It has a sufficient refresh rate to provide the robotic arm system with an adequate flow of information regarding movements by both the patient and the robotic arm to ensure optimal cutting and placement. Using the system, the surgeon can freely move the robotic arm within the defined space, but encounters tactile resistance as the boundaries of such space are reached.
- *End Effector* — The end effector is the mechanical component by which the bone cutting instrument is attached to the tactile robotic arm. It is designed to ensure the secure placement of the bone cutting instrument, while providing the flexibility necessary for the surgeon to manipulate the instrument.

- *Bone Cutting Instrument with Disposable Cutting Tip* — The bone cutting instrument is integrated into the tactile robotic arm at the end effector. This instrument is composed of a high speed motor and a component that houses a variety of single use bone cutting tips. The design of the bone cutting instrument allows the surgeon to grip it in a manner similar to holding a pen-like cutting tool, making it easy to manipulate the instrument in the patient's anatomy. The cutting tip is the disposable end tip of the bone cutting instrument that makes contact with the knee joint and actually removes the bone for placement of the implant in accordance with the pre-operative plan. In combination with our tactile robotic arm, the bone cutting instrument enables the smooth precision and accuracy necessary for resurfacing procedures.
- *Portable Base Console* — The base component of our tactile robotic arm is a mobile unit that enables the portability of the tactile robotic arm from one operating room to another. The base console houses the controller and various electrical and mechanical components that help power the tactile robotic arm. Its design enables the console to be situated next to the patient during surgery and the tactile robotic arm to be conveniently positioned over the patient's anatomy.

The figure below identifies the key components of the RIO system's patient specific visualization system:



Patient Specific Visualization System. Our patient specific visualization system is a vital part of our ability to deliver minimally invasive surgical procedures for the knee. The surgical team uses our system pre-operatively to plan and intra-operatively to guide the surgical procedure. It consists of the key components identified in the figure above and incorporates the following specifications, features and benefits:

- *Surgical Planning and Execution Software* — Our surgical planning and execution software, which is integrated into our patient specific visualization system, is used during the pre-operative surgical planning process to visualize and map the exact portion of bone to be removed and resurfaced, define the anatomical boundaries of the tactile safety zone and plan the optimal placement and alignment of our implants. During the procedure, the visualization system guides the surgeon through each specific, well defined surgical technique and displays in real time each current and planned surgical activity.

- *Tactile Safety Zone* — While the robotic arm enforces a tactile safety zone by providing tactile resistance when the boundaries of the tactile safety zone are reached, our patient specific visualization system provides a visual representation of the tactile safety zone and provides additional visual and auditory cues when the boundaries of such tactile safety zone are reached. The combination of this tactile resistance and patient specific visualization helps ensure that the surgeon does not apply the bone cutting instrument beyond the intended area of the knee joint.

- *Instrument Locator* — The instrument locator provides visual guidance on the position of the bone cutting instrument and other surgical instruments in relation to the patient's anatomy.

- *Monitors* — Prior to surgery, patients undergo a conventional CT scan that captures an image of the diseased knee joint. This CT image is uploaded to the patient specific visualization system, where a MAKOplasty Specialist processes the image for display as a 3-D volume in space corresponding to the implant shape and placement overlaid onto the CT image of the patient's knee joint. This patient specific visualization of our implant overlaid onto an image of the patient's actual knee joint helps the surgeon to plan the procedure pre-operatively, by providing information which enables the surgeon to determine the optimal placement, alignment and sizing of the implant and establishing the boundaries of the tactile safety zone. During surgery, each monitor projects an active 3-D computer graphics visualization of the patient's knee joint, showing the areas of the bone that are actually removed as the procedure progresses. The user can also change the viewpoint and zoom level of the visualization as the procedure progresses to focus on different portions of the anatomy.

- *Mobile Base* — The base component of our patient specific visualization system is a mobile unit that enables the portability of the patient specific visualization system from one operating room to another. It houses our computer hardware and our surgical planning and execution software and various electrical and mechanical components that help power the visualization system.

Early Versions of the Tactile Guidance System

In November 2005, we obtained 510(k) marketing clearance from the FDA for version 1.0 of our TGS for use with an inlay knee implant system, as described below. We subsequently developed and introduced several upgrades to our TGS, including improvements to our surgical planning software as well as changes to certain instrumentation to make the device easier to use. We determined that these modifications, embodied in version 1.1 of our TGS, did not require the submission of a new 510(k) application.

In January 2008, we obtained 510(k) marketing clearance from the FDA for version 1.2 of our TGS, which became commercially available in the first quarter of 2008. Version 1.2 reflected further refinement of the basic instrumentation set and featured a customized bone cutting instrument and new surgical planning software applications necessary to support unicompartmental resurfacing procedures using a tibial onlay knee implant system. In the third quarter of 2008, we launched version 1.3 of our TGS, which enabled integration of components of both our tibial inlay and tibial onlay knee implant systems into a single MAKO-branded RESTORIS unicompartmental knee implant system, for use with the TGS. These modifications did not require the submission of a new 510(k) application.

The RIO System

The RIO system, version 2.0 of the TGS, represents an important expansion from our first generation TGS, enabling and expanding application of MAKOplasty to multicompartmental resurfacing procedures, allowing orthopedic surgeons to treat degenerative osteoarthritis from early-stage, unicompartmental degeneration through mid-stage, multicompartmental degeneration with a modular knee implant system. In addition, the RIO system incorporates the following improvements, which we believe allow us to offer the benefits of knee MAKOplasty to more patients:

- improved dexterity and range of motion in the robotic arm to allow additional degrees of freedom in the movement of the robotic arm;

- more efficient physical configuration of the patient specific visualization system, robotic arm, customized bone cutting instruments and electronic components;

- support for the RESTORIS MCK knee implant system to enable bicompartmental knee procedures;

- intelligent implant planning features to aid surgeon efforts to achieve optimal patient specific alignments;

- redesign of system components to reduce operating room set up times;

- modular design of certain components for ease of manufacturability and assembly and to make them more accessible for service repairs; and
- sophisticated industrial design and state-of-the art user interface.

In the fourth quarter of 2008, we received 510(k) marketing clearance for the RIO system, which we commercially launched in the first quarter of 2009. In the third quarter of 2009, we launched version 2.1 of our RIO system, which reflected further refinement of the RIO platform and knee application. In the fourth quarter of 2009, we launched version 2.2 of our RIO system, which enabled surgeons to treat lateral compartment knee arthritis. The modifications present in versions 2.1 and 2.2 did not require the submission of new 510(k) applications. The RIO System was approved for CE Marking in December 2009.

The RESTORIS Family of Knee Implant Systems

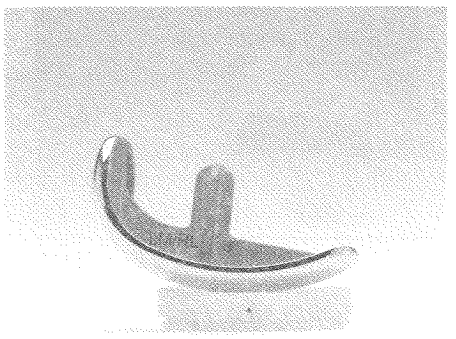
The second component of MAKOplasty is the knee implant system that is designed for insertion and cementation in a minimally invasive manner. Prior to the development and commercialization of the MAKO-branded, RESTORIS family of knee implant systems in late 2008, we purchased off-the-shelf unicompartmental tibial inlay and tibial onlay implants from third-party suppliers. Currently, we offer the RESTORIS unicompartmental knee implant system and the RESTORIS MCK multicompartmental knee implant system, for use with the RIO system.

The RESTORIS family of knee implant systems allows an orthopedic surgeon to treat early through mid-stage degenerative osteoarthritis of the knee with a modular implant system. We believe that modular components are key to the successful execution of minimally invasive knee surgeries because they can be more easily inserted into the knee joint through smaller incisions than a single, complete device. They can also be positioned independently to better accommodate the specific contours of the patient's anatomy. Because of the technical design and programming, only the RESTORIS family of knee implant systems may be used effectively with our RIO systems. In addition, users of the RIO system are contractually required to purchase all implants and disposable products used in MAKOplasty procedures from us.

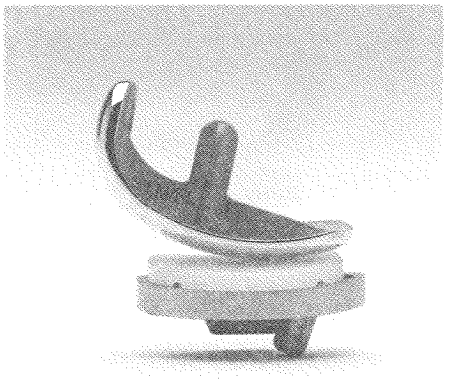
The RESTORIS Unicompartmental Knee Implant System

The classic RESTORIS unicompartmental knee implant system is designed to be used in MAKOplasty procedures for preserving critical tissue and bone to achieve improved outcomes. This RESTORIS system is composed of a rounded, anatomically shaped femoral component that attaches to the sculpted surface of the femur and either a flat tibial inlay polymer component that fits into a "pocket" that has been sculpted in the tibial bone or a tibial onlay insert and baseplate consisting of a flat polymer component that is backed by a metal support. Both the femoral and tibial components are offered in multiple sizes to best accommodate the size and shape of the patient's knee.

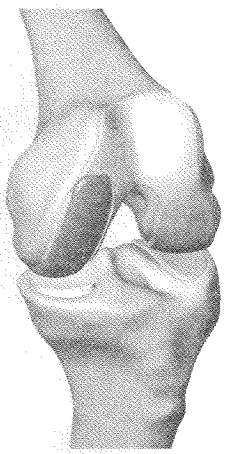
Patients with relatively good tibial bone quality, including a sufficiently thick and appropriately located bed of hardened sclerotic tibial bone, are generally candidates for our RESTORIS inlay implant system. The RESTORIS onlay implant system is designed to accommodate patients who lack tibia sclerotic bone beds of sufficient quality. The metal support is placed horizontally on a planar surface prepared on the tibia using the RIO system, supported by the tibial cortical rim, rather than fitted into a pocket of the tibia. Some surgeons also prefer to utilize the tibial cortical rim support in all cases. In the first quarter of 2006, we received 510(k) marketing clearance for our tibial inlay knee implant system, and in the fourth quarter of 2007, we received 510(k) marketing clearance for our tibial onlay knee implant system and on our combined inlay and onlay system, branded as RESTORIS. Our classic RESTORIS onlay unicompartmental knee implant system was approved for CE marking in January 2010.



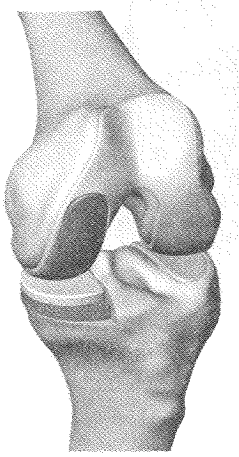
Inlay Implant



Onlay Implant



Post-operative Inlay Implant Placement

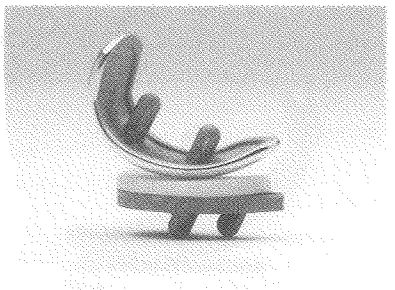


Post-operative Onlay Implant Placement

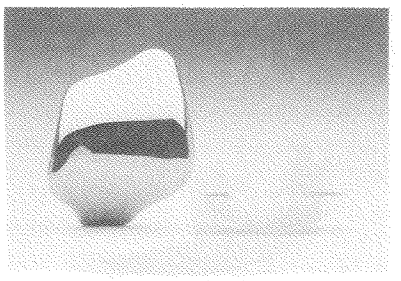
The RESTORIS MCK Multicompartmental Knee Implant System

The RESTORIS MCK multicompartmental knee implant system offers an implant geometry to support the tissue and bone sparing goals of MAKOplasty. Free from the limitations of manual instrumentation, RESTORIS MCK is designed to accurately mimic human anatomy, providing better coverage of diseased compartments while requiring less bone removal and tissue trauma than with traditional treatments.

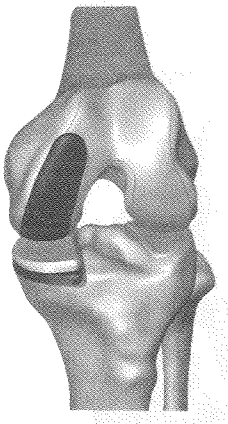
The RESTORIS MCK system enables surgeons to treat patients suffering from osteoarthritis in any single compartment of the knee joint: the medial (inner), lateral (outer), or patellofemoral (sub-kneecap). The RESTORIS MCK system also enables bicompartmental treatment of the patellofemoral compartment in combination with the medial compartment. Utilizing a modular, bicompartmental system, a surgeon can use the pre- and intra-operative planning software in the RIO system to produce a patient specific implant plan, the result of which is the retention of a greater portion of the knee anatomy than patients treated with a total knee arthroplasty procedure. Surgeons are able to offer inlay and onlay implants medial configurations for both their unicompartmental and bicompartmental procedures. The product offering of the RESTORIS MCK multicompartmental knee implant system also features a patellofemoral component (under the kneecap), which is inset into the knee compartment between the medial and lateral (outer) compartments. Additionally, the surgeon has an array of patella "buttons" to affix to the back of the kneecap to replace the worn surface. In the second quarter of 2008, we received a 510(k) marketing clearance for our novel unicompartmental knee implant and a 510(k) marketing clearance for our patellofemoral knee implant, predecessor components of our proprietary RESTORIS MCK multicompartmental knee implant system. In the fourth quarter of 2008, we received 510(k) marketing clearance from the FDA for our RESTORIS MCK system. The CE marking certification process for the RESTORIS MCK onlay unicompartmental knee implant system is currently ongoing, with approval anticipated in 2010.



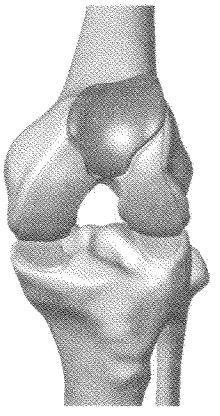
RESTORIS MCK Unicondylar Onlay Implant



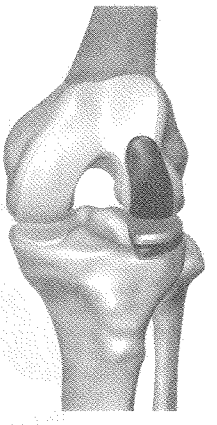
RESTORIS MCK Patellofemoral Implant and Patella Dome



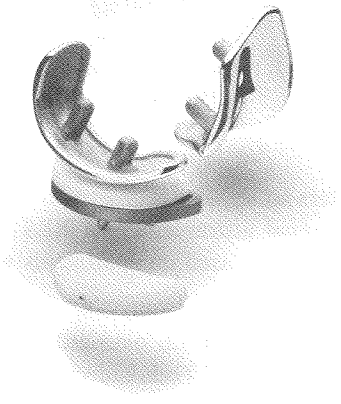
RESTORIS MCK Unicondylar Onlay Implant Placement



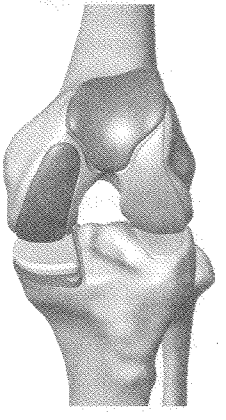
RESTORIS MCK Patellofemoral Implant Placement



RESTORIS MCK Lateral Implant Placement



RESTORIS MCK Bicompartmental Implant



RESTORIS MCK Bicompartmental Implant Placement

Disposable Products

The RIO system utilizes disposable products such as bone pins and the spheres on the arrays used in our tracking system, irrigation clips and tubes that cool the cutting instruments, drapes to cover the robotic arm and other items that require disposal after each use. Disposables are not only a potential source of recurring revenue, but also an opportunity to differentiate our product platform from those of less comprehensive solutions offered by competitors.

Potential Future Applications

Hip MAKOplasty

We believe that the RIO system has the potential to add clinical and economic value in arthoplasty procedures in the hip joint, and we have directed resources to research and development activities in this area.

Market for Osteoarthritis of the Hip. Similar to the knee joint, osteoarthritis of the hip typically begins with degeneration of the hip joint caused by a local tear in the soft tissue surrounding the acetabulum (hip socket) of the hip or an excessive load on the cartilage caused by impingement conditions between the femur and the acetabulum. The progression of osteoarthritis of the hip can take years, but even in the early stages, it can result in substantial pain for the patient and a reduction in the quality of life. According to iData Data Research, Inc., the total hip replacement market in the U.S. in 2010 is estimated to be greater than 360,000 procedures.

Current Treatment Options for Osteoarthritis of the Hip. The current treatments available for osteoarthritis in the hip joint consist of early intervention, sports medicine procedures to treat soft tissue damage as well as more invasive procedures to treat impingement conditions. Conventional treatment for the replacement of the joint consists of a partial hip replacement where only one side of the joint is replaced (normally utilized for hip fractures), hip resurfacing, which is primarily indicated for male patients under the age of 65, and in late stage conditions, total hip arthroplasty. Total hip arthroplasty is a highly invasive surgical procedure in which a patient's diseased hip joint is removed and replaced with a manufactured replacement hip joint comprised of several components that attempt to mimic the normal function of the hip joint. The procedure requires a large incision ranging from 6 to 12 inches, which often results in significant pain and an extended recovery time. Unlike the knee joint, the hip joint is covered with significant muscle and fat tissue, preventing direct access to the joint without a large incision.

The traditional total hip replacement implant consists of three main components:

- a metal cup and a plastic liner that together replace the acetabulum;
- a metal stem inserted into the femoral canal that replaces the femoral neck; and
- a highly polished metal ball that attaches onto the metal stem and replaces the femoral head.

Despite its history as an established and effective orthopedic procedure, we believe that are several limitations of traditional total hip arthroplasty including malalignment of implant components, dislocation, differences in leg length, implant loosening, femoro-acetabular impingement and the eventual need for implant replacement or revision.

Dislocation, where the ball comes completely out of the replacement cup, is the most common reason for revision total hip surgery. According to The Journal of Bone and Joint Surgery, the national average for dislocation of the hip joint within six months of the primary hip replacement procedure is approximately four percent, or approximately 14,000 procedures, annually.

The current methodologies for measuring a patient's leg length can result in a discrepancy in the length of a patient's legs. Clinical studies show that leg length discrepancies may result in back pain, increased risk of nerve injury, dislocation, poor patient satisfaction, and the need for revision surgery. According to a study published in Physiotherapy, a leg length discrepancy of ten millimeters or more is associated with a significantly poorer outcome in terms of the clinical benefits of surgery as well as more than twice the incidence of limping than patients with a leg length discrepancy of ten millimeters or less. One methodology currently used by surgeons to measure leg length involves using a ruler to measure anatomical landmarks on the hip before surgery to assess the patient's preoperative leg length and then measuring the leg length with the implants in place following surgery to assess the change in the patient's leg length. Another popular methodology used by surgeons requires the surgeon to line the patient's legs up on the operating room table to assess the leg length before surgery and then to do the same thing with the hip implants in place after surgery. This method requires the legs to be in the exact same position at the time of both measurements and uses only the surgeon's eyes and sense of touch to assess the change in leg length. We believe that limitations exist with respect to both of these methodologies.

The MAKOplasty Solution. In February 2010, we received 510(k) marketing clearance from the FDA for an application that assists a surgeon in performing all components of a total hip arthroplasty using the RIO system. We believe a hip MAKOplasty application has the potential to provide a surgeon with the same consistently reproducible precision, accuracy, and dexterity as our knee MAKOplasty solution. The hip application would allow the surgeon to

preoperatively plan the placement of the hip implants on a three dimensional image CT scan. The RIO system's robotic arm would then assist the surgeon in preparing the bone accurately to the surgical plan as well as in the positioning of the hip implant, as opposed to the current method of implant placement which involves the use of mechanical jigs and visual alignment by the surgeon, which we believe may potentially decrease the likelihood and severity of leg length discrepancy.

In the same way that the cutting system of the RIO robotic arm allows for the precise resection of bone in the knee joint, we believe that surgeons will use the robotic arm to accurately prepare the patient's acetabulum for the metal cup. During the insertion of the final implant, the robotic arm will help the surgeon position the cup at the orientation that was planned by the surgeon on the preoperative CT scan. A study at Massachusetts General Hospital, which was presented at the 39th Annual Course, Advances in Arthoplasty in October 2009, found that sixty percent of the acetabular cups placed by the surgeons in the study using commonly used mechanical jigs were placed outside of the optimal zone for avoiding post-operative dislocation. We believe that a hip MAKOplasty application would provide the surgeon with an accurate preoperative surgical plan, knowledge of the patient's position on the operating room table and accurate implant sizing. This information would allow the surgeon to seat the implants to a final placement following the plan at a level of accuracy that we believe is extremely difficult to accomplish manually, resulting in placement of the implants in the best position to resist dislocation.

We are currently researching our hip MAKOplasty application and we anticipate that our pre-commercialization research and development efforts will continue through at least 2010.

Other Potential Applications

We believe that with further research and development, our robotic arm technology has the potential to serve as a platform technology with applications in other areas of the body, such as the shoulder and spine, and we are currently conducting initial research and development to test the viability of MAKOplasty outside of the knee and hip. Should we elect to commercialize additional potential applications of MAKOplasty outside of the knee and hip, we would seek the appropriate marketing clearance from the FDA and any other required regulatory approvals for such applications.

SALES AND MARKETING

We continue to expand the size of our sales and marketing organization, which is comprised of a direct sales force to sell RIO systems and to commercialize and market MAKOplasty in the U.S. and independent orthopedic product agents and distributors, who primarily generate RIO system sales leads for us. As of March 1, 2010, our sales and marketing group had a total of 79 employees, including 49 direct sales representatives, who are responsible for sales and marketing activity throughout the U.S and 2 global market and sales development employees, who are responsible for defining and executing our global commercialization strategy. We intend to continue to increase the number of sales and marketing personnel as we expand our business. We are currently developing a global market strategy and we believe that our entry into global markets may include the use of independent distributors to market, sell, and support our products.

A portion of our customers acquire our RIO system through a leasing arrangement with a third-party leasing company. In these instances, we typically sell the RIO system to the leasing company, and our customer enters into an independent leasing arrangement with the leasing company. We treat these leasing transactions the same as sales transactions for purposes of recognizing revenue for the sale.

Our sales and marketing goals are to continue to drive capital equipment sales of the RIO system and generate recurring revenue through sales of implants, disposable products and service contracts. To achieve these goals, we must continue to promote adoption of knee MAKOplasty by leading surgeons and hospitals and build demand for the procedure among patients through the following sales and marketing strategy:

- *Target High Volume Orthopedic Facilities.* Our sales representatives actively target hospitals with strong orthopedic reputations and significant knee replacement and resurfacing practices. We believe that adoption by such leading hospitals helps us to seed the market for MAKOplasty and provides the validation and visibility necessary for more widespread adoption.

- *Target Facilities with a Strong Strategic Commitment to Grow an Orthopedic Surgery Service Line.* Our sales representatives actively target hospitals that have demonstrated a commitment to expand their orthopedic surgery service line. We believe that these hospitals will benefit from the growth in service associated with treating a large number of patients who, given only conventional surgical alternatives, would have delayed surgery or opted for no surgery at all.
- *Establish and Promote MAKOplasty Centers of Excellence.* The MAKOplasty Center of Excellence is a joint marketing program that we promote in collaboration with participating hospitals to educate surgeons and patients regarding the benefits of MAKOplasty and to coordinate our public relations strategy. As part of the program, hospitals agree to maintain and provide us with certain clinical and financial data that we use in support of our business case for the MAKOplasty solution. As of December 31, 2009, we entered into 32 co-marketing agreements with hospitals to establish MAKOplasty Centers of Excellence.
- *Drive Patient Demand for MAKOplasty.* During 2009, we continued our marketing efforts to directly educate patients on the benefits of MAKOplasty. We believe that patients are becoming increasingly more involved in the healthcare decision making process and have the potential to influence the adoption of new procedures such as MAKOplasty. Currently, our representatives primarily support hospitals participating in the MAKOplasty Center of Excellence program in their efforts to publicize the benefits of MAKOplasty and educate patients.

The generation of recurring revenue through sales of our implants, disposable products and service contracts is an important part of the MAKOplasty business model. We anticipate that recurring revenue will constitute an increasing percentage of our total revenue as we leverage each new installation of the RIO system to generate recurring sales of implants and disposable products. We have designed our products so that our RIO system only works with our implant products and we contractually require purchasers of the RIO system to use only our implants in connection with providing MAKOplasty. We also offer a four-year supplemental service contract that provides enhanced levels of maintenance and support services related to the RIO system beyond the basic warranty period.

We provide training to surgeons and hospital staff on the use of the RIO system. Each of our customers also receives pre-operative and intra-operative support from our on-site MAKOplasty Specialist, or MPS, who provides clinical and technical support in connection with each MAKOplasty procedure. The MPS helps set up the equipment, participates in the pre-operative planning process and is present in the operating room with the surgeon, facilitating the surgeon's use of the RIO system. By increasing familiarity with the system and helping to provide safe and proper usage of our equipment and products by surgeons and hospitals, we hope to promote seamless adoption of MAKOplasty. The presence of an MPS in the surgical theater also provides us with immediate feedback and understanding of our customers' product preferences and requirements in clinical conditions.

RESEARCH AND DEVELOPMENT

Continued innovation through research and development is critical to our future success. Most of our research and development activity is performed internally. As of March 1, 2010, our research and development team, which is based at our headquarters in Fort Lauderdale, Florida, consisted of 63 employees. We have assembled an experienced team with recognized expertise in advanced robotics, software, instrumentation and orthopedic implants. Although we do not currently have plans to increase the size of our research and development team significantly, we may do so in the future, depending on the progress of our ongoing research and development efforts.

Our research and development efforts are currently focused on improvements to our current knee MAKOplasty solution, including customized bone cutting instruments, alternative registration and tracking systems, and enhanced application workflow, improvements to the RIO system based on customer feedback, and our hip MAKOplasty application. By continually researching improvements to our knee MAKOplasty solution and RIO system, we hope to refine the operating room experience for the surgeon and staff and identify new areas to enhance patient clinical outcomes. We are also conducting advanced research on new robotic platforms as well as early stage development on additional applications for the RIO system and corresponding implant systems for the knee, hip, and other major joints.

In June 2009, we entered into a Research and Development License and Supply Agreement, or the R&D Agreement, associated with the potential future product for RIO enabled hip MAKOplasty procedures. The R&D Agreement required an up-front payment of $450,000, and requires future milestone payments based on development progress. The aggregate milestone payments we are obligated to pay under the R&D Agreement are $1.6 million

assuming the achievement of all development milestones. Through December 31, 2009, we had paid the $450,000 up-front payment and we had paid $550,000 of milestone payments which became due upon the achievement of the related milestones. The aggregate up-front payment and milestone payments of $2.0 million we are required to pay under the R&D Agreement will be recognized as research and development expense on a straight-line basis over the period development services are performed based on our current expectation that all development milestones will be achieved.

We have historically spent a significant portion of our capital resources on research and development. Our research and development expenses were $13.1 million in 2009, $12.5 million in 2008, and $8.3 million in 2007.

MANUFACTURING AND ASSEMBLY

The MAKOplasty solution includes both off-the-shelf and custom made components produced to our specifications by various third parties. We purchase major components of the RIO system, including the computer hardware, the camera used in connection with our tracking system, robotic controller components, high speed bone cutting instrumentation, the molded plastic and machined metal parts, and the various electro-mechanical components that support the RIO system from a number of third-party suppliers. We internally develop the software components and license certain software components that are generally available for commercial use as open source software. We then assemble and integrate these various hardware components with our proprietary software to complete each RIO system. By assembling the final product at our facility, we are able to perform stringent quality assurance inspection and testing on each RIO system to best control the quality of the final product prior to shipment. A portion of our Fort Lauderdale facility is presently dedicated to these warehousing, assembly, testing and inspection activities.

Other than our proprietary software, single source suppliers currently provide us with many of the major components of the RIO system, including the bone cutting instrument and stereo tracking camera. Our RESTORIS family of knee implant systems consists of implants that are custom made to our specifications by several outside manufacturers.

We generally purchase our components through purchase orders and do not have long-term contracts with most of our suppliers. We have, however, entered into long-term contractual arrangements with some of our suppliers, including several single source suppliers, and we are currently negotiating long-term contractual arrangements with many of our remaining suppliers. We also have provided blanket purchase orders and have entered into long-term pricing arrangements with certain suppliers who are not under a long-term contractual arrangement such as key suppliers of the critical components of our products and suppliers to whom we make significant payments for products and services.

By providing blanket purchase orders and entering into long-term contracts and pricing arrangements, we intend to develop and maintain buffer inventory levels at various points in our supply chain to minimize risk. In addition, we intend to achieve improvements in our manufacturing operations and in our cost of revenue by continuing to improve our procurement and third-party manufacturing processes. We have also continued to upgrade our management information systems and to implement enhanced quality assurance, inventory and cost controls to improve the efficiency of our manufacturing operations, maintain product quality, reduce our cost of sales and increase our profitability.

Our operations and those of the third-party suppliers and manufacturers we use are subject to extensive regulation by the FDA under its Quality System Regulations, or QSR, as well as numerous post-market requirements. Our operations and those of third-party suppliers and manufacturers will also be subject to international regulatory requirements as we expand our operations or business overseas. Our facility is FDA registered and we believe is compliant with the FDA's QSR. We have instituted a quality management system to evaluate and monitor compliance internally and by our third-party suppliers and manufacturers. Our facility and the facilities of the third-party suppliers and manufacturers we use are subject to periodic, announced and unannounced inspections by regulatory authorities, including the FDA and other governmental agencies. We were audited by the FDA in January 2009, during which we received certain inspectional observations. We have addressed the observations and submitted responses to the FDA on a voluntary basis. We received the establishment inspection report (EIR) from the FDA in August 2009. To date, our facilities have not been inspected by any other regulatory authorities. In November 2008, BSi, an independent global certification body, conducted an annual assessment of our quality management system, which concluded that our quality management system complied with the requirements of ISO13485:2003 in all material respects. In December 2009, we received a major nonconformance in our annual assessment by BSi. We implemented corrective actions and

in March 2010 the finding was officially closed by BSi. We expect that BSi will continue to conduct annual audits to assess our compliance with BSi certification standards.

INTELLECTUAL PROPERTY

We must develop, maintain and protect the proprietary aspects of our products and technologies to remain competitive in the marketplace. Our intellectual property portfolio includes rights to patents, patent applications and other intellectual property that we wholly own or license from others. We seek patent and other intellectual property protection in the U.S. and internationally for our products and technologies where available and when appropriate.

We also rely on other forms of intellectual property rights, including copyright, trademark, trade secrets and know-how, to develop, maintain and protect the proprietary aspects of our products and technologies. We require our employees and consultants to execute confidentiality agreements in connection with their employment or consulting relationships with us. We also require our employees and consultants to disclose and assign to us all inventions conceived during the term of their employment or engagement while using our property or which relate to our business.

Despite measures taken to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. In addition, our competitors may independently develop similar technologies. Although patents may provide some degree of protection for our intellectual property, patent protection involves complex legal and factual determinations and is therefore uncertain.

Wholly Owned Patents and Patent Applications

Prior to February 2010, our largest licensing arrangement was with Z-Kat, Inc., or Z-Kat, which was our predecessor company, and from whom we licensed or sublicensed core technologies in CAS, haptics and robotics. In connection with our formation in November 2004, we were granted an exclusive, irrevocable, non-terminable license or sublicense to all intellectual property owned or licensed by Z-Kat in the field of medical orthopedic surgery to the extent Z-Kat's licenses from third parties were exclusive. Our license from Z-Kat included a limited license to Z-Kat's CAS and haptic robotic intellectual property portfolio for exclusive use in the field of orthopedics, subject to a prior license to Biomet Manufacturing Corp. to use Z-Kat's CAS intellectual property, but not its haptic robotic intellectual property, in the field of orthopedics. Because of the prior license to Biomet and pursuant to our license with Z-Kat, we could not use the CAS intellectual property on a stand alone basis; we could only use the CAS intellectual property in combination with robotics technology. Z-Kat's license also granted to us the sole right to prosecute and maintain all Z-Kat patents and patent applications that are licensed to us. In 2006, we obtained the right to take enforcement action against all third parties with respect to any intellectual property rights held by Z-Kat in the field of orthopedics. We had granted back to Z-Kat a fully paid, royalty-free, nonexclusive sublicense to our intellectual property portfolio in all fields other than orthopedic surgery. Through these and other arrangements, we had rights to Z-Kat's wholly owned and third-party licensed intellectual property portfolio, which included a wide suite of intellectual property in the areas of haptic robotics and patient specific visualization.

In February 2010, we completed the acquisition of substantially all of the intellectual property portfolio of Z-Kat. The terms of the asset purchase agreement between us and Z-Kat terminated our prior licenses with Z-Kat, including Z-Kat's nonexclusive sublicense to our intellectual property portfolio, and transferred to us ownership rights to certain intellectual property assets for core technologies in CAS, haptics and robotics, including U.S. and foreign patents and patent applications, proprietary software and documentation, trade secrets and trademarks owned by Z-Kat, and certain contractual and other rights to licensed patents, patent applications and other intellectual property licensed to Z-Kat under licenses. We paid the purchase price in full at the time of closing by issuing 230,458 unregistered shares of our common stock to Z-Kat. In connection with the acquisition, we also entered into a new license agreement with Z-Kat pursuant to which we obtained an exclusive worldwide, fully transferable, perpetual, royalty-free and fully paid-up sublicense to certain intellectual property for technologies in CAS licensed by Z-Kat. This new license agreement expands our rights in this intellectual property from the field of orthopedics to the medical field generally. Certain of our rights under the asset purchase agreement and new license agreement remain subject to any prior license granted by Z-Kat, including the license from Z-Kat to Biomet Manufacturing Corp.

As of March 1, 2010, we held 6 wholly owned granted U.S. patents and 38 wholly owned pending U.S. patent applications. All of these patents and patent applications are either used in our current products or relate to core technologies used in our products, such as CAS, robotics, haptics and implants. The first of our currently pending patent applications was filed in March 2003 and should expire in March 2023, exclusive of any statutory extensions or reductions. As of March 1, 2010, we also held 13 wholly owned granted foreign patents and 80 wholly owned foreign patent applications. We are also continuing to pursue additional U.S. and foreign patent applications on key inventions to enhance our intellectual property portfolio.

Patents and Patent Applications Licensed from Third Parties

As of March 1, 2010, we had licensed rights to 114 U.S. and 40 foreign third-party granted patents, and we had licensed rights to 9 U.S. and 10 foreign third-party pending patent applications. The majority of these patents and applications are either used in our current products or relate to core technologies used in our products, such as CAS, robotics, haptics and implants. We also have rights to additional third-party patents and intellectual property that relate to our core technologies, but are not currently used in our products. Five of the licensed U.S. patents will expire by the end of 2010. One of these patents is considered material to our intellectual property portfolio because it deals with a core technology and potentially enables us to exclude others from practicing the claimed technology. The last licensed patent will expire in 2024.

License Arrangements with Third Parties

In September 2005, we entered into a license agreement pursuant to which we obtained an exclusive, worldwide license to patented technology relating to bone registration and tracking for use in the field of human interactive robotics in orthopedics and a nonexclusive license in the field of orthopedics generally. We paid a one time licensing fee that provides a fully paid, worldwide license for the life of the licensed patents.

In March 2006, we entered into a license agreement that covers a number of technologies related to the application of computers and robotics to surgery. Under the terms of this agreement, we have a nonexclusive, worldwide license to any of the licensor's patents and patent applications with effective filing dates prior to March 31, 2011 in the field of robotic devices primarily designed for surgery in the medical field of orthopedics and/or primarily designed for spinal surgery in the medical field of neurology. We are obligated to make royalty payments based on the sale of each robotic product covered by the licensor's patents. This license agreement will terminate upon the expiration of the last licensed patent.

In May 2006, we entered into a sublicense agreement which grants us nonexclusive rights in the field of CAS to a patent directed to core haptic technology. The sublicense also included an option to license or sublicense five additional patents, which we exercised in May 2007. We paid a one time sublicensing fee (and a one time option fee) that provides a fully paid, worldwide license for the life of the licensed patents.

In May 2009, we entered into a license agreement for patents relating to our RIO system, which we refer to as the robotic arm license. The robotic arm license requires minimum running royalties on sales of our RIO systems. The minimum running royalties are estimated to be approximately $600,000 for the year ended December 31, 2010, and increase annually thereafter through 2013. The minimum running royalties for the year ended December 31, 2013 and for each subsequent year through the term of the agreement are estimated to be approximately $1.3 million annually.

As noted above, in February 2010, we entered into a new license agreement with Z-Kat pursuant to which we obtained an exclusive worldwide, fully transferable, perpetual, royalty-free and fully paid-up sublicense to intellectual property for technologies in CAS in the medical field. This new license agreement expands our rights in this intellectual property from the field of orthopedics to the medical field generally but remains subject to any prior license, including the license to Biomet Manufacturing Corp., an affiliate of Biomet, Inc.

COMPETITION

Our success depends on convincing hospitals, surgeons and patients to utilize our robotic arm technology to perform unicompartmental and bicompartmental resurfacing of the knee. We face competition from large, well-known companies, principally Biomet, Inc., DePuy Orthopedics, Inc., a Johnson & Johnson company, Stryker Corporation, and Zimmer Holdings, Inc., that dominate the market for orthopedic products. Each of these companies, as well as other companies like Smith & Nephew, Inc., which introduced the non-modular Journey Deuce Bi-Compartmental Knee System in July 2007, offers conventional instruments and implants for use in conventional total and partial knee

replacement surgeries as well as unicompartmental resurfacings procedures, which may compete with our MAKOplasty solution and negatively impact sales of our RIO system. A number of these and other companies also offer CAS systems for use in arthroplasty procedures that provide a minimally invasive means of viewing the anatomical site. In addition, Biomet has a license from Z-Kat and us to intellectual property rights in computer assisted surgery, or CAS intellectual property, for use in the field of orthopedics. The license is non-exclusive with respect to use of CAS intellectual property in combination with robotics technology and exclusive with respect to all other uses within the field of orthopedics, which could enable them to compete with us.

Currently, we are not aware of any well-known orthopedic companies that broadly offer robotics technology in combination with CAS. These large, well-known orthopedic companies, however, have the ability to acquire and develop robotics technology that may compete with our products. We are aware of certain early stage companies developing robotic applications in orthopedics and others commercializing customized implants and instruments for early and mid-stage arthroplasty solutions. For example, CUREXO Technology Corporation has engaged in marketing in the United States of its ROBODOC® Surgical System, which received 510(k) marketing clearance from the FDA in August 2008 for total hip arthroplasty procedures.

We also face competition from other medical device companies that may seek to extend robotics technology and minimally invasive approaches and products that they have developed for use in other parts of the human anatomy to minimally invasive arthroplasty of the knee. Even if these companies currently do not have an established presence in the field of minimally invasive surgery for the knee, they may attempt to apply their robotics technology to the field of knee replacement and resurfacing procedures to compete directly with us.

Even if our RIO system is commercially successful and becomes a market leader in the field of orthopedics with robotic arm technology, our implant products may face substantial competition from implants offered by the well-known companies currently in the market for orthopedic products. We have designed our products so that our RIO system only works with our implant products. We also contractually require purchasers of our RIO system to use only our implants in connection with MAKOplasty procedures. We cannot guarantee, however, that these measures will be effective or that our customers will agree to such contracts in the future. Accordingly, if use of the RIO system becomes more prevalent, competitors may attempt to market their implant products for use with the RIO system and compete directly with our implant products.

We believe that the principal competitive factors in our market include:

- the safety and efficacy of the procedure and product offerings, as documented through published studies and other clinical reports;
- product benefits, including the ability to offer orthopedic surgeons a complete solution for minimally invasive orthopedic knee procedures;
- the strength of acceptance and adoption by orthopedic surgeons and hospitals;
- the ability to deliver new product offerings and enhanced technology to expand or improve upon existing applications through continued research and development;
- the quality of training, services and clinical support provided to surgeons and hospitals;
- the cost of product offerings and the availability of product coverage and reimbursement from third-party payors, insurance companies and others parties;
- the ability to provide proprietary products protected by strong intellectual property rights; and
- the ability to offer products that are intuitive and easy to learn and use.

Many of our competitors have significantly greater financial, human and other resources than we do, and have established relationships with healthcare professionals, customers and third-party payors. In addition, many of our competitors have established sales networks, greater resources for product development, additional lines of products and the ability to offer financial incentives such as rebates, bundled products or discounts on other product lines that we cannot provide. Our products could also be rendered obsolete or uneconomical by technological advances developed by one or more of our competitors. These competitive factors may negatively affect our ability to convince individuals to utilize our RIO system and implant products and result in our inability to acquire technology, products and businesses from third parties to develop our current and planned versions of the RIO system and related products.

REGULATORY REQUIREMENTS OF THE U.S. FOOD AND DRUG ADMINISTRATION

Our research, development and clinical programs, as well as our manufacturing and marketing operations, are subject to extensive regulation in the U.S. and other countries. Most notably, all of our products sold in the U.S. are subject to regulation as medical devices under the Federal Food, Drug, and Cosmetic Act, or the FDCA, as implemented and enforced by the FDA. The FDA governs the following activities that we perform or that are performed on our behalf, to ensure that medical products we manufacture, promote and distribute domestically or export internationally are safe and effective for their intended uses:

- product design, preclinical and clinical development and manufacture;
- product premarket clearance and approval;
- product safety, testing, labeling and storage;
- record keeping procedures;
- product marketing, sales and distribution; and
- post-marketing surveillance, complaint handling, medical device reporting, reporting of deaths, serious injuries or device malfunctions and repair or recall of products.

FDA Premarket Clearance and Approval Requirements

Unless an exemption applies, each medical device we wish to commercially distribute in the U.S. will require either premarket notification, or 510(k), clearance or approval of a premarket approval application, or PMA, from the FDA. The FDA classifies medical devices into one of three classes. Class I devices, considered to have the lowest risk, are those for which safety and effectiveness can be assured by adherence to the FDA's general regulatory controls for medical devices, which include compliance with the applicable portions of the FDA's QSR, facility registration and product listing, reporting of adverse medical events, and appropriate, truthful and non-misleading labeling, advertising, and promotional materials (General Controls). Class II devices are subject to the FDA's General Controls, and any other special controls as deemed necessary by the FDA to ensure the safety and effectiveness of the device (Special Controls). Manufacturers of most class II and some class I devices are required to submit to the FDA a premarket notification under Section 510(k) of the FDCA requesting permission to commercially distribute the device. This process is generally known as 510(k) marketing clearance. Devices deemed by the FDA to pose the greatest risks, such as life sustaining, life supporting or implantable devices, or devices that have a new intended use, or use advanced technology that is not substantially equivalent to that of a legally marketed device, are placed in class III, requiring approval of a PMA.

510(k) Marketing Clearance Pathway

To obtain 510(k) marketing clearance, we must submit a premarket notification demonstrating that the proposed device is "substantially equivalent" to a legally marketed "predicate device" that is either in class I or class II, or to a class III device that was in commercial distribution before May 28, 1976 for which the FDA has not yet called for the submission of a PMA. A Special 510(k) is an abbreviated 510(k) application which can be used to obtain clearance for certain types of device modification such as modifications that do not affect the intended use of the device or alter the device's fundamental scientific technology. A Special 510(k) generally requires less information and data than a complete, or Traditional 510(k). In addition, a Special 510(k) application often takes a shorter period of time, which could be as short as 30 days, than a Traditional 510(k) marketing clearance application, which can be used for any type of 510(k) device. FDA's 510(k) marketing clearance pathway usually takes from three to twelve months, but may take significantly longer. The FDA may require additional information, including clinical data, to make a determination regarding substantial equivalence. There is no guarantee that the FDA will grant 510(k) marketing clearance for our future products and failure to obtain necessary clearances for our future products would adversely affect our ability to grow our business.

Medical devices can be marketed only for the indications for which they are cleared or approved. After a device receives 510(k) marketing clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a new or major change in its intended use, will require a new 510(k) marketing clearance or, depending on the modification, PMA approval. The FDA requires each manufacturer to determine whether the proposed change requires submission of a 510(k) or a PMA, but the FDA can review any such decision and can

disagree with a manufacturer's determination. If the FDA disagrees with a manufacturer's determination, the FDA can require the manufacturer to cease marketing and/or recall the modified device until 510(k) marketing clearance or PMA approval is obtained. Also, in these circumstances, we may be subject to significant regulatory fines or penalties. We have made and plan to continue to make additional product enhancements to the RIO system and other products that we believe do not require new 510(k) marketing clearances. We cannot assure you that the FDA would agree with any of our decisions not to seek 510(k) marketing clearance or PMA approval.

Certain of our currently marketed products, such as our RIO system, are class II devices marketed pursuant to 510(k) marketing clearances. In January 2008, we obtained 510(k) marketing clearance from the FDA for version 1.2 of our TGS. We originally submitted a Special 510(k) application in September 2007, which the FDA subsequently indicated was converted to a Traditional 510(k) application. On November 1, 2007, the FDA provided us with a letter requesting additional information in which the FDA, among other things, asked us to justify our proposed use of the terms "haptic" and "robot" in the labeling of version 1.2 of our TGS. Through subsequent correspondence and communications, the FDA indicated that we needed to use the term "tactile" in lieu of "haptic" and the term "robotic arm" in lieu of "robotic," as appropriate, when these terms are used to market our products and in order to obtain timely clearance of our 510(k) submission. The FDA granted 510(k) marketing clearance for version 1.2 of our TGS with those terms. See Item 1A, Risk Factors, "Risks Related to Our Business — We are currently required by the FDA to refrain from using certain terms to label and market our products, which could harm our ability to market and commercialize our current and future products."

Version 1.3 of our TGS did not require submission of a 510(k) application. We received 510(k) marketing clearance from the FDA for the RIO system in the fourth quarter of 2008. Versions 2.1 and 2.2 of the RIO System did not require submission of a 510(k) application.

In June 2009, we received 510(k) marketing clearance from the FDA for an application that assists a surgeon in acetabular reaming during total hip arthroplasty using the TGS platform. In September 2009, we received 510(k) marketing clearance for the same application using the RIO system. In February 2010, we received 510(k) marketing clearance for an application that assists a surgeon in performing all components of a total hip arthroplasty using the RIO system.

PMA Approval Pathway

A PMA must be submitted to the FDA if the device cannot be cleared through the 510(k) process or is not otherwise exempt from the FDA's premarket clearance and approval requirements. A PMA must generally be supported by extensive data, including, but not limited to, technical, preclinical, clinical trials, manufacturing and labeling, to demonstrate to the FDA's satisfaction the safety and effectiveness of the device for its intended use. No device that we have marketed to date has required premarket approval. During the review period, the FDA will typically request additional information or clarification of the information already provided. Also, an advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA as to the approvability of the device. The FDA may or may not accept the panel's recommendation. In addition, the FDA will generally conduct a pre-approval inspection of our or our third-party manufacturers' or suppliers' manufacturing facility or facilities to ensure compliance with the QSR.

New PMAs or PMA supplements are required for modifications that affect the safety or effectiveness of the device, including, for example, certain types of modifications to the device's indication for use, manufacturing process, labeling and design. PMA supplements often require submission of the same type of information as a PMA, except that the supplement is limited to information needed to support any changes from the device covered by the original PMA and may not require as extensive clinical data or the convening of an advisory panel. None of our products is currently approved under a PMA approval. However, we may in the future develop devices which will require the approval of a PMA. There is no guarantee that the FDA will grant PMA approval of our future products and failure to obtain necessary approvals for our future products would adversely affect our ability to grow our business.

Clinical Trials

Clinical trials are generally required to support a PMA application and are sometimes required for 510(k) marketing clearance. Such trials generally require an investigational device exemption application, or IDE, approved in advance by the FDA for a specified number of patients and study sites, unless the product is deemed a non-significant risk device eligible for more abbreviated IDE requirements. A significant risk device is one that presents a potential for

serious risk to the health, safety or welfare of a patient and either is implanted, used in supporting or sustaining human life, substantially important in diagnosing, curing, mitigating or treating disease or otherwise preventing impairment of human health, or otherwise presents a potential for serious risk to a subject. Clinical trials are subject to extensive monitoring, recordkeeping and reporting requirements. Clinical trials must be conducted under the oversight of an institutional review board, or IRB, for the relevant clinical trial sites and must comply with FDA regulations, including but not limited to those relating to good clinical practices. To conduct a clinical trial, we also are required to obtain the patient's informed consent in form and substance that complies with both FDA requirements and state and federal privacy and human subject protection regulations. We, the FDA or the IRB could suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the anticipated benefits. Even if a trial is completed, the results of clinical testing may not adequately demonstrate the safety and efficacy of the device or may otherwise not be sufficient to obtain FDA clearance or approval to market the product in the U.S. Similarly, in Europe the clinical study must be approved by a local ethics committee and in some cases, including studies with high-risk devices, by the ministry of health in the applicable country.

Post-Market Studies

To date, none of our submissions to the FDA has required the submission of clinical data and all of our studies to date have been post-market studies. As of March 1, 2010, we have 39 studies either recently completed or in progress. The studies, many of which are being conducted pursuant to IRB approval, range from cadaveric biomechanics studies to retrospective chart and radiographic reviews to prospective functional comparison studies to basic science histology studies. The results of these studies have been presented internationally as peer-reviewed presentations at conferences in the United States and abroad. One MAKOplasty surgical technique book chapter and 15 peer-reviewed manuscripts on the technology and early clinical results have been published as of March 1, 2010.

Pervasive and Continuing Regulation

After a device is placed on the market, numerous regulatory requirements continue to apply. In addition to the requirements below, the Medical Device Reporting, or MDR, regulations require that we report to the FDA any incident in which our products may have caused or contributed to a death or serious injury or in which our product malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury. See Item 1A, Risk Factors, "Risks Related to Regulatory Compliance," for further information regarding our reporting obligations under MDR regulations. Additional regulatory requirements include:

- product listing and establishment registration, which helps facilitate FDA inspections and other regulatory action;
- QSR, which requires manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the design and manufacturing process;
- labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label use or indication;
- clearance of product modifications that could significantly affect safety or efficacy or that would constitute a major change in intended use of one of our cleared devices;
- approval of product modifications that affect the safety or effectiveness of one of our approved devices;
- post-approval restrictions or conditions, including post-approval study commitments;
- post-market surveillance regulations, which apply, when necessary, to protect the public health or to provide additional safety and effectiveness data for the device;
- the FDA's recall authority, whereby it can ask, or under certain conditions order, device manufacturers to recall from the market a product that is in violation of governing laws and regulations; and
- notices of corrections or removals.

We must also register with the FDA as a medical device manufacturer and must obtain all necessary state permits or licenses to operate our business. As a manufacturer, we are subject to announced and unannounced inspections by the FDA to determine our compliance with FDA's QSR and other regulations. We were audited by the FDA in January 2009 and received the establishment inspection report (EIR) from the FDA in August 2009. Failure to comply with applicable regulatory requirements can result in enforcement action by the FDA, which may include any of the following sanctions:

- untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- customer notifications or repair, replacement, refunds, recall, detention or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying requests for 510(k) marketing clearance or PMA approvals of new products or modified products;
- withdrawing 510(k) marketing clearances or PMA approvals that have already been granted;
- refusal to grant export approval for our products; or
- criminal prosecution.

International Marketing Approvals

International sales of medical devices are subject to foreign government regulations, which vary substantially from country to country. The time required to obtain approval by a foreign country may be longer or shorter than that required for FDA clearance or approval, and the requirements may differ.

The European Union has adopted numerous directives and standards regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Each European Union member state has implemented legislation applying these directives and standards at the national level. Other countries, such as Switzerland, have voluntarily adopted laws and regulations that mirror those of the European Union with respect to medical devices. Devices that comply with the requirements of the laws of the relevant member state applying the applicable European Union directive are entitled to bear CE conformity marking and, accordingly, can be commercially distributed throughout the member states of the European Union and other countries that comply with or mirror these directives. The method of assessing conformity varies depending on the type and class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a "Notified Body," an independent and neutral institution appointed to conduct conformity assessment. This third-party assessment consists of an audit of the manufacturer's quality system and clinical information, as well as technical review of the manufacturer's product. An assessment by a Notified Body in one country within the European Union is required in order for a manufacturer to commercially distribute the product throughout the European Union. In addition, compliance with ISO 13845 on quality systems issued by the International Organization for Standards, among other standards, establishes the presumption of conformity with the essential requirements for a CE marking. In addition, many countries apply requirements in their reimbursement, pricing or health care systems that affect companies' ability to market products. The RIO System and our classic RESTORIS onlay unicompartmental knee implant system were approved for CE marking in December 2009 and January 2010, respectively. The CE marking certification process for the RESTORIS MCK onlay unicompartmental knee implant system is currently ongoing, with approval anticipated in 2010.

HEALTH CARE LAWS AND REGULATIONS

Third-Party Reimbursement

In the U.S. and elsewhere, health care providers that perform surgical procedures using medical devices such as ours generally rely on third-party payors, including governmental payors such as Medicare and Medicaid and private payors, to cover and reimburse all or part of the cost of the products. Consequently, sales of medical devices are dependent in part on the availability of reimbursement to the customer from third-party payors. The manner in which reimbursement is sought and obtained varies based upon the type of payor involved and the setting in which the product is furnished and utilized. In general, third-party payors will provide coverage and reimbursement for medically reasonable and necessary procedures and tests that utilize medical devices and may provide separate payments for the implanted or disposable devices themselves. Most payors, however, will not pay separately for capital equipment, such

as the RIO system. Instead, payment for the cost of using the capital equipment is considered to be covered as part of payments received for performing the procedure. In determining payment rates, third-party payors are increasingly scrutinizing the prices charged for medical products and services in comparison to other therapies. Our products, and the procedures in which our products are used, may not be reimbursed by these third-party payors at rates sufficient to allow us to sell our products on a competitive and profitable basis.

In addition, in many foreign markets, including the countries in the European Union, pricing of medical devices is subject to governmental control. In the U.S., there have been, and we expect that there will continue to be, a number of federal and state proposals to limit payments by governmental payors for medical devices, and the procedures in which medical devices are used. While we cannot predict whether such legislative or regulatory proposals will be adopted, the adoption of such proposals could have a material adverse effect on our business, financial condition and profitability.

Medicare and Medicaid

The Medicare program is a federal health benefit program administered by the Centers for Medicare and Medicaid Services, or CMS, that covers and pays for certain medical care items and services for eligible elderly, blind and disabled individuals, and individuals with end stage renal disease. The Medicaid program is a federal-state partnership under which states receive matching federal payments to fund healthcare services for the poor. Because we expect that a significant percentage of MAKOplasty patients will be Medicare beneficiaries, and because some private commercial health insurers and some state Medicaid programs may follow the coverage and payment policies for Medicare, Medicare's coverage and payment policies are significant to our business.

Medicare coverage for procedures using our technology currently exists in the hospital inpatient setting, which falls under Part A of the Medicare program. Under Medicare Part A, Medicare reimburses acute care hospitals a flat prospectively determined payment amount for beneficiaries receiving covered inpatient services in an acute care hospital. This method of payment is known as the prospective payment system, or PPS. Under PPS, the prospective payment for a patient's stay in an acute care hospital is determined by the patient's condition and other patient data and procedures performed during the inpatient stay using a classification system known as diagnosis related groups, or DRGs. As of October 1, 2007, CMS implemented a revised version of the DRG system that uses 745 Medicare Severity DRGs, or MS-DRGs, instead of the approximately 540 DRGs Medicare previously used. The MS-DRGs are intended to account more accurately for the patient's severity of illness when assigning each patient's stay to a payment classification. Medicare pays a fixed amount to the hospital based on the MS-DRG into which the patient's stay is classified, regardless of the actual cost to the hospital of furnishing the procedures, items and services that the patient's condition requires. Accordingly, acute care hospitals generally do not receive direct Medicare reimbursement under PPS for the specific costs incurred in purchasing medical devices. Rather, reimbursement for these costs is deemed to be included within the MS-DRG based payments made to hospitals for the services furnished to Medicare eligible inpatients in which the devices are utilized. For cases involving unusually high costs, a hospital may receive additional "outlier" payments above the pre-determined amount. In addition, there is a mechanism by which new technology services can apply to Medicare for additional payments above the pre-determined amount, although such requests have not been granted frequently.

Because PPS payments are based on predetermined rates and may be less than a hospital's actual costs in furnishing care, acute care hospitals have incentives to lower their inpatient operating costs by utilizing products, devices and supplies that will reduce the length of inpatient stays, decrease labor or otherwise lower their costs. For each MS-DRG, a relative weight is calculated representing the average resources required to care for cases grouped in that particular MS-DRG relative to the average resources used to treat cases in all MS-DRGs. MS-DRG relative weights are recalculated every year to reflect changes in technology and medical practice in a budget neutral manner. Under the MS-DRG payment system, there can be significant delays in obtaining adequate reimbursement amounts for hospitals for new technologies such that reimbursement may be insufficient to permit broad acceptance by hospitals.

We believe that there are existing reimbursement codes that can be used for MAKOplasty procedures performed in the hospital inpatient setting. Procedures for hospital inpatient billing are referenced by international classifications of diseases, clinical modification, or ICD-9-CM, volume 3 procedure codes. Knee arthroplasty is billed under ICD-9-CM code 81.54 ("Total Knee Replacement"), which is assigned to MS-DRG 469 ("Major Joint Replacement or Reattachment of Lower Extremity with Complication or Comorbidity") and MS-DRG 470 ("Major Joint Replacement or Reattachment of Lower Extremity without Major Complication or Comorbidity"). We anticipate that Medicare will

continue to reimburse hospitals under MS-DRGs 469 and 470 for MAKOplasty procedures, but CMS can revise MS-DRG assignments from year to year.

In addition to payments to hospitals for procedures using our technology, Medicare makes separate payments to physicians for their professional services. The American Medical Association, or AMA, has developed a coding system known as the Current Procedural Terminology, or CPT, codes, which have been adopted by the Medicare program to describe and develop payment amounts for certain physician services. The Medicare physician fee schedule uses CPT codes (and other codes) as part of the determination of allowable payment amounts to physicians. In determining appropriate payment amounts for surgeons, CMS receives guidance from the AMA regarding the relative technical skill level, level of resources used, and complexity of a new surgical procedure. Generally, the FDA approval of a new product is necessary, but not necessarily sufficient, for the designation of a new procedure code for a new surgical procedure using that product. Codes are assigned by either the AMA (for CPT codes) or CMS (for Medicare specific codes) and new codes usually become effective on January 1st of each year. Physicians performing procedures using our technology submit bills under CPT codes 27446 ("Arthroplasty, knee, condyle and plateau; medial OR lateral compartment"), 27447 ("Arthoplasty, knee, condyle and plateau, medical and lateral with or without patella resurfacing"), and 27438 ("Arthoplasty, patella with prosthesis"). We cannot anticipate whether third-party payors will continue to reimburse physicians under these codes for services performed in connection with MAKOplasty procedures.

Commercial Insurers

In addition to the Medicare program, many private payors look to CMS policies as a guideline in setting their coverage policies and payment amounts. The current coverage policies of these private payors may differ from the Medicare program, and the payment rates they make may be higher, lower, or the same as the Medicare program. A decrease of, or limitation on, reimbursement payments for doctors and hospitals by CMS or other agencies may affect coverage and reimbursement determinations by many private payors. Additionally, some private payors do not follow the Medicare guidelines, and those payors may reimburse only a portion of the costs associated with the use of our products, or not at all.

Fraud and Abuse Laws

Because of the significant federal funding involved in Medicare and Medicaid, Congress and the states have enacted, and actively enforce, a number of laws whose purpose is to eliminate fraud and abuse in federal health care programs. Our business is subject to compliance with these laws.

Anti-Kickback Statutes and Federal False Claims Act

The federal healthcare programs' Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing or arranging for a good or service, for which payment may be made under a federal healthcare program such as Medicare or Medicaid. The definition of "remuneration" has been broadly interpreted to include anything of value, including for example gifts, certain discounts, the furnishing of free supplies, equipment or services, credit arrangements, payments of cash and waivers of payments. Several courts have interpreted the statute's intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals of federal healthcare covered business, the statute has been violated. Penalties for violations include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs. In addition, some kickback allegations have been claimed to violate the Federal False Claims Act, discussed in more detail below.

The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Recognizing that the Anti-Kickback Statute is broad and may technically prohibit many innocuous or beneficial arrangements, Congress authorized the Office of Inspector General of the U.S. Department of Health and Human Services, or OIG, to issue a series of regulations, known as "safe harbors." These safe harbors, issued by the OIG beginning in July 1991, set forth provisions that, if all their applicable requirements are met, will assure healthcare providers and other parties that they will not be prosecuted under the Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy each applicable safe harbor may result in increased scrutiny by government enforcement authorities such as the OIG.

Many states have adopted laws similar to the Anti-Kickback Statute. Some of these state prohibitions apply to referral of patients for healthcare items or services reimbursed by any source, not only the Medicare and Medicaid programs.

Government officials have focused their enforcement efforts on marketing of healthcare services and products, among other activities, and recently have brought cases against companies, and certain sales, marketing and executive personnel, for allegedly offering unlawful inducements to potential or existing customers in an attempt to procure their business.

Another development affecting the healthcare industry is the increased use of the federal Civil False Claims Act and, in particular, actions brought pursuant to the False Claims Act's "whistleblower" or "qui tam" provisions. The False Claims Act imposes liability on any person or entity that, among other things, knowingly presents, or causes to be presented, a false or fraudulent claim for payment by a federal healthcare program. The qui tam provisions of the False Claims Act allow a private individual to bring actions on behalf of the federal government alleging that the defendant has submitted a false claim to the federal government, and to share in any monetary recovery. In recent years, the number of suits brought against healthcare providers by private individuals has increased dramatically. In addition, various states have enacted false claim laws analogous to the Civil False Claims Act, although many of these state laws apply where a claim is submitted to any third-party payor and not merely a federal healthcare program.

When an entity is determined to have violated the False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties of between $5,500 to $11,000 for each separate false claim. There are many potential bases for liability under the False Claims Act. Liability arises, primarily, when an entity knowingly submits, or causes another to submit, a false claim for reimbursement to the federal government. The False Claims Act has been used to assert liability on the basis of inadequate care, kickbacks and other improper referrals, and improper use of Medicare numbers when detailing the provider of services, in addition to the more predictable allegations as to misrepresentations with respect to the services rendered. In addition, companies have been prosecuted under the False Claims Act in connection with alleged off-label promotion of products. Our future activities relating to the reporting of wholesale or estimated retail prices for our products, the reporting of discount and rebate information and other information affecting federal, state and third-party reimbursement of our products, and the sale and marketing of our products, may be subject to scrutiny under these laws. We believe our current consulting agreements with physicians represent legitimate compensation for needed documented services actually furnished to us. However, engagement of physician consultants by orthopedic medical device manufacturers has recently been subject to heightened scrutiny, and has resulted in four of the major orthopedic medical device implant manufacturers entering deferred prosecution agreements with the federal government and agreeing to pay substantial amounts to the federal government in settlement of Anti-Kickback Statute allegations, and all such companies submitting to supervision by a court appointed monitor throughout the term of the 18 month agreements. In this environment, our engagement of physician consultants in product development and product training and education could subject us to similar scrutiny. We are unable to predict whether we would be subject to actions under the False Claims Act or a similar state law, or the impact of such actions. However, the costs of defending such claims, as well as any sanctions imposed, could have a material adverse effect on our financial performance.

As part of our internal compliance program, we review our sales and marketing materials, contracts and programs with counsel, and require employees and marketing representatives to participate in regular training. We also have adopted and train our personnel on the Code of Ethics for Interactions with Health Care Professionals promulgated by the Advanced Medical Technology Association, or AdvaMed, a leading trade association representing medical device manufacturers. However, we cannot rule out the possibility that the government or other third parties could interpret these laws differently and challenge one or more of our activities under these laws.

HIPAA and Other Fraud and Privacy Regulations

Among other things, the Health Insurance Portability and Accountability Act of 1996, or HIPAA, created two new federal crimes: healthcare fraud and false statements relating to healthcare matters. The HIPAA health care fraud statute prohibits, among other things, knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program, including private payors. A violation of this statute is a felony and may result in fines, imprisonment and/or exclusion from government sponsored programs. The HIPAA false statements statute prohibits, among other things, knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement or representation in connection with the delivery of or payment for

healthcare benefits, items or services. A violation of this statute is a felony and may result in fines and/or imprisonment.

In addition to creating the two new federal healthcare crimes, regulations implementing HIPAA also establish uniform standards governing the conduct of certain electronic healthcare transactions and protecting the security and privacy of individually identifiable health information maintained or transmitted by healthcare providers, health plans and healthcare clearinghouses, which are referred to as "covered entities." Three standards have been promulgated under HIPAA's regulations: the Standards for Privacy of Individually Identifiable Health Information, which restrict the use and disclosure of certain individually identifiable health information, the Standards for Electronic Transactions, which establish standards for common healthcare transactions, such as claims information, plan eligibility, payment information and the use of electronic signatures, and the Security Standards, which require covered entities to implement and maintain certain security measures to safeguard certain electronic health information.

In 2009, Congress passed the American Recovery and Reinvestment Act of 2009, or ARRA, which included sweeping changes to HIPAA, including an expansion of HIPAA's privacy and security standards. ARRA includes the Health Information Technology for Economic and Clinical Health Act, or HITECH, which, among other things, made HIPAA's privacy and security standards directly applicable to "business associates" of covered entities effective February 17, 2010. A business associate is a person or entity that performs certain functions or activities on behalf of a covered entity that involve the use or disclosure of protected health information in connection with recognized health care operations activities. We believe that we are neither a covered entity nor, as of February 17, 2010, a business associate of our hospital customers. As such, we believe that we are not directly subject to these HIPAA standards; however, there is no guarantee that the government will agree with our determination. If the government determines that we are a business associate, we could be subject to enforcement measures, including civil and criminal penalties and fines. While the government intended this legislation to reduce administrative expenses and burdens for the healthcare industry, our compliance with certain provisions of these standards entails significant costs for us.

In addition to federal regulations issued under HIPAA, some states have enacted privacy and security statutes or regulations that, in some cases, are more stringent than those issued under HIPAA. In those cases, it may be necessary to modify our planned operations and procedures to comply with the more stringent state laws. If we fail to comply with applicable state laws and regulations, we could be subject to additional sanctions.

EMPLOYEES

As of March 1, 2010, we had 240 employees, 73 of whom were engaged in sales and marketing, 63 in research and development, 53 in assembly, manufacturing and service, 27 in regulatory, clinical affairs and quality activities and 24 in general administrative and accounting activities. None of our employees is covered by a collective bargaining agreement, and we consider our relationship with our employees to be good.

AVAILABLE INFORMATION

From our Internet website, *http://www.makosurgical.com*, you may obtain additional information about us including:

- Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, including amendments to these reports, and other documents as soon as reasonably practicable after we file them with the Securities and Exchange Commission, or the SEC;
- Beneficial ownership reports filed by officers, directors and principal security holders under Section 16(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act; and
- Corporate governance information that includes our
    - Corporate Governance Guidelines
    - Audit Committee Charter
    - Compensation Committee Charter
    - Corporate Governance and Nominating Committee Charter
    - Code of Business Conduct and Ethics
    - Information on how to communicate directly with our board of directors

We will also provide printed copies of any of these documents to any stockholder upon request. The contents of our Internet website are not intended to be incorporated by reference into this report or in any other report or document we file and any references to our website are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

The following risk factors and other information included in this report should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently treat as immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results and cash flows could be materially adversely affected.

RISKS RELATED TO OUR BUSINESS

Adverse changes in economic conditions and reduced spending on innovative medical technology may adversely impact our business.

The purchase of a RIO system is discretionary and requires our customers to make significant initial commitments of capital and other resources. In addition, purchase of a RIO system requires a commitment to purchase exclusively from us other products and services, including our proprietary RESTORIS family of knee implant systems. Continuing weak economic conditions, or a reduction in healthcare technology spending even if economic conditions improve, could adversely impact our business, operating results and financial condition in a number of ways, including longer sales cycles, lower prices for our products and services and reduced unit sales.

Current credit and financial market conditions could delay or prevent our customers from obtaining financing to purchase or lease a RIO system, which would adversely affect our business, financial condition and results of operations.

Due to the tightening of credit markets in the past year and concerns regarding the availability of credit, particularly in the United States, our customers may be delayed in obtaining, or may not be able to obtain, necessary financing for their purchases or leases of the RIO system. These delays may in some instances lead to our customers postponing the shipment and installation of previously ordered systems, cancelling their system orders, postponing their system installation or cancelling their agreements with us. An increase in delays and order cancellations of this nature could adversely affect our product sales and revenues and, therefore, harm our business and results of operations.

Negative worldwide economic conditions and the long lead times required by certain suppliers could prevent us from accurately forecasting demand for our products, which could adversely affect our operating results.

The current negative worldwide economic conditions and market instability makes it increasingly difficult for us, our customers and our suppliers to accurately forecast future product demand trends, which could cause us to order and/or produce excess products that can increase our inventory carrying costs and result in obsolete inventory. Alternatively, this forecasting difficulty could cause a shortage of products, or materials used in our products, that could result in an inability to satisfy demand for our products and a resulting material loss of revenue.

In addition, certain of our suppliers may require extensive advance notice of our requirements in order to produce products in the quantities we desire. This long lead time may require us to place orders far in advance of the time when certain products will be offered for sale, thereby also making it difficult for us to accurately forecast demand for our products, exposing us to risks relating to shifts in consumer demand and trends and adversely affecting our operating results.

We may not have sufficient funding to complete the development and commercialization of our existing products and the weak worldwide economic conditions may hamper our efforts to raise additional capital to run our business.

To date, we have not achieved profitability. We anticipate that we will continue to incur substantial net losses for at least the next two or three years as we expand our sales and marketing capabilities in the orthopedic products market, continue our commercialization of the RIO system and the RESTORIS MCK multicompartmental knee implant system and continue to develop the corporate infrastructure required to sell and market our products and operate as a public company. We also expect to experience increased cash requirements for inventory and property and equipment in conjunction with the continued commercialization of our RESTORIS unicompartmental and

RESTORIS MCK multicompartmental knee implant systems and our RIO system. Given the current weak economic conditions, we may be unable to obtain additional financing. As a result, we may be required to reduce the scope of, delay or eliminate some or all of our current and planned research, development and commercialization activities. We also may have to reduce marketing, customer support or other resources devoted to our products. Any of these factors could materially harm our business and results of operations.

We believe our existing cash, cash equivalents, short-term investment balances, and interest income we earn on these balances, if any, will be sufficient to meet our anticipated cash requirements through at least the next twelve months. To the extent our available cash, cash equivalents and short-term investment balances are insufficient to satisfy our operating requirements after that period, we will need to seek additional sources of funds, including selling additional equity or debt securities or entering into a credit facility, or modify our current business plan. The sale of additional equity and debt securities may result in dilution to our current stockholders or may require us to grant a security interest in our assets. If we raise additional funds through the issuance of debt securities, these securities may have rights senior to those of our common stock and could contain covenants that could restrict our operations. We may require additional capital beyond our currently forecasted amounts. Any such required additional capital may not be available on reasonable terms, or at all.

Because of the numerous risks and uncertainties associated with the development of medical devices, such as future versions of the RIO system and the RESTORIS family of knee systems, we are unable to estimate the exact amounts of capital outlays and operating expenditures necessary to complete the development of the products and successfully deliver commercial products to the market. Our future capital requirements will depend on many factors, including but not limited to the following:

- the revenue generated by sales of our current and future products;
- the expenses we incur in selling and marketing our products;
- the costs and timing of regulatory clearance or approvals for new products or upgrades or changes to our current products;
- the rate of progress, cost, and success or failure of on-going development activities;
- the emergence of competing or complementary technological developments;
- the costs of filing, prosecuting, defending and enforcing any patent or license claims and other intellectual property rights, or participating in litigation related activities;
- the terms and timing of any collaborative, licensing, or other arrangements that we may establish;
- the acquisition of businesses, products and technologies, although we currently have no understandings, commitments or agreements relating to any material transaction of this type; and
- general economic conditions and interest rates, including the current downturn.

Our reliance on third-party suppliers, including single source suppliers, for our implants and nearly all components of our RIO system could harm our ability to meet demand for our products in a timely and cost effective manner.

We rely on third-party suppliers to manufacture and supply our implants and nearly all components used in our RIO system, other than software. We currently rely on a number of single source suppliers, such as The Anspach Effort, Inc., for our bone cutting instrument, Northern Digital Inc., or NDI, for the stereo tracking camera used in MAKOplasty and Millstone Medical Outsourcing, LLC, for sterile packaging of our RESTORIS family of knee implant systems. We currently do not have long-term contracts with all of our suppliers. As a result, some of our suppliers are not required to provide us with any guaranteed minimum production levels, and we cannot assure you that we will be able to obtain sufficient quantities of key components in the future. In addition, our reliance on third-party suppliers involves a number of risks, including, among other things:

- Our suppliers may encounter financial hardships as a result of unfavorable economic and market conditions unrelated to our demand for components, which could inhibit their ability to fulfill our orders and meet our requirements;

- Suppliers may fail to comply with regulatory requirements, be subject to lengthy compliance, validation or qualification periods, or make errors in manufacturing components that could negatively affect the efficacy or safety of our products or cause delays in supplying of our products to our customers;
- Newly identified suppliers may not qualify under the stringent regulatory standards to which our business is subject;
- We or our suppliers may not be able to respond to unanticipated changes in customer orders, and if orders do not match forecasts, we or our suppliers may have excess or inadequate inventory of materials and components;
- We may be subject to price fluctuations due to a lack of long-term supply arrangements for key components;
- We may experience delays in delivery by our suppliers due to changes in demand from us or their other customers;
- We or our suppliers may lose access to critical services and components, resulting in an interruption in the manufacture, assembly and shipment of our systems;
- Our suppliers may be subject to allegations by third parties of misappropriation of proprietary information in connection with their supply of products to us, which could inhibit their ability to fulfill our orders and meet our requirements;
- Fluctuations in demand for products that our suppliers manufacture for others may affect their ability or willingness to deliver components to us in a timely manner;
- Our suppliers may wish to discontinue supplying components or services to us for risk management reasons; and
- We may not be able to find new or alternative components or reconfigure our system and manufacturing processes in a timely manner if the necessary components become unavailable.

If any of these risks materialize, it could significantly increase our costs and impact our ability to meet demand for our products. If we are unable to satisfy commercial demand for the RIO system or the RESTORIS family of knee systems in a timely manner, our ability to generate revenue would be impaired, market acceptance of our products could be adversely affected, and customers may instead purchase or use our competitors' products. In addition, we could be forced to secure new or alternative components through a replacement supplier. Securing a replacement supplier could be difficult, especially for complex components such as motors, encoders, brakes and certain RIO system components that are manufactured in accordance with our custom specifications. The introduction of new or alternative components may require design changes to our system that are subject to FDA and other regulatory clearances or approvals. We may also be required to assess the new manufacturer's compliance with all applicable regulations and guidelines, which could further impede our ability to manufacture our products in a timely manner. As a result, we could incur increased production costs, experience delays in deliveries of our products, suffer damage to our reputation and experience an adverse effect on our business and financial results.

We are an early-stage medical device company with a limited operating history and our business may not become profitable.

We are an early-stage medical device company with a limited operating history. Our current products with 510(k) marketing clearance from the FDA are versions 1.0, 1.2 and 1.3 of our TGS, versions 2.0, 2.1, and 2.2 of our RIO system, and inlay and onlay implant systems for use in unicompartmental and bicompartmental knee resurfacing procedures. The future success of our business depends on our ability to continue to develop and obtain regulatory clearances or approvals for innovative and commercially successful products in our field, which we may be unable to do in a timely manner, or at all. Our success and ability to generate revenue or be profitable also depends on our ability to establish our sales and marketing force, generate product sales and control costs, all of which we may be unable to do. We have a limited history of operations upon which you can evaluate our business and our operating expenses are increasing. Our lack of any significant operating history also limits your ability to make a comparative evaluation of us, our products and our prospects.

We have incurred significant losses since our inception and anticipate that we will continue to incur significant losses for at least the next two or three years.

We have sustained net losses in every fiscal year since our inception in 2004, including a net loss attributable to common stockholders of $34.0 million for the year ended December 31, 2009. As of December 31, 2009, we had total stockholders' equity of $90.8 million. We expect to continue to incur significant operating losses as we increase our sales and marketing activities and otherwise continue to invest capital in the development of our products and our business generally. We also expect that our general and administrative expenses will increase due to additional operational and regulatory burdens associated with operating as a public company. Our losses have had and will continue to have an adverse effect on our stockholders' equity and working capital. Any failure to achieve and maintain profitability would continue to have an adverse effect on our stockholders' equity and working capital and could result in a decline in our stock price or cause us to cease operations.

We rely on intellectual property that we license from others, and if we are unable to maintain these licenses or obtain additional licenses that we may need, our ability to compete will be harmed.

We rely on intellectual property that we license or sublicense from others, including patented technology that is integral to our RIO system and RESTORIS family of knee systems. As of March 1, 2010, we had licensed rights to 114 U.S. and 40 foreign third-party granted patents, and we had licensed rights to 9 U.S. and 10 foreign third-party pending patent applications. The majority of these patents and applications are either used in our current products or relate to core technologies used in our products, such as computer assisted surgery, or CAS, robotics, haptics and implants. Five of the licensed U.S. patents will expire by the end of 2010. One of these patents is considered material to our intellectual property portfolio because it deals with a core technology and potentially enables us to exclude others from practicing the claimed technology. Third parties may terminate a license in the event that we fail to make required payments or for other causes. In the event a third party terminates a license agreement, we cannot assure you that we could acquire another license to adequately replace the product, technology or method covered by the terminated license. If we fail to maintain our current licenses, our ability to compete in the orthopedic market will be harmed.

In addition, as we enhance our current product offerings and develop new ones, including the RIO system and the RESTORIS family of knee implant systems, we may find it advisable or necessary to seek additional licenses from third parties who hold patents covering technology or methods used in these products. If we cannot obtain these additional licenses, we could be forced to design around those patents at additional cost or abandon the product altogether. As a result, our ability to grow our business and compete in the knee implant market may be harmed.

We are currently required by the FDA to refrain from using certain terms to label and market our products, which could harm our ability to market and commercialize our current or future products.

On September 28, 2007, we submitted a Special 510(k) application to the FDA for version 1.2 of our TGS which the FDA converted to a Traditional 510(k) application. On November 1, 2007, the FDA provided us with a letter requesting additional information in which the FDA, among other things, asked us to justify our proposed use of the terms "haptic" and "robot" in the labeling of version 1.2 of our TGS. Through subsequent correspondence and communications, the FDA indicated that we needed to use the term "tactile" in lieu of "haptic" and the term "robotic arm" in lieu of "robotic," as appropriate, when these terms are used to market our products. The FDA granted 510(k) marketing clearance in January 2008 for version 1.2 of our TGS with those terms. Because the FDA currently requires us to use the terms "tactile" or "robotic arm," we revised the promotional and labeling materials for our existing products, including the RIO system, and may need to consider the use of modified language for our future products. As a result, our ability to market and commercialize our products and our growth may be harmed.

Modifications to our currently FDA cleared products or the introduction of new products may require new regulatory clearances or approvals or require us to recall or cease marketing our current products until clearances or approvals are obtained.

In November 2005, we obtained 510(k) marketing clearance from the FDA for version 1.0 of our TGS for use with our FDA cleared tibial knee inlay implant system. We were not required to obtain premarket approval, or PMA. We were also not required to conduct any clinical trials in support of our application for 510(k) marketing clearance. Modifications to our products, however, may require new regulatory approvals or clearances or require us to recall or cease marketing the modified products until these clearances or approvals are obtained. Any modification to one of our

510(k) cleared products that would constitute a major change in its intended use, or any change that could significantly affect the safety or effectiveness of the device would require us to obtain a new 510(k) marketing clearance and may even, in some circumstances, require the submission of a PMA, if the change raises complex or novel scientific issues or the product has a new intended use. The FDA requires every manufacturer to make the determination regarding the need for a new 510(k) submission in the first instance, but the FDA may review any manufacturer's decision. Since obtaining 510(k) marketing clearance for version 1.0 of our TGS, we developed and commercially introduced several upgrades to our TGS that we believe did not require additional clearances or approvals. Our Special 510(k) application for version 1.2, which the FDA converted to a Traditional 510(k) application and cleared in January 2008, incorporated these upgrades. Since this 510(k) marketing clearance, we have made additional upgrades to the system (namely, version 1.3) that we believe were cleared under our most recent 510(k) marketing clearance and therefore did not require additional filings for clearance or approval. In the fourth quarter of 2008 we received 510(k) marketing clearance from the FDA for the RIO system and for the RESTORIS MCK multicompartmental knee implant system, which the RIO system is designed to support. Since obtaining 501(k) marketing clearance for the RIO system, we have made additional upgrades to the RIO system (namely, versions 2.1 and 2.2) that we believe were cleared under our 510(k) marketing clearance for the RIO system and therefore did not require additional filings for clearance or approval.

We may continue to make additional modifications in the future to the RIO system without seeking additional clearances or approvals if we believe such clearances or approvals are not necessary. If the FDA disagrees and requires new clearances or approvals for the modifications, we may be required to recall and stop marketing our products as modified, which could cause us to redesign our products, conduct clinical trials to support any modifications, and pay significant regulatory fines or penalties. Any of these actions would harm our operating results.

Obtaining clearances and approvals can be a difficult and time consuming process, and we may not be able to obtain any of these or other clearances or approvals in a timely manner, or at all. In addition, the FDA may not approve or clear our products for the indications that are necessary or desirable for successful commercialization or could require clinical trials to support any modifications. Any delay or failure in obtaining required clearances or approvals would adversely affect our ability to introduce new or enhanced products in a timely manner, which in turn would harm our future growth.

Moreover, clearances and approvals are subject to continual review, and the later discovery of previously unknown problems can result in product labeling restrictions or withdrawal of the product from the market. The loss of previously received approvals or clearances, or the failure to comply with existing or future regulatory requirements could reduce our sales, profitability and future growth prospects.

We depend on the success of a single line of products for our revenue, which could impair our ability to achieve profitability.

We expect to derive most of our revenue from capital sales of our RIO system, recurring sales of implants and disposable products required for each knee MAKOplasty procedure, and service plans that are sold with the RIO system. Currently, the only line of products that has been commercially introduced and received 510(k) marketing clearance is versions 1.0 and 1.2 of our TGS, the off-the-shelf inlay and onlay knee implant systems for use in unicompartmental knee resurfacing procedures, versions 2.0, 2.1, and 2.2 of the RIO system and our RESTORIS family of knee implant systems. Our future growth and success is dependent on the successful commercialization of the RIO system and the RESTORIS family of knee implant systems. If we are unable to achieve commercial acceptance of MAKOplasty for unicompartmental and bicompartmental knee resurfacing procedures or obtain regulatory clearances or approvals for future products, including products to treat the hip and other joints of the human body, our revenue would be adversely affected and we would not become profitable.

If our knee MAKOplasty solution does not gain market acceptance, we will not be able to generate the revenue necessary to develop a sustainable, profitable business.

Achieving patient, surgeon and hospital acceptance of MAKOplasty as the preferred method of treating early to mid-stage osteoarthritis of the knee is crucial to our success. We believe MAKOplasty represents a fundamentally new way of performing arthroplasty of the knee, employing computer assisted robotic arm technology and a patient specific visualization system to resurface only the diseased areas of the knee joint. The orthopedic market has been traditionally slow to adopt new products and treatment practices. We believe that if surgeons and hospitals do not broadly adopt the concept of computer assisted robotics enabled technology and do not perceive such technology as having significant

advantages over conventional arthroplasty procedures, patients will be less likely to accept or be offered knee MAKOplasty and we will fail to meet our business objectives. Surgeons' and hospitals' perceptions of such technology having significant advantages are likely to be based on a determination that, among other factors, our products are safe, reliable, cost-effective and represent acceptable methods of treatment. Even if we can prove the clinical value of MAKOplasty through clinical use, surgeons may elect not to use our products for any number of other reasons. For example, surgeons may continue to recommend total knee replacement surgery simply because such surgery is already widely accepted. In addition, surgeons may be slow to adopt our products because of the perceived liability risks arising from the use of new products. Hospitals may not accept MAKOplasty because the RIO system is a piece of capital equipment, representing a significant portion of a hospital's budget. The RIO system may not be cost-efficient if hospitals are not able to perform a significant volume of MAKOplasty procedures. If MAKOplasty fails to achieve market acceptance for any of these or other reasons, we will not be able to generate the revenue necessary to develop a sustainable, profitable business.

We have only limited clinical data to support the value of knee MAKOplasty, which may make patients, surgeons and hospitals reluctant to purchase our products.

We believe that patients, surgeons and hospitals will only accept MAKOplasty or purchase our products if they believe that MAKOplasty is a safe and effective procedure with advantages over competing products and conventional arthroplasty procedures. To date, we have collected only limited, short-term clinical data with which to assess MAKOplasty's clinical value. As of December 31, 2009, 2,384 MAKOplasty procedures had been performed since commercial introduction in 2006. We have not collected, and are not aware that others have collected, any long-term clinical data regarding the clinical value of knee MAKOplasty. The results of short-term studies, such as our post-market studies, do not necessarily predict long-term clinical results. As of March 1, 2010, we have one published MAKOplasty surgical technique book chapter, 15 peer-reviewed manuscripts, 40 peer-reviewed abstracts at conferences, and 11 completed whitepapers. We also have 39 studies either recently completed or in progress, which range from cadaveric biomechanics studies to retrospective chart and radiographic reviews to prospective functional comparison slides to basic science histology studies. If longer-term or more extensive clinical studies that may be performed by us or others indicate that MAKOplasty is a less safe or less effective procedure than our current data suggest, patients may choose not to undergo, and surgeons may choose not to perform, knee MAKOplasty. Furthermore, unsatisfactory patient outcomes or patient injury could cause negative publicity for our products, particularly in the early phases of product introduction. The FDA could also rescind our marketing clearances if future results and experience indicate that our products cause unexpected or serious complications or other unforeseen negative effects. See "Risks Related to Regulatory Compliance." Surgeons may be slow to adopt our products if they perceive liability risks arising from the use of these new products. As a result, patients, surgeons and hospitals may not accept knee MAKOplasty or our products and we may fail to become profitable and may be subject to significant legal liability.

We have limited sales and marketing experience and capabilities, which could impair our ability to achieve profitability.

We have limited experience as a company in the sales and marketing of our products. We may not be successful in marketing and selling our products in the U.S. through our direct sales force with assistance from independent orthopedic product agents and distributors. Our sales and marketing organization is supported by clinical and technical representatives who provide training, clinical and technical support and other services to our customers before and during the surgery. As of March 1, 2010, we have 73 employees in our sales and marketing organization, which includes all clinical and technical representatives. To reach our revenue targets, we need to expand and strengthen our U.S. direct sales force. Developing a sales and marketing organization is expensive and time consuming and an inability to develop such an organization in a timely manner could delay the successful adoption of our products. Additionally, any sales and marketing organization that we develop may be competing against the experienced and well funded sales and marketing organizations of some of our competitors. We will face significant challenges and risks in developing our sales and marketing organization, including, among others:

- our ability to recruit, train and retain adequate numbers of qualified sales and marketing personnel;
- the ability of sales personnel to obtain access to leading surgeons and persuade adequate numbers of hospitals to purchase our products;

- costs associated with hiring, maintaining and expanding a sales and marketing organization; and
- government scrutiny with respect to promotional activities in the healthcare industry.

If we are unable to develop and maintain these sales and marketing capabilities, we may be unable to generate revenue and may not become profitable.

Surgeons, hospitals and orthopedic product agents and distributors may have existing relationships with other medical device companies that make it difficult for us to establish new relationships with them, and as a result, we may not be able to sell and market our products effectively.

We believe that to sell and market our products effectively, we must establish relationships with key surgeons and hospitals in the field of orthopedic surgery. Many of these key surgeons and hospitals already have long-standing relationships with large, better known companies that dominate the medical devices industry through collaborative research programs and other relationships. Because of these existing relationships, some of which may be contractually enforced, surgeons and hospitals may be reluctant to adopt MAKOplasty, particularly if MAKOplasty competes with or has the potential to compete with products supported through their own collaborative research program or by these existing relationships. Even if these surgeons and hospitals purchase our RIO system, they may be unwilling to enter into collaborative relationships with us to promote joint marketing programs such as the MAKOplasty Center of Excellence or to provide us with clinical and financial data.

In addition to our direct sales force, we work with distributors that primarily generate sales leads for us and we are pursuing relationships with potential foreign distributors. If these distributors believe that a relationship with us is less beneficial than other relationships they may have with more established or well known medical device companies, they may be unwilling to establish or continue their relationships with us, making it more difficult for us to sell and market our products effectively.

Because the markets for our products are highly competitive, customers may choose to purchase our competitors' products, resulting in reduced revenue and harm to our financial results.

MAKOplasty requires the use of new robotics technology, and we face competition from large, well known companies, principally Biomet, Inc., DePuy Orthopedics, Inc., a Johnson & Johnson company, Stryker Corporation, and Zimmer Holdings, Inc., that dominate the market for orthopedic products. Each of these companies, as well as other companies like Smith & Nephew, Inc., which introduced the Journey Deuce Bi-Compartmental Knee System in July 2007, offers conventional instruments and implants for use in conventional total and partial knee replacement surgeries as well as unicompartmental resurfacing procedures, which may compete with our MAKOplasty solution and negatively impact sales of our robotic arm technology. A number of these and other companies also offer CAS systems for use in arthroplasty procedures that provide a minimally invasive means of viewing the anatomical site. In addition, Biomet has licenses from Z-Kat and us to intellectual property rights in CAS intellectual property for use in the field of orthopedics. The license is non-exclusive with respect to use of CAS intellectual property in combination with robotics technology and exclusive with respect to all other uses within the field of orthopedics, which could enable them to compete with us.

Currently, we are not aware of any well known orthopedic company that broadly offers robotics technology in combination with CAS. These large, well known orthopedics companies, however, have the ability to acquire and develop robotics technology that may compete with our products. We are aware of certain early stage companies developing robotic applications in orthopedics and others commercializing customized implants and instruments for early and mid-stage arthroplasty solutions. For example, CUREXO Technology Corporation has engaged in marketing in the United States of its ROBODOC® Surgical System, which received 510(k) marketing clearance from the FDA in August 2008 for total hip arthroplasty procedures.

We also may face competition from other medical device companies that may seek to extend robotics technology and minimally invasive approaches and products that they have developed for use in other parts of the human anatomy to minimally invasive arthroplasty of the knee. Even if these other companies currently do not have an established presence in the field of minimally invasive surgery for the knee, they may attempt to apply their robotics technology to the field of knee replacement and resurfacing procedures to compete directly with us.

Many of these medical device competitors enjoy competitive advantages over us, including:

- significantly greater name recognition;
- longer operating histories;
- established exclusive relations with healthcare professionals, customers and third-party payors;
- established distribution networks;
- additional lines of products and the ability to offer rebates or bundle products to offer higher discounts or incentives to gain a competitive advantage;
- greater experience in conducting research and development, manufacturing, clinical trials, obtaining regulatory clearance for products and marketing approved products; and
- greater financial and human resources for product development, sales and marketing and patent litigation.

Moreover, our competitors in the medical device industry make significant investments in research and development, and innovation is rapid and continuous. If new products or technologies emerge that provide the same or superior benefits as our products at equal or lesser cost, they could render our products obsolete or unmarketable. Because our products can have long development and regulatory clearance or approval cycles, we must anticipate changes in the marketplace and the direction of technological innovation and customer demands. In addition, we face increasing competition from well financed orthopedic companies in our attempts to acquire such new technologies, products and businesses. As a result, we cannot be certain that surgeons will use our products to replace or supplement established surgical procedures or that our products will be competitive with current or future products and technologies resulting in reduced revenue and harm to our financial results.

If we do not timely achieve our development goals for new products, the commercialization of these products will be delayed and our business and financial results may be adversely affected.

The success of our business is dependent on our ability to develop new products, to introduce enhancements to our existing products and to develop these new products and enhancements within targeted time frames and budgets to meet customer expectations and requirements. For certain products we have in the past and may in the future utilize a surgeon preference evaluation process prior to full commercial release. The actual timing of these product releases can vary dramatically compared to our estimates for reasons that may or may not be within our control, including clearance or approval by the FDA to market future products and unfavorable clinical results or customer feedback prior to full commercial release through a surgeon preference evaluation process. Customers may forego purchases of our existing products and purchase our competitors' products as a result of delays in the introduction of our new products and enhancements or failure by us to offer innovative products or enhancements at competitive prices and in a timely manner. Announcements of new products by us or by competitors may also result in a delay in or cancellation of purchasing decisions in anticipation of such new products. Any such losses of new customers would harm our business and financial results.

We have limited experience in assembling and testing our products and may encounter problems or delays in the assembly of our products or fail to meet certain regulatory requirements that could result in a material adverse effect on our business and financial results.

We have limited experience in assembling and testing our products, including the RIO system, and no experience in doing so on a large commercial scale. The current and intended future versions of our RIO system are complex and require the integration of a number of separate components and processes. To become profitable, we must assemble and test the RIO system in commercial quantities in compliance with regulatory requirements and at an acceptable cost. Increasing our capacity to assemble and test our products on a commercial scale will require us to improve internal efficiencies. We may encounter a number of difficulties in increasing our assembly and testing capacity, including:

- managing production yields;
- maintaining quality control and assurance;
- providing component and service availability;
- maintaining adequate control policies and procedures;

- hiring and retaining qualified personnel; and
- complying with state, federal and foreign regulations.

If we are unable to satisfy commercial demand for our RIO system due to our inability to assemble and test the system, our business and financial results, including our ability to generate revenue, would be impaired, market acceptance of our products could be materially adversely affected and customers may instead purchase or use, our competitors' products.

Any failure in our efforts to train surgeons or hospital staff could result in lower than expected product sales and potential liabilities.

A critical component of our sales and marketing efforts is the training of a sufficient number of surgeons and hospital staff to properly perform knee MAKOplasty. As of December 31, 2009, we had trained 126 surgeons on the MAKOplasty system. We rely on surgeons and hospital staff to devote adequate time to learn to use our products. Convincing surgeons and hospital staff to dedicate the time and energy necessary for adequate training in the use of our system is challenging, and we cannot assure you we will be successful in these efforts. If surgeons or hospital staff are not properly trained, they may misuse or ineffectively use our products. If nurses or other members of the hospital staff are not adequately trained to assist in using our RIO system, surgeons may be unable to use our products. Insufficient training may result in reduced system use, unsatisfactory patient outcomes, patient injury and related liability or negative publicity, which could have an adverse effect on our product sales or create substantial potential liabilities.

We will likely continue to experience extended and variable sales cycles, which together with the unit price of the RIO system, could cause significant variability in our results of operations for any given quarter.

Our RIO system has a lengthy sales cycle because it is a major piece of capital equipment, the purchase of which will generally require the approval of senior management at hospitals, inclusion in the hospitals' budget process for capital expenditures and, in some instances, a certificate of need from the state or other regulatory clearance. As a result, a relatively small number of units are installed each quarter. Based on our limited experience, we estimate that the sales cycle of the RIO system will continue to take between seven and eighteen months from the point of initial identification and contact with a qualified surgeon until closing of the purchase with the hospital. A limited number of sales of RIO systems may also be subject to a customer acceptance period, during which the customer may return the RIO system to us subject to a penalty. Although we believe that training can be accomplished in a relatively short period of time, there may be situations where training of physicians and staff may last an additional month or more after installation. In addition, the introduction of new products could adversely impact our sales cycle as customers take additional time to assess the capital products. Because of the lengthy sales cycle, the unit price of the RIO system and the relatively small number of systems installed each quarter, each installation of a RIO system can represent a significant component of our revenue for a particular quarter, particularly in the near term and during any other periods in which our sales volume is relatively low.

Certain factors that may contribute to variability in our operating results may include:

- timing and level of expenditures associated with new product development activities;
- delays in shipment due, for example, to cancellations by customers, natural disasters or labor disturbances;
- delays or unexpected difficulties in the manufacturing processes of our suppliers or in our assembly process;
- timing of the announcement, introduction and delivery of new products or product upgrades by us and by our competitors;
- timing and level of expenditures associated with expansion of sales and marketing activities and our overall operations;
- disruptions in the supply or changes in the costs of raw materials, labor, product components or transportation services; and
- changes in third-party coverage and reimbursement, changes in government regulation, or a change in a customer's financial condition or ability to obtain financing.

These factors are difficult to forecast and may contribute to substantial fluctuations in our quarterly revenue and substantial variation from our projections, particularly during the periods in which our sales volume is low. Moreover, many of our expenses, such as office leases and certain personnel costs, are relatively fixed. We may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall. Accordingly, any shortfall in revenue may cause significant variation in operating results in any quarter. Based on the above factors, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. These and other potential fluctuations also mean that you will not be able to rely upon our operating results in any particular period as an indication of future performance.

If we receive a significant number of warranty claims or our RIO system units require significant amounts of service after sale, our costs will increase and our business and financial results will be adversely affected.

We currently warranty each RIO system against defects in materials and workmanship for a period of approximately twelve months from the first MAKOplasty procedure performed at a customer's facility. We also provide technical and other services to customers beyond the warranty period pursuant to a supplemental service plan sold with each system. We have a limited history of commercial placements from which to judge our rate of warranty claims. If product returns or warranty claims are significant or exceed our expectations, we could incur unanticipated reductions in sales or additional expenditures for parts and service. In addition, our reputation could be damaged and our products may not achieve market acceptance. While we have established accruals for liability associated with product warranties, unforeseen warranty exposure in excess of those accruals could negatively impact our business and financial results.

We could become subject to product liability claims, product actions, including product recalls, and other field or regulatory actions that could be expensive, divert management's attention and harm our business.

Our business exposes us to potential liability risks, product actions and other field or regulatory actions that are inherent in the manufacturing, marketing and sale of medical device products. We may be held liable if our RIO system or implants cause injury or death or is found otherwise unsuitable or defective during usage. The RIO system incorporates mechanical, electrical and optical parts, complex computer software and other sophisticated components, any of which can contain errors or failures. Complex computer software is particularly vulnerable to errors and failures, especially when first introduced. In addition, new products or enhancements to our existing products may contain undetected errors or performance problems that, despite testing, are discovered only after installation.

We may, from time to time, elect to initiate a product action concerning one or more of our products for the purpose of improving device performance. If any of our products are defective, whether due to design or manufacturing defects, improper use of the product or other reasons, we may voluntarily or involuntarily undertake a product action to remove, repair, or replace the product at our expense and, in some circumstances, to notify regulatory authorities of such product action pursuant to a product recall. During the year ended December 31, 2009, we initiated one voluntary product actions, which was a product recall reportable to the FDA pursuant to the correction / removal guidelines. We are required to submit an MDR report to the FDA for any incident in which our product may have caused or contributed to a death or serious injury or in which our product malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury.

We have experienced and anticipate in the future to experience events that may require reporting to the FDA pursuant to the MDR regulations. See "Risks Related to Regulatory Compliance." A required notification to a regulatory authority could result in an investigation by regulatory authorities of our products, which could in turn result in product actions, restrictions on the sale of the products, civil or criminal penalties and other field corrective action. In addition, because our products are designed to be used to perform complex surgical procedures, defects could result in a number of complications, some of which could be serious and could harm or kill patients. The adverse publicity resulting from any of these events could cause surgeons or hospitals to review and potentially terminate their relationships with us. Regulatory investigations or product actions could also result in our incurring substantial costs, losing revenue, and implementing a change in the design, manufacturing process or the indications for which our products may be used, each of which would harm our business.

It is also possible that defects in the design, manufacture or labeling of our products could result in a product liability claim. The medical device industry has historically been subject to extensive litigation over product liability claims. A product liability claim, regardless of its merit or eventual outcome, could result in significant legal defense costs. Although we maintain product liability insurance, the coverage is subject to deductibles and limitations, and may

not be adequate to cover future claims. Additionally, we may be unable to maintain our existing product liability insurance in the future at satisfactory rates or adequate amounts. A product liability claim, regardless of its merit or eventual outcome could result in:

- decreased demand for our products;
- injury to our reputation;
- diversion of management's attention;
- significant costs of related litigation;
- payment of substantial monetary awards by us;
- product actions;
- a change in the design, manufacturing process or the indications for which our products may be used;
- loss of revenue; and
- an inability to commercialize our products under development.

If hospitals, surgeons and other healthcare providers are unable to obtain coverage or reimbursement from third-party payors for MAKOplasty procedures, hospitals may not purchase the RIO system and surgeons may not perform knee MAKOplasty, which would harm our business and financial results.

Our ability to successfully commercialize MAKOplasty depends significantly on the availability of coverage and reimbursement from third-party payors, including governmental programs such as Medicare and Medicaid as well as private insurance and private health plans. Reimbursement is a significant factor considered by hospitals in determining whether to acquire new capital equipment such as our technology. Although our customers have been successful in obtaining coverage and reimbursement, we cannot assure you that procedures using our technology will be covered or reimbursed by third-party payors in the future or that such reimbursements will not be reduced to the extent that they will adversely affect capital allocations for purchase of our RIO system.

We anticipate that in the U.S. our products will be purchased primarily by hospitals, which bill various third-party payors, including governmental healthcare programs, such as Medicare, and private insurance plans for procedures using our technology. Ensuring adequate Medicare reimbursement can be a lengthy and expensive endeavor and we cannot provide assurance that we will be successful. In addition, the U.S. Congress may pass legislation impacting coverage and reimbursement for healthcare services, including Medicare reimbursement to physicians and hospitals. Many private payors look to Medicare's coverage and reimbursement policies in setting their coverage policies and reimbursement amounts. If the Centers for Medicare and Medicaid Services, or CMS, the federal agency that administers the Medicare program, or Medicare contractors limit payments to hospitals or surgeons for MAKOplasty procedures, private payors may similarly limit payments. In addition, state legislatures may enact laws limiting or otherwise affecting the level of Medicaid reimbursements. As a result, hospitals may not purchase the RIO system and surgeons may choose not to perform MAKOplasty, and, as a result, our business and financial results would be adversely affected.

Medicare pays acute care hospitals a prospectively determined amount for inpatient operating costs under the Medicare hospital inpatient prospective payment system, or PPS. Under the Medicare hospital inpatient PPS, the prospective payment for a patient's stay in an acute care hospital is determined by the patient's condition and other patient data and procedures performed during the inpatient stay using a classification system known as diagnosis related groups, or DRGs. As of October 1, 2007, CMS, implemented a revised version of the DRG system that uses 745 Medicare Severity DRGs, or MS-DRGs, instead of the approximately 540 DRGs Medicare previously used. The MS-DRGs are intended to account more accurately for the patient's severity of illness when assigning each patient's stay to a payment classification. Medicare pays a fixed amount to the hospital based on the MS-DRG into which the patient's stay is assigned, regardless of the actual cost to the hospital of furnishing the procedures, items and services provided. Accordingly, acute care hospitals generally do not receive direct Medicare reimbursement under PPS for the specific costs incurred in purchasing medical devices. Rather, reimbursement for these costs is deemed to be included within the MS-DRG based payments made to hospitals for the services furnished to Medicare eligible inpatients in which the devices are utilized. Accordingly, a hospital must absorb the cost of our products as part of the payment it receives for the procedure in which the device is used. In addition, physicians that perform procedures in hospitals are

paid a set amount by Medicare for performing such services under the Medicare physician fee schedule. Medicare payment rates for both systems are established annually.

At this time, we do not know the extent to which hospitals and physicians would consider third-party reimbursement levels adequate to cover the cost of our products. Failure by hospitals and surgeons to receive an amount that they consider to be adequate reimbursement for procedures in which our products are used could deter them from purchasing or using our products and limit our sales growth. In addition, pre-determined MS-DRG payments or Medicare physician fee schedule payments may decline over time, which could deter hospitals from purchasing our products or physicians from using them. If hospitals are unable to justify the costs of our products or physicians are not adequately compensated for procedures in which our products are utilized, they may refuse to purchase or use them, which would significantly harm our business.

Notwithstanding current or future FDA clearances, if granted, third-party payors may deny reimbursement if the payor determines that a therapeutic medical device is unnecessary, inappropriate, not cost-effective or experimental, or is used for a non-approved indication. Although we are not aware of any potential customer that has declined to purchase our RIO system based upon third-party payors' reimbursement policies, cost control measures adopted by third-party payors may have a significant effect on surgeries performed using MAKOplasty or as to the levels of reimbursement. All third-party payors, whether governmental or private, whether inside the U.S. or outside, are developing increasingly sophisticated methods of controlling healthcare costs. These cost control methods include prospective payment systems, capitated rates, benefit redesigns, pre-authorization or second opinion requirements prior to major surgery, an emphasis on wellness and healthier lifestyle interventions and an exploration of other cost-effective methods of delivering healthcare. These cost control methods also potentially limit the amount which healthcare providers may be willing to pay for medical technology which could, as a result, adversely affect our business and financial results. In addition, in the U.S., no uniform policy of coverage and reimbursement for medical technology exists among all these payors. Therefore, coverage and reimbursement for medical technology can differ significantly from payor to payor.

There also can be no assurance that current levels of reimbursement will not be decreased or eliminated in the future, or that future legislation, regulation, or reimbursement policies of third-party payors will not otherwise adversely affect the demand for our products or our ability to sell products on a profitable basis. Our customers are currently using existing reimbursement codes for knee arthroplasty. Knee arthroplasty performed in the hospital inpatient setting is currently assigned to MS-DRG 469 ("Major Joint Replacement or Reattachment of Lower Extremity with Major Complication or Comorbidity") and MS-DRG 470 ("Major Joint Replacement or Reattachment of Lower Extremity without Major Complication of Comorbidity"), and surgeons currently bill Current Procedural Terminology, or CPT, code 27446 ("Arthroplasty, knee, condyle and plateau; medial OR lateral compartment"), code 27447 ("Arthroplasty, knee condyle and plateau, medial and lateral with or without patella resurfacing"), and code 27438 ("Arthoplasty, patella with prosthesis") for services performed in connection with procedures using our technology. Our customers also have available Ambulatory Payment Classifications, or APC, code 0451 and CPT codes 27446 and 73700 ("CT lower extremity without contrast") for out-patient procedures and procedures performed in an ambulatory surgery center. If unicompartmental and bicompartmental knee resurfacing procedures gain market acceptance and the number of such procedures increases, CMS and other payors may establish billing codes for unicompartmental and bicompartmental knee resurfacing procedures that provide for a smaller reimbursement amount than knee arthroplasty, which could adversely affect our financial results and business.

In international markets, market acceptance of our products will likely depend in large part on the availability of reimbursement within prevailing healthcare payment systems. Reimbursement and healthcare payment systems in international markets vary significantly by country, and by region in some countries, and include both government sponsored healthcare and private insurance. We may not obtain international reimbursement approvals in a timely manner, if at all. In addition, even if we do obtain international reimbursement approvals, the level of reimbursement may not be enough to commercially justify expansion of our business into the approving jurisdiction. To the extent we or our customers are unable to obtain coverage or reimbursement for procedures using our technology in major international markets in which we seek to market and sell our technology, our international revenue growth would be harmed, and our business and results of operations would be adversely affected.

Healthcare reforms, changes in healthcare policies and changes to third-party coverage and reimbursements may affect demand for our systems and products.

The U. S. government, state and local governments, and a number of foreign governments, are currently considering or may in the future consider healthcare policies and proposals intended to curb rising healthcare costs, including those that could significantly affect both coverage and reimbursement for healthcare services. Future significant changes in the healthcare systems in the United States or elsewhere, and current uncertainty about whether and how changes may be implemented, could have a negative impact on the demand for our products and services and our business. These changes may include basing coverage and reimbursement policies and rates on clinical outcomes, the comparative effectiveness and costs of different treatment technologies and modalities; imposing price controls on medical products and services providers; reducing reimbursement rates; imposing an excise tax on the medical device industry; and other measures. It is unclear which, if any, of the various U.S. healthcare reforms currently being discussed and/or proposed might be enacted by the U.S. Congress and signed into law by the President of the United States. We are unable to predict what healthcare reform legislation or regulations, if any, will be enacted in the United States or elsewhere; whether other healthcare legislation or regulations affecting our business may be proposed or enacted in the future; what effect any legislation or regulation would have on our business; or the effect ongoing uncertainty about these matters will have on the purchasing decisions of our customers.

We may attempt to acquire new products or technologies, and if we are unable to successfully complete these acquisitions or to integrate acquired businesses, products, technologies or employees, we may fail to realize expected benefits or harm our existing business.

Our success will depend, in part, on our ability to expand our product offerings and grow our business in response to changing technologies, customer demands and competitive pressures. In some circumstances, we may determine to do so through the acquisition of complementary businesses, products or technologies rather than through internal development. The identification of suitable acquisition candidates can be difficult, time consuming and costly, and we may not be able to successfully complete identified acquisitions. Furthermore, even if we successfully complete an acquisition, we may not be able to successfully integrate newly acquired organizations, products or technologies into our operations, and the process of integration could be expensive, time consuming and may strain our resources. Consequently, we may not achieve anticipated benefits of the acquisitions, which could harm our existing business. In addition, future acquisitions could result in potentially dilutive issuances of equity securities or the incurrence of debt, contingent liabilities or expenses, or other charges such as in-process research and development, any of which could harm our business and materially adversely affect our financial results or cause a reduction in the price of our common stock.

We depend on key employees, and if we fail to attract and retain employees with the expertise required for our business, we cannot grow or achieve profitability.

We are highly dependent on members of our senior management, in particular Maurice R. Ferré, M.D., our President, Chief Executive Officer and Chairman of the Board. Our future success will depend in part on our ability to retain these key employees and to identify, hire and retain additional qualified personnel with expertise in research and development and sales and marketing. Competition for qualified personnel in the medical device industry is intense, and finding and retaining qualified personnel with experience in our industry is very difficult. We believe that there are only a limited number of individuals with the requisite skills to serve in many of our key positions, and we compete for key personnel with other medical equipment and software manufacturers and technology companies, as well as universities and research institutions. It is often difficult to hire and retain these persons, and we may be unable to replace key persons if they leave or fill new positions requiring key persons with appropriate experience. A significant portion of our compensation to our key employees is in the form of stock option grants. A prolonged depression in our stock price could make it difficult for us to retain our employees and recruit additional qualified personnel.

We do not maintain, and do not currently intend to obtain, key employee life insurance on any of our personnel other than Dr. Ferré. Although we have obtained key man insurance covering Dr. Ferré in the amount of $2,000,000, this would not fully compensate us for the loss of Dr. Ferré's services. Dr Ferré may terminate his employment at will at any time with 30 days' notice. Each of our other officers and key employees may terminate his or her employment at will at any time with 60 days' notice. The loss of key employees, the failure of any key employee to perform or our inability to attract and retain skilled employees, as needed, could harm our business.

If we do not effectively manage our growth, we may be unable to successfully develop, market and sell our products.

Our future revenue and operating results will depend on our ability to manage the anticipated growth of our business. We have experienced significant growth in the scope of our operations and the number of our employees since our inception. This growth has placed significant demands on our management, as well as our financial and operations resources. In order to achieve our business objectives, we must continue to grow. However, continued growth presents numerous challenges, including:

- implementing appropriate operational and financial systems and controls;
- expanding manufacturing and assembly capacity and increasing production;
- developing our sales and marketing infrastructure and capabilities;
- improving our information systems;
- identifying, attracting and retaining qualified personnel in our areas of activity; and
- hiring, training, managing and supervising our personnel.

We cannot be certain that our systems, controls, infrastructure and personnel will be adequate to support our future operations. Any failure to effectively manage our growth could impede our ability to successfully develop, market and sell our products and our business will be harmed.

If we are successful in our efforts to market and sell MAKOplasty internationally, we will be subject to various risks relating to our international activities, which could adversely affect our business and financial results.

We have begun to pursue international markets for the sale of our products and we anticipate being exposed to risks separate and distinct from those we face in our U.S. operations. Our international business may be adversely affected by changing economic conditions in foreign countries. In addition, because international sales would most likely be denominated in the functional currency of the country where the product is being shipped, increases or decreases in the value of the U.S. dollar relative to foreign currencies could affect our results of operations. Engaging in international business inherently involves a number of other difficulties and risks, including:

- approval of product submissions with healthcare systems outside the United States;
- gathering the clinical data that may be required for product submissions with healthcare systems outside the United States;
- export restrictions and controls and other government regulation relating to technology;
- the availability and level of reimbursement within prevailing foreign healthcare payment systems;
- pricing pressures that we may experience internationally;
- compliance with existing and changing foreign regulatory laws and requirements;
- foreign laws and business practices favoring local companies;
- longer payment cycles;
- shipping delays;
- difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- political and economic instability;
- potentially adverse tax consequences, tariffs and other trade barriers;
- international terrorism and anti-American sentiment;
- difficulties and costs of staffing and managing foreign operations; and
- difficulties in enforcing intellectual property rights.

Our exposure to each of these risks may increase our costs, impair our ability to market and sell our products and require significant management attention, resulting in harm to our business and financial results.

Our operations are currently conducted primarily at a single location in Florida, which may be at risk from hurricanes, storm, fire, terrorist attacks or other disasters.

We currently conduct all of our management activities, most of our research and development activities and assemble all of our products at a single location in Fort Lauderdale, Florida. We have taken various precautions to safeguard our facilities, such as obtaining insurance, installing hurricane shutters, establishing health and safety protocols and securing off-site storage of computer data. However, a casualty due to a hurricane, storm or other natural disasters, a fire, terrorist attack, or other unanticipated problems at this location could cause substantial delays in our operations, delay or prevent assembly of our RIO systems and shipment of our implants, damage or destroy our equipment and inventory, and cause us to incur substantial expenses. Our insurance does not cover losses caused by certain events such as floods or other activities and may not be adequate to cover our losses in any particular case. Any damage, loss or delay could seriously harm our business and have an adverse affect on our financial results.

Certain of our directors, executive officers and key employees have an interest in Z-Kat that could pose potential conflicts of interest, which could harm our business.

Prior to February 2010, we licensed or sublicensed intellectual property from Z-Kat and entered into various licensing and related arrangements with Z-Kat. In February 2010, we terminated our prior licenses with Z-Kat, including Z-Kat's nonexclusive sublicense to our intellectual property portfolio, and entered into an asset purchase agreement with Z-Kat pursuant to which we obtained ownership rights to certain intellectual property assets owned by Z-Kat, and certain intellectual property licensed to Z-Kat. We also entered into a new license agreement with Z-Kat pursuant to which we obtained an exclusive sublicense to certain intellectual property for technologies in CAS and robotics in the medical field. We believe that certain of our directors, executive officers and key employees hold equity interests in Z-Kat. Accordingly, each of these individuals may face continuing potential conflicts of interest regarding these transactions as a result of their interests in Z-Kat. Dr. Ferré may face additional conflicts of interest regarding these transactions if he serves on the board of directors of Z-Kat. To address these potential conflicts of interest, we have adopted a Related Person Transaction Policy. In addition, the audit committee of our board of directors, under the terms of its charter, must review and approve all related person transactions. We cannot, however, assure you that any conflicts will be resolved in our favor, and as a result, our business could be harmed.

RISKS RELATED TO OUR INTELLECTUAL PROPERTY

If we, or the third parties from whom we license intellectual property, are unable to secure and maintain patent or other intellectual property protection for the intellectual property contained in our products, our ability to compete will be harmed.

Our commercial success depends, in part, on obtaining patent and other intellectual property protection for the technologies contained in our products. The patent positions of medical device companies, including ours, can be highly uncertain and involve complex and evolving legal and factual questions. Our patent position is uncertain and complex, in part, because of our dependence on intellectual property that we license from others. If we, or the third parties from whom we license intellectual property, fail to obtain adequate patent or other intellectual property protection for intellectual property contained in our products, or if any protection is reduced or eliminated, others could use the intellectual property contained in our products, resulting in harm to our competitive business position. In addition, patent and other intellectual property protection may not provide us with a competitive advantage against competitors that devise ways of making competitive products without infringing any patents that we own or have rights to.

U.S. patents and patent applications may be subject to interference proceedings and U.S. patents may be subject to reexamination proceedings in the U.S. Patent and Trademark Office. Foreign patents may be subject to opposition or comparable proceedings in the corresponding foreign patent offices. Any of these proceedings could result in either loss of the patent or denial of the patent application, or loss or reduction in the scope of one or more of the claims of the patent or patent application. Changes in either patent laws or in interpretations of patent laws may also diminish the value of our intellectual property or narrow the scope of our protection. Interference, reexamination and opposition proceedings may be costly and time consuming, and we, or the third parties from whom we license intellectual property, may be unsuccessful in defending against such proceedings. Thus, any patents that we own or license may

provide limited or no protection against competitors. In addition, our pending patent applications and those we may file in the future may have claims narrowed during prosecution or may not result in patents being issued. Even if any of our pending or future applications are issued, they may not provide us with adequate protection or any competitive advantages. Our ability to develop additional patentable technology is also uncertain.

Non-payment or delay in payment of patent fees or annuities, whether intentional or unintentional, may also result in the loss of patents or patent rights important to our business. Many countries, including certain countries in Europe, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties. In addition, many countries limit the enforceability of patents against third parties, including government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of the patent. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as do the laws of the U.S., particularly in the field of medical products and procedures.

If we are unable to prevent unauthorized use or disclosure of our proprietary trade secrets and unpatented know-how, our ability to compete will be harmed.

Proprietary trade secrets, copyrights, trademarks and unpatented know-how are also very important to our business. We rely on a combination of trade secrets, copyrights, trademarks, confidentiality agreements and other contractual provisions and technical security measures to protect certain aspects of our technology, especially where we do not believe that patent protection is appropriate or obtainable. We require our employees and consultants to execute confidentiality agreements in connection with their employment or consulting relationships with us. We also require our employees and consultants to disclose and assign to us all inventions conceived during the term of their employment or engagement while using our property or which relate to our business. We also have taken precautions to initiate reasonable safeguards to protect our information technology systems. However, these measures may not be adequate to safeguard our proprietary intellectual property and conflicts may, nonetheless, arise regarding ownership of inventions. Such conflicts may lead to the loss or impairment of our intellectual property or to expensive litigation to defend our rights against competitors who may be better funded and have superior resources. Our employees, consultants, contractors, outside clinical collaborators and other advisors may unintentionally or willfully disclose our confidential information to competitors. In addition, confidentiality agreements may be unenforceable or may not provide an adequate remedy in the event of unauthorized disclosure. Enforcing a claim that a third party illegally obtained and is using our trade secrets is expensive and time consuming, and the outcome is unpredictable. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how. Unauthorized parties may also attempt to copy or reverse engineer certain aspects of our products that we consider proprietary. As a result, third parties may be able to use our proprietary technology or information, and our ability to compete in the market would be harmed.

We could become subject to patent and other intellectual property litigation that could be costly, result in the diversion of management's attention, require us to pay damages and force us to discontinue selling our products.

The medical device industry is characterized by competing intellectual property and a substantial amount of litigation over patent and other intellectual property rights. In particular, the fields of orthopedic implants, CAS, haptics and robotics are well established and crowded with the intellectual property of competitors and others. A number of companies in our market, as well as universities and research institutions, have issued patents and have filed patent applications which relate to the use of CAS.

Determining whether a product infringes a patent involves complex legal and factual issues, and the outcome of a patent litigation action is often uncertain. We have not conducted an extensive search of patents issued to third parties, and no assurance can be given that third-party patents containing claims covering our products, parts of our products, technology or methods do not exist, have not been filed or could not be filed or issued. Because of the number of patents issued and patent applications filed in our technical areas, our competitors or other third parties, including third parties from whom we license intellectual property, may assert that our products and the methods we employ in the use of our products are covered by U.S. or foreign patents held by them. In addition, because patent applications can take many years to issue and because publication schedules for pending applications vary by jurisdiction, there may be applications now pending of which we are unaware and which may result in issued patents which our current or future products infringe. Also, because the claims of published patent applications can change between publication and patent

grant, there may be published patent applications that may ultimately issue with claims that we infringe. There could also be existing patents that one or more of our products or parts may infringe and of which we are unaware. As the number of competitors in the market for CAS and robotics assisted knee implant systems grows, and as the number of patents issued in this area grows, the possibility of patent infringement claims against us increases. In certain situations, we or third parties from whom we license intellectual property may determine that it is in our best interests or their best interests to voluntarily challenge a third party's products or patents in litigation or other proceedings, including patent interferences or reexaminations. As a result, we may become involved in unwanted litigation that could be costly, result in diversion of management's attention, require us to pay damages and force us to discontinue selling our products.

Infringement actions and other intellectual property claims and proceedings, whether with or without merit, may cause us to incur substantial costs and could place a significant strain on our financial resources, divert the attention of management from our business and harm our reputation. Some of our competitors may be able to sustain the costs of complex patent or intellectual property litigation more effectively than we can because they have substantially greater resources.

We cannot be certain that we will successfully defend against allegations of infringement of third-party patents and intellectual property rights. In the event that we become subject to a patent infringement or other intellectual property lawsuit and if the other party's patents or other intellectual property were upheld as valid and enforceable and we were found to infringe the other party's patents or violate the terms of a license to which we are a party, we could be required to pay damages. We could also be prevented from selling our products unless we could obtain a license to use technology or processes covered by such patents or were able to redesign the product to avoid infringement. A license may not be available at all or on commercially reasonable terms or we may not be able to redesign our products to avoid infringement. Modification of our products or development of new products could require us to conduct clinical trials and to revise our filings with the FDA and other regulatory bodies, which would be time consuming and expensive. In these circumstances, we may be unable to sell our products at competitive prices or at all, our business and operating results could be harmed and our stock price may decline. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations.

We may be subject to damages resulting from claims that our employees, our consultants or we have wrongfully used or disclosed alleged trade secrets of their former employers.

Many of our employees and consultants were previously employed at universities or other medical device companies, including our competitors or potential competitors. We could in the future be subject to claims that these employees or consultants, or we, have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. If we fail in defending against such claims, a court could order us to pay substantial damages and prohibit us from using technologies or features that are essential to our products and processes, if such technologies or features are found to incorporate or be derived from the trade secrets or other proprietary information of the former employers. In addition, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper or prevent our ability to commercialize certain potential products, which could severely harm our business. Even if we are successful in defending against these claims, such litigation could result in substantial costs and be a distraction to management.

RISKS RELATED TO REGULATORY COMPLIANCE

If we fail to comply with the extensive government regulations relating to our business, we may be subject to fines, injunctions and other penalties that could harm our business.

Our medical device products and operations are subject to extensive regulation by the FDA, pursuant to the Federal Food, Drug, and Cosmetic Act, or FDCA, and various other federal, state and foreign governmental authorities. Government regulations and foreign requirements specific to medical devices are wide ranging and govern, among other things:

- design, development and manufacturing;
- testing, labeling and storage;
- clinical trials;

- product safety;
- marketing, sales and distribution;
- premarket clearance or approval;
- record keeping procedures;
- advertising and promotions;
- recalls and field corrective actions;
- post-market surveillance, including reporting of deaths or serious injuries and malfunctions that, if they were to recur, could lead to death or serious injury; and
- product export.

In the U.S., before we can market a new medical device, or a new use of, or claim for, or significant modification to, an existing product, we must first receive either premarket clearance under Section 510(k) of the FDCA, or approval of a PMA from the FDA, unless an exemption applies. In the 510(k) marketing clearance process, the FDA must determine that a proposed device is "substantially equivalent" to a device legally on the market, known as a "predicate" device, with respect to intended use, technology and safety and effectiveness, in order to clear the proposed device for marketing. Clinical data is sometimes required to support substantial equivalence. The PMA approval pathway requires an applicant to demonstrate the safety and effectiveness of the device based, in part, on data obtained in clinical trials. Both of these processes can be expensive and lengthy and entail significant user fees, unless exempt. The FDA's 510(k) marketing clearance process usually takes from three to 12 months, but it can last longer. The process of obtaining PMA approval is much more costly and uncertain than the 510(k) marketing clearance process. It generally takes from one to three years, or even longer, from the time the PMA application is submitted to the FDA until an approval is obtained. There is no assurance that we will be able to obtain FDA clearance or approval for any of our new products on a timely basis, or at all. We cannot predict whether the FDA will modify its 510(k) marketing clearance process in the future. Any such modification could have a material adverse effect on our ability to commercialize our products.

The FDA, state, foreign and other governmental authorities have broad enforcement powers. Our failure to comply with applicable regulatory requirements could result in governmental agencies or a court taking action, including any of the following sanctions:

- untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- customer notifications or repair, replacement, refunds, detention or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying requests for 510(k) marketing clearance or PMA approvals of new products or modified products;
- withdrawing 510(k) marketing clearances or PMA approvals that have already been granted;
- refusing to provide Certificates for Foreign Government (CFG);
- refusing to grant export approval for our products; or
- pursuing criminal prosecution.

Failure to obtain regulatory approval in additional foreign jurisdictions will prevent us from expanding the commercialization of our products abroad.

To be able to market and sell our products in other countries, we must obtain regulatory approvals and comply with the regulations of those countries. These regulations, including the requirements for approvals and the time required for regulatory review, vary from country to country. Obtaining and maintaining foreign regulatory approvals are expensive, and we cannot be certain that we will receive regulatory approvals in any foreign country in which we plan to market our products. If we fail to obtain or maintain regulatory approval in any foreign country in which we plan to market our products, our ability to generate revenue will be harmed.

As we modify existing products or develop new products in the future, including new instruments, we apply for permission to affix to such products a European Union CE mark, which is a legal requirement for medical devices intended for sale in Europe. In addition, we will be subject to annual regulatory audits in order to maintain those CE mark permissions. In November 2008, BSi, an independent global certification body, conducted an annual assessment of our quality management system, which concluded that our quality management system complied with the requirements of ISO13485:2003 in all material respects. We have updated our ISO certifications to include class III devices, such as orthopedic implants. In December 2009, we received a major nonconformance in our annual assessment by BSi. We implemented corrective actions and in March 2010 the finding was officially closed by BSi. BSi will continue to conduct annual audits to assess our compliance with BSi certification standards. In connection with achieving CE marking, which is a legal requirement for medical devices intended for sale in Europe, we have also submitted design dossiers to BSi for the purpose of review and approval. We do not know whether we will be able to obtain permission to affix the CE mark for new or modified products or that we will continue to meet the quality and safety standards required to maintain the permissions we have already received. If we are unable to maintain permission to affix the CE mark to our products, we will no longer be able to sell our products in member countries of the European Union or other areas of the world that require CE approval of medical devices.

If we or our third-party manufacturers or suppliers fail to comply with the FDA's Quality System Regulation, our manufacturing operations could be interrupted and our product sales and operating results could suffer.

We and some of our third-party manufacturers and suppliers are required to comply with the FDA's Quality System Regulation, or QSR, which covers the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, sterilization, storage and shipping of our products. We and our manufacturers and suppliers are also subject to the regulations of foreign jurisdictions regarding the manufacturing process if we market our products overseas. The FDA enforces the QSR through periodic and unannounced inspections of manufacturing facilities. In January 2009, the FDA conducted its first audit of our facility, during which we received certain inspectional observations. We have addressed the observations and submitted a response to the FDA on a voluntary basis. We received a copy of the establishment inspection report (EIR) and a cover letter from the FDA in August 2009. To date, our facilities have not been inspected by any other regulatory authorities. We anticipate that we and certain of our third-party manufacturers and suppliers will be subject to inspections by regulatory authorities in the future. If our facilities or those of our manufacturers or suppliers fail to take satisfactory corrective action in response to an adverse QSR inspection, the FDA could take enforcement action, including any of the following sanctions:

- untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- customer notifications or repair, replacement, refunds, detention or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying requests for 510(k) marketing clearance or PMA approvals of new products or modified products;
- withdrawing 510(k) marketing clearances or PMA approvals that have already been granted;
- refusing to provide Certificates for Foreign Government (CFG);
- refusing to grant export approval for our products; or
- pursuing criminal prosecution.

Any of these sanctions could impair our ability to produce our products in a cost-effective and timely manner in order to meet our customers' demands. We may also be required to bear other costs or take other actions that may have a negative impact on our future sales and our ability to generate profits.

Our products may in the future be subject to product actions that could harm our reputation, business operations and financial results.

Manufacturers may, on their own initiative, initiate a product action, including a non-reportable market withdrawal or a reportable product recall, for the purpose of correcting a material deficiency, improving device performance, or other reasons. Additionally, the FDA and similar foreign governmental authorities have the authority to require an involuntary recall of commercialized products in the event of material deficiencies or defects in design, or manufacture or labeling. In the case of the FDA, the authority to require a recall must be based on an FDA finding that

there is a reasonable probability that the device would cause serious injury or death. In addition, foreign governmental bodies have the authority to require the recall of our products in the event of material deficiencies or defects in design or manufacture. Product actions involving any of our products would divert managerial and financial resources and have an adverse effect on our financial condition and results of operations. During the year ended December 31, 2009, we initiated one product action, which was reportable to the FDA pursuant to the correction / removal guidelines. This reportable recall was associated with a fiber optic cable used to connect the robotic arm to the camera stand and was communicated to the FDA in July 2009. We internally closed the action in November 2009 and are awaiting closure notification from the FDA. During the year ended December 31, 2009, we also closed a reportable recall which was initiated in 2008. This reportable recall was associated with two tracking array instruments for the patient specific visualization of the TGS and was communicated to the FDA in May 2008. We internally closed the action in January 2009 and received a closure notification from the FDA on August 6, 2009.

Companies are required to maintain certain records of product actions, even if they are not reportable to the FDA. If we determine that certain of those product actions do not require notification of the FDA, the FDA may disagree with our determinations and require us to report those actions as recalls. A future recall announcement could harm our reputation with customers and negatively affect our sales. In addition, the FDA could take enforcement action, including any of the following sanctions for failing to report the recalls when they were conducted:

- untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- customer notifications or repair, replacement, refunds, recall, detention or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying our requests for 510(k) marketing clearance or PMA approvals of new products or modified products;
- withdrawing 510(k) marketing clearances or PMA approvals that have already been granted;
- refusing to provide Certificates for Foreign Government (CFG);
- refusing to grant export approval for our products; or
- pursuing criminal prosecution.

Any of these sanctions could impair our ability to produce our products in a cost-effective and timely manner in order to meet our customers' demands. We may also be required to bear other costs or take other actions that may have a negative impact on our future sales and our ability to generate profits.

If our products, or malfunction of our products, cause or contribute to a death or a serious injury, we will be subject to medical device reporting regulations, which can result in voluntary corrective actions or agency enforcement actions.

Under the FDA MDR regulations, we are required to report to the FDA any incident in which our product may have caused or contributed to a death or serious injury or in which our product malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury. In addition, all manufacturers placing medical devices in European Union markets are legally bound to report any serious or potentially serious incidents involving devices they produce or sell to the relevant authority in whose jurisdiction the incident occurred. We have experienced and anticipate in the future to experience events that may require reporting to the FDA pursuant to the MDR regulations. Any adverse event involving our products could result in future voluntary corrective actions, such as product actions or customer notifications, or agency action, such as inspection, mandatory recall or other enforcement action. Any corrective action, whether voluntary or involuntary, as well as defending ourselves in a lawsuit, will require the dedication of our time and capital, distract management from operating our business, and may harm our reputation and financial results. In addition, failure to report such adverse events to appropriate government authorities on a timely basis, or at all, could result in an enforcement action against us.

We may be subject to fines, penalties or injunctions if we are determined to be promoting the use of our products for unapproved or "off-label" uses, resulting in damage to our reputation and business.

Our promotional materials and training methods must comply with FDA and other applicable laws and regulations, including the prohibition of the promotion of a medical device for a use that has not been cleared or approved by FDA. Use of a device outside its cleared or approved indications is known as "off-label" use. We believe that the specific surgical procedures for which our products are marketed fall within the scope of the surgical applications that have been cleared by the FDA. However, physicians may use our products off-label, as the FDA does not restrict or regulate a physician's choice of treatment within the practice of medicine. However, if the FDA determines that our promotional materials or training constitutes promotion of an off-label use, it could request that we modify our training or promotional materials or subject us to regulatory or enforcement actions, including the issuance of an untitled letter, a warning letter, injunction, seizure, civil fine and criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider our promotional or training materials to constitute promotion of an unapproved use, which could result in significant fines or penalties under other statutory authorities, such as laws prohibiting false claims for reimbursement. In that event, our reputation could be damaged and adoption of the products would be impaired. Although our policy is to refrain from statements that could be considered off-label promotion of our products, the FDA or another regulatory agency could disagree and conclude that we have engaged in off-label promotion. In addition, the off-label use of our products may increase the risk of injury to patients, and, in turn, the risk of product liability claims. Product liability claims are expensive to defend and could divert our management's attention and result in substantial damage awards against us.

We may be subject to fine, penalties, or licensure requirements if it is determined that our MAKOplasty Specialists are practicing medicine without a license.

State laws prohibit the practice of medicine without a license. Our MAKOplasty Specialists provide pre-operative and intra-operative clinical and technical support to our customers, including assistance setting up the equipment, participation in the pre-operative planning process, and facilitation of the surgeon's use of the RIO system during surgery. We do not believe that our MAKOplasty Specialists are engaged in the practice of medicine, but rather are assisting our customers in the safe and proper usage of our equipment and products. Nevertheless, a state could consider the activities of our MAKOplasty Specialists to constitute the practice of medicine and may seek to have us discontinue the services provided by our MAKOplasty Specialists or subject us to fine, penalties or licensure requirements. Any determination that our MAKOplasty Specialists are practicing medicine without a license may result in significant liability to us.

The application of state certificate of need regulations could substantially limit our ability to sell our products and grow our business.

Some states require healthcare providers to obtain a certificate of need or similar regulatory approval prior to the acquisition of high-cost capital equipment such as our RIO system. In some states, the process required of our customers to obtain this certificate is lengthy and could result in a longer sales cycle for our RIO system. Further, in many cases, only a limited number of these certificates are available. As a result, our customers may be unable to obtain a certificate of need for the purchase of our RIO system which could cause our sales to decline.

Federal regulatory reforms may adversely affect our ability to sell our products profitably.

From time to time, legislation is drafted and introduced in Congress that could significantly change the statutory provisions governing the clearance or approval, manufacture and marketing of a medical device. In addition, FDA regulations and guidance are often revised or reinterpreted by the agency in ways that may significantly affect our business and our products. It is impossible to predict whether legislative changes will be enacted or FDA regulations, guidance or interpretations changed, and what the impact of such changes, if any, may be.

Without limiting the generality of the foregoing, Congress has enacted, and the President signed into law, the Food and Drug Administration Amendments Act of 2007, or the Amendments. This law requires, among other things, that the FDA propose, and ultimately implement, regulations that will require manufacturers to label medical devices with unique identifiers unless a waiver is received from the FDA. Once implemented, compliance with those regulations may require us to take additional steps in the manufacture of our products and labeling. These steps may require additional resources and could be costly. In addition, the Amendments will require us to, among other things, pay annual establishment registration fees to the FDA for each of our FDA registered facilities.

We may be subject, directly or indirectly, to federal and state healthcare regulations, including fraud and abuse laws, and could face substantial penalties if we are unable to fully comply with such regulations and laws.

While we do not control referrals of healthcare services or bill directly to Medicare, Medicaid or other third-party payors, many healthcare laws and regulations apply to our business. For example, we could be subject to healthcare fraud and abuse and patient privacy regulation and enforcement by both the federal government and the states in which we conduct our business. The healthcare laws and regulations that may affect our ability to operate include:

- the federal healthcare programs' Anti-Kickback Statute, which prohibits, among other things, persons or entities from soliciting, receiving, offering or providing remuneration, directly or indirectly, in return for or to induce either the referral of an individual for, or the purchase order or recommendation of, any item or service for which payment may be made under a federal healthcare program such as the Medicare and Medicaid programs;
- federal false claims laws which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent, or are for items or services not provided as claimed, and which may apply to entities like us to the extent that our interactions with customers may affect their billing or coding practices;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which established new federal crimes for knowingly and willfully executing a scheme to defraud any healthcare benefit program or making false statements in connection with the delivery of or payment for healthcare benefits, items or services, as well as leading to regulations imposing certain requirements relating to the privacy, security and transmission of individually identifiable health information;
- the Health Information Technology for Economic and Clinical Health Act, or HITECH, which made HIPAA's privacy and security standards directly applicable to business associates of covered entities; and
- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers, and state laws governing the privacy of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

Additionally, several bills have been passed or are pending, at both the state and federal levels, that expand the anti-kickback laws to require, among other things, extensive tracking and maintenance of databases regarding relationships to physicians and healthcare providers. The implementation of the infrastructure to comply with these bills could be costly.

While we do not believe that the provisions of HITECH which make HIPAA's privacy and security standards directly applicable to business associates of covered entities apply to us since we do not believe that we are a business associate, there is no guarantee that the government will agree with our determination that we are not a business associate. If the government determines that we are a business associate, we could be subject to enforcement measures, including civil and criminal penalties and fines.

The orthopedic medical device industry is, and in recent years has been, under heightened scrutiny as the subject of government investigations and enforcement actions involving manufacturers who allegedly offered unlawful inducements to potential or existing customers in an attempt to procure their business, specifically including arrangements with physician consultants. We have arrangements with surgeons, hospitals and other entities which may be subject to scrutiny. For example, we have consulting agreements with orthopedic surgeons using or considering the use of our present and future RIO system and MAKOplasty implants and disposable products, for assistance in product development, and professional training and education, among other things. Payment for some of these consulting services has been in the form of stock options or royalties rather than per hour or per diem amounts that would require verification of time worked. We may continue in the future to make payment for these consulting services in the form of royalties or also possibly in the form of part time employment. In addition, we sometimes allow hospitals a period of evaluation of our products at no charge.

If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from the Medicare and Medicaid programs and the curtailment or restructuring of our operations. Any penalties, damages, fines, exclusions, curtailment or restructuring of our operations could adversely affect our ability to operate our business and our financial results. The risk of our being found in violation of these laws is increased by the fact that many of these laws are broad and their provisions are open to a variety of interpretations. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. If the surgeons or other providers or entities with whom we do business are found to be non-compliant with applicable laws, they may be subject to sanctions, which could also have a negative impact on our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We lease approximately 36,000 square feet of office and warehouse space in Fort Lauderdale, Florida, which is used as our headquarters and for the assembly of our products. Our lease expires on July 31, 2011. Thereafter, we have the right to renew our lease for two three-year terms upon prior written notice and the fulfillment of certain conditions. We believe that this facility is adequate to meet our current needs and we are investigating leasing additional space to accommodate our anticipated growth.

ITEM 3. LEGAL PROCEEDINGS

None

ITEM 4. RESERVED

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

Our common stock began trading on The NASDAQ Global Market under the symbol "MAKO" on February 14, 2008. Prior to that date, there was no identifiable public market for our common stock.

The following table sets forth the range of the high and low intraday prices for the period of April 1, 2008 through December 31, 2009 as reported by The NASDAQ Global Market.

	2009		2008	
	High	Low	High	Low
First Quarter	$ 9.18	$ 6.18	N/A	N/A
Second Quarter	$ 9.74	$ 6.59	$ 9.49	$ 7.00
Third Quarter	$ 10.00	$ 6.86	$ 8.45	$ 6.29
Fourth Quarter	$ 11.65	$ 8.47	$ 9.75	$ 5.23

Our stock transfer records indicated that as of March 1, 2010, there were approximately 48 holders of record of our common stock.

DIVIDEND POLICY

We have never declared dividends or paid any cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings to support our operations and finance the growth and development of our business. We do not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to dividend policy will be made at the discretion of our board of directors.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes our equity compensation plans as of December 31, 2009.

Plan Category	(a) Number of Shares of Our Common Stock to be Issued Upon Exercise of Outstanding Options	(b) Weighted-Average Exercise Price of Outstanding Options	(c) Number of Shares of Our Common Stock Remaining Available for Future Issuance Under Equity Compensation Plans (Exceeding Securities Reflected in Col (a))
Equity compensation plans approved by our security holders	3,478,000(1)	$ 6.71	727,000(2)
Equity compensation plans not approved by our security holders	None	None	None
TOTAL	3,478,000(1)	$ 6.71	727,000(2)

(1) This number includes shares of our common stock to be issued upon exercise of outstanding options under our 2004 Stock Incentive Plan and our 2008 Omnibus Incentive Plan. No further awards will be made under the 2004 Stock Incentive Plan.

(2) This number includes 553,000 shares available for future issuance under our 2008 Employee Stock Purchase Plan. The 2008 Omnibus Incentive Plan contains an evergreen provision whereby the authorized shares increase on January 1 of each year in an amount equal to the least of (i) 2,500,000 shares, (ii) 4% of the total number of shares of the Company's common stock outstanding on December 31 of the preceding year, and (iii) a number of shares determined by the Company's board of directors that is less than (i) and (ii).

UNREGISTERED SALES OF EQUITY SECURITIES

On January 8, 2010, we entered into an asset purchase agreement with Z-Kat to acquire certain intellectual property assets from Z-Kat in consideration for $3,053,569, payable in shares of our common stock. We closed this transaction and issued 230,458 shares of our common stock to Z-Kat in a private placement on February 25, 2010. These shares were issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

In connection with the closing, we entered into a registration rights agreement, dated as of February 25, 2010, with respect to the registration of the shares issued to Z-Kat at the closing. The registration rights agreement provides Z-Kat with "piggyback" registration rights for one year following the closing of the transaction and one demand registration right, which is exercisable beginning after the one year anniversary date of the closing but only to the extent that Z-Kat is not otherwise eligible to sell the shares pursuant to Rule 144 under the Securities Act of 1933, as amended.

USES OF PROCEEDS FROM SALE OF REGISTERED SECURITIES

Not applicable.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table summarizes the surrenders of the Company's common stock during the three month period ended December 31, 2009:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
October 1 to 31, 2009	—	$ —	—	$ —
November 1 to 30, 2009	15,834	8.97	—	—
December 1 to 31, 2009	—	—	—	—
	15,834	$ 8.97	—	$ —

(1) Represents the surrender of shares of common stock of the Company to satisfy the tax withholding obligations associated with the vesting of restricted stock.

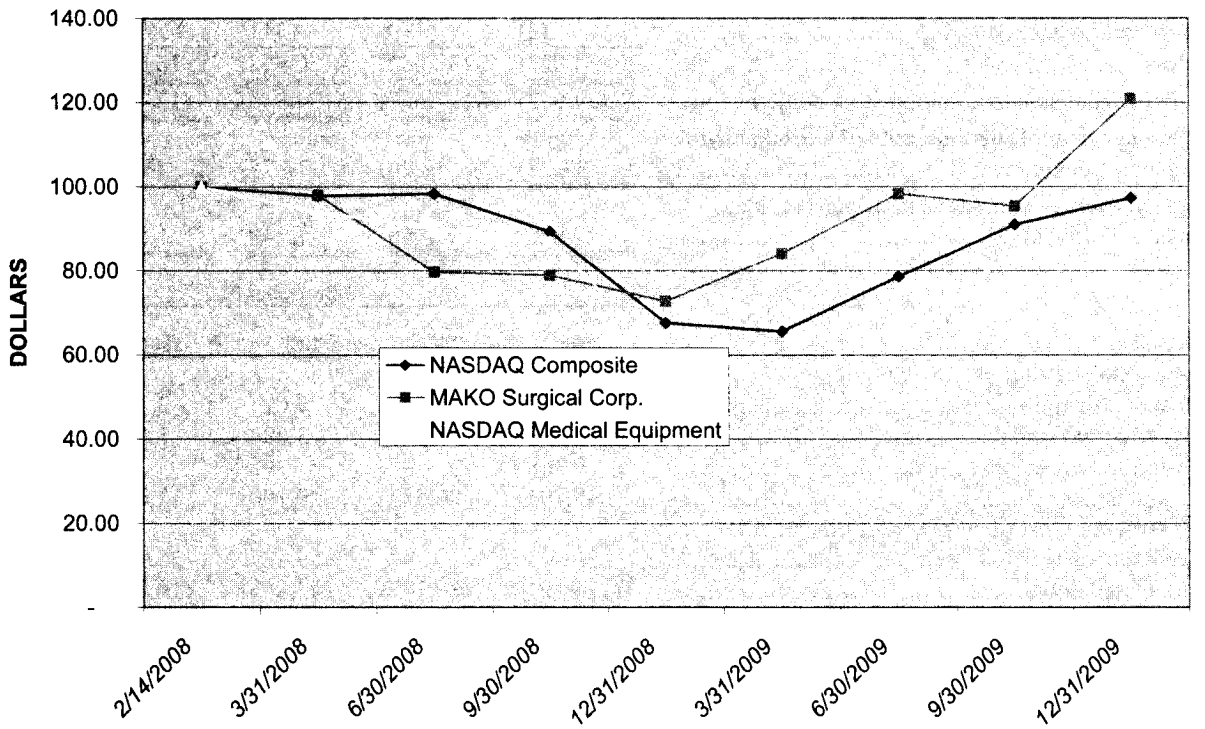
Performance Graph[1]

The following graph shows a comparison of cumulative total return for our common stock, the NASDAQ Composite Index, and the NASDAQ Medical Equipment Index. Such returns are based on historical results and are not intended to suggest future performance. The graph assumes $100 was invested in our common stock and in each of the indexes on February 14, 2008, the date our common stock commenced trading on The NASDAQ Global Market.

Data for the NASDAQ Composite Index and the NASDAQ Medical Equipment Index assume reinvestment of dividends. The Company has never paid dividends on its common stock and has no present plans to do so.

The stockholder return shown on the graph below is not necessarily indicative of future performance, and we do not make or endorse any predictions as to future stockholder returns.

COMPARISON OF 22-MONTH CUMULATIVE TOTAL RETURN
Among
MAKO Surgical Corp.
The NASDAQ Composite Index
and
The NASDAQ Medical Equipment Index



	2/14/2008	3/31/2008	6/30/2008	9/30/2008	12/31/2008	3/31/2009	6/30/2009	9/30/2009	12/31/2009
MAKO Surgical Corp.	$100.00	$97.93	$79.74	$78.98	$72.77	$84.10	$98.26	$95.42	$120.92
NASDAQ Composite	$100.00	$97.71	$98.30	$89.27	$67.61	$65.53	$78.67	$90.99	$ 97.28
NASDAQ Medical Equipment	$100.00	$93.88	$90.03	$87.10	$59.87	$52.40	$68.08	$83.64	$ 87.31

[1] This section is not "soliciting material," is not deemed "filed" with the SEC and is not to be incorporated by reference into any of our filings of under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain financial data with respect to our business. The information set forth below is not necessarily indicative of results of future operations and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and the financial statements and related notes thereto in Item 8.

	Years Ended December 31,				
(in thousands, except per share data)	2009	2008	2007	2006	2005
Statements of Operations Data					
Revenue	$ 34,208	$ 2,944	$ 771	$ 63	$ —
Cost of revenue	21,704	3,446	583	77	—
Gross profit (loss)	12,504	(502)	188	(14)	—
Operating costs and expenses:					
Selling, general and administrative	31,878	23,158	12,042	5,023	2,736
Research and development	13,127	12,472	8,269	5,192	2,582
Depreciation and amortization	1,951	1,828	1,297	644	98
Total operating costs and expenses	46,956	37,458	21,608	10,859	5,416
Loss from operations	(34,452)	(37,960)	(21,420)	(10,873)	(5,416)
Interest and other income	432	988	1,073	476	269
Interest and other expenses	(3)	(110)	(311)	(220)	—
Net loss	$ (34,023)	$ (37,082)	$ (20,658)	$ (10,617)	$ (5,147)
Net loss attributable to common stockholders	$ (34,023)	$ (37,647)	$ (24,318)	$ (12,493)	$ (6,288)
Net loss per share: Basic and diluted attributable to common stockholders (1)	$ (1.22)	$ (2.20)	$ (14.75)	$ (8.03)	$ (4.18)
Weighted average common shares outstanding: Basic and diluted (2)	27,806	17,096	1,649	1,555	1,503

	As of December 31,				
(in thousands)	2009	2008	2007	2006	2005
Balance Sheet Data:					
Cash and cash equivalents	$ 17,159	$ 62,547	$ 9,615	$ 2,108	$ 6,145
Short-term investments	44,686	1,077	3,084	1,400	10,097
Long-term investments	9,368	—	—	—	—
Total assets	99,103	86,533	29,190	12,754	17,435
Long-term debt, net of current portion	—	—	—	—	—
Redeemable convertible preferred stock	—	—	59,487	25,911	24,034
Accumulated deficit	(114,195)	(80,172)	(42,843)	(19,366)	(6,820)
Total stockholders' equity (deficit)	90,794	66,514	(42,837)	(19,437)	(6,888)

(1) The basic and diluted net loss per share computation excludes potential common shares upon exercise of options and warrants to purchase common stock and unvested restricted stock as their effect would be anti-dilutive. See Item 8, Financial Statements and Supplementary Data, Note 2 to the Financial Statements, for a detailed explanation of the determination of shares used in computing basic and diluted loss per share.

(2) Weighted average common shares outstanding and per share amounts have been retroactively adjusted to give effect to a one-for-3.03 reverse stock split of our common stock effected on February 8, 2008.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We are an emerging medical device company that markets our advanced robotic arm solution and orthopedic implants for minimally invasive orthopedic knee procedures. We offer MAKOplasty, an innovative, restorative surgical solution that enables orthopedic surgeons to consistently, reproducibly and precisely treat patient specific, early to mid-stage osteoarthritic knee disease. In February 2008, our common stock began trading on The NASDAQ Global Market under the ticker symbol "MAKO" in connection with the closing of our initial public offering, or IPO.

Through December 31, 2008, our recognized revenue was primarily generated from the sale of our implants and disposable products utilized in knee MAKOplasty procedures. In accordance with our revenue recognition policy, upon the sale of our first generation Tactile Guidance System, or TGS, we deferred recognition of the related revenue and direct cost of revenue until delivery of the RIO system, which is version 2.0 of the TGS. We commercially released the RIO system in the first quarter of 2009. Revenue for all previously deferred TGS sales was recognized in our statement of operations during the year ended December 31, 2009, upon delivery of the RIO system. We have incurred net losses in each year since our inception and, as of December 31, 2009, we had an accumulated deficit of $114.2 million. We expect to continue to incur significant operating losses as we increase our sales and marketing activities and otherwise continue to invest capital in the development and expansion of our products and our business generally. We also expect that our general and administrative expenses will increase due to additional operational and regulatory costs and burdens associated with the rapid expansion of our operations and operating as a public company.

Recent key milestones in the development of our business include the following:

- We commercially released our RIO system in the first quarter of 2009. Revenue for all previously deferred TGS sales was recognized in our statement of operations during the year ended December 31, 2009, upon delivery of the RIO system. In addition, we recognized the revenue and the direct cost of revenue from nineteen new unit sales of our RIO system during the year ended December 31, 2009, bringing the total number of commercial RIO systems to 36 as of December 31, 2009.
- In the second quarter of 2009, we commercially released our RESTORIS MCK multicompartmental knee implant system, or RESTORIS MCK, which enables surgeons to perform bicompartmental knee MAKOplasty procedures. As of December 31, 2009, 133 RESTORIS MCK bicompartmental knee MAKOplasty procedures were performed since the release of RESTORIS MCK.
- During the year ended December 31, 2009, a total of 1,602 knee MAKOplasty procedures were performed, including unicompartmental and bicompartmental procedures, representing a 167% increase over the year ended December 31, 2008.
- In September 2009, we received 510(k) marketing clearance from the FDA for an application that assists a surgeon in acetabular reaming during total hip arthroplasty using the RIO system platform. In February 2010, we received 510(k) marketing clearance from the FDA for an application that assists a surgeon in performing all components of a total hip arthroplasty using the RIO system. We believe these represent achievement of necessary milestones towards what we anticipate will be our continuing development and future commercialization of a RIO-enabled hip application.

We believe that the key to growing our near term business is expanding the acceptance and application of MAKOplasty to unicompartmental and multicompartmental knee resurfacing procedures by offering implants that address early to mid-stage, unicompartmental and multicompartmental knee degeneration. To successfully commercialize our products and grow our business, we must gain market acceptance for knee MAKOplasty.

FACTORS THAT MAY INFLUENCE FUTURE RESULTS OF OPERATIONS

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

Revenue

Revenue is generated from unit sales of our RIO systems, including installation services, training and upgrades and enhancements, from sales of implants and disposable products and sales of extended warranty service contracts. Through December 31, 2008, our recognized revenue was primarily generated from the sale of implants and disposable products utilized in knee MAKOplasty procedures. For the year ended December 31, 2009, we also recognized revenue from sales of our RIO systems in our statement of operations as described in the "Critical Accounting Policies and Significant Judgments and Estimates" section below.

Future revenue from sales of our products is difficult to predict and we expect that it will only modestly reduce our continuing and increasing losses resulting from selling, general and administrative expenses, research and development expenses and other activities for at least the next two or three years. Our future revenue may also be adversely affected by the current general economic downturn and the resulting tightening of the credit markets, which may cause purchasing decisions to be delayed or cause our customers to experience difficulties in securing adequate funding to buy our products.

The generation of recurring revenue through sales of our knee implants, disposable products and extended warranty service contracts is an important part of the MAKOplasty business model. We anticipate that recurring revenue will constitute an increasing percentage of our total revenue as we leverage each new installation of our RIO system to generate recurring sales of implants and disposable products and as we expand our implant product offering.

Cost of Revenue

Cost of revenue primarily consists of the direct costs associated with the manufacture of RIO systems, implants and disposable products for which revenue has been recognized or deferred in accordance with our revenue recognition policy. Costs associated with providing services are expensed as incurred. Cost of revenue also includes the allocation of manufacturing overhead costs, the cost associated with establishing at the time of installation an accrual for the RIO system standard one-year warranty liability, royalties related to the sale of products covered by licensing arrangements and write-offs of obsolete or impaired inventory.

The direct cost of revenue associated with the sale of TGS units was deferred until the recognition of the related revenue. The revenue and the direct cost of revenue for all previously deferred TGS sales was recognized in our statement of operations during the year ended December 31, 2009, upon delivery of the RIO system.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses consist primarily of compensation, including stock-based compensation and benefits, for sales, marketing, clinical research, operations, regulatory, quality, executive, finance, legal and administrative personnel. Other significant expenses include costs associated with sales and marketing activities, marketing and advertising materials, insurance, professional fees for legal and accounting services, consulting fees, travel expenses, facility and related operating costs, and recruiting expenses. Our selling, general and administrative expenses are expected to continue to increase due to the planned increase in the number of employees necessary to support the sales and marketing efforts associated with the growing commercialization of MAKOplasty, an increased number of employees necessary to support our continued growth in operations, and the additional operational and regulatory burdens and costs associated with operating as a publicly traded company. In addition, we are currently in the process of securing European Union CE marking for the RESTORIS MCK onlay unicompartmental knee implant system, which is a legal requirement for medical devices intended for sale in Europe, which may also increase our selling, general and administrative expenses, and we expect to incur additional costs associated with securing and protecting our intellectual property rights as necessary to support our future product offerings.

Research and Development Expenses

Costs related to research, design and development of products are charged to research and development expense as incurred. These costs include direct salary and benefit costs for research and development employees including stock-based compensation, cost for materials used in research and development activities and costs for outside services. We expect our research and development expense to increase as we continue to expand our research and development activities, including the support of existing products and the research of potential future products.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

Our management's discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements as well as the reported expenses during the reporting periods. The accounting estimates that require our most significant, difficult and subjective judgments include revenue recognition, allowance for doubtful accounts, inventory valuation, valuation allowance for deferred income tax assets, impairment of long-lived assets and the determination of stock-based compensation. We evaluate our estimates and judgments on an ongoing basis. Actual results may differ materially from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in Item 8, Financial Statements and Supplementary Data, Note 2 to the Financial Statements, we believe that the following accounting policies and estimates are most critical to a full understanding and evaluation of our reported financial results.

Revenue Recognition

Revenue is generated from unit sales of our RIO systems, including installation services, training and upgrades and enhancements, from sales of implants and disposable products and sales of extended warranty service contracts. Through December 31, 2008, our recognized revenue was primarily generated from the sale of implants and disposable products utilized in knee MAKOplasty procedures. For the year ended December 31, 2009, we also recognized revenue from sales of our RIO systems in our statement of operations as discussed below.

Since December 31, 2008, we no longer manufacture TGS units, to which associated TGS sales arrangements required us to provide upgrades and enhancements, through and including the delivery of the RIO system. We commercially released the RIO system in the first quarter of 2009. Sales arrangements for RIO systems do not require us to provide upgrades and enhancements. As a result, we anticipate that revenues related to RIO system sales will not be deferred and will be recognized upon installation of the system, delivery of associated instrumentation and training of at least one surgeon.

For sales of TGS units through December 31, 2008, the sales arrangements required us to provide upgrades and enhancements to the TGS unit through and including delivery of the RIO system. Prior to delivery of the RIO system, sales of TGS units were recorded as deferred revenue and the direct cost of revenue associated with the sale of TGS units was recorded as deferred cost of revenue. Upon satisfaction of the final deliverable of the RIO system, the revenue and direct cost of revenue associated with the sale of TGS units are recognized in our statement of operations. Revenue for all previously deferred TGS sales was recognized in our statement of operations during the year ended December 31, 2009, upon delivery of the RIO system. Our deferred revenue balance as of December 31, 2009 consists primarily of deferred service revenue for extended warranty services on the RIO system hardware.

A portion of our customers acquire our RIO system through a leasing arrangement with a third-party leasing company. In these instances, we typically sell the RIO system to the leasing company, and our customer enters into an independent leasing arrangement with the leasing company. We treat these leasing transactions the same as sales transactions for purposes of recognizing revenue for the sale.

Procedure revenue from the sale of implants and disposable products utilized in knee MAKOplasty procedures is recognized when persuasive evidence of an arrangement exists, delivery has occurred or service has been rendered, the price is fixed or determinable and collectability is reasonably assured. The implants and disposable products are a separate unit of accounting from the RIO systems as (1) they have value to the customer on a standalone basis, (2) objective and reliable evidence of the fair value of the item exists and (3) no right of return exists once the implants and disposable products are implanted or consumed. Accordingly, as our implants and disposable products are sold on

a procedural basis, the revenue and costs associated with the sale of implants and disposable products are recognized at the time of sale (i.e., at the time of the related surgical procedure).

Service revenue consists of extended warranty services on the RIO system hardware, and is deferred and recognized ratably over the service period until no further obligation exists. Costs associated with providing extended warranty services are expensed as incurred.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on our assessment of the collectability of customer accounts. We regularly review the allowance by considering factors such as historical experience, credit quality, the age of the accounts receivable balances and current economic conditions that may affect a customer's ability to pay. We have not experienced any collectability issues to date and have no allowance, provision for doubtful accounts receivable or write-offs to date in the accompanying financial statements included in Item 8, Financial Statements and Supplementary Data, of this report.

Inventory Valuation

Inventory is stated at the lower of cost or market value on a first-in, first-out basis. Inventory costs include direct materials, direct labor and manufacturing overhead. We review our inventory periodically to determine net realizable value and consider product upgrades in our periodic review of realizability. We write down inventory, if required, based on forecasted demand and technological obsolescence. These factors are impacted by market and economic conditions, technology changes and new product introductions and require estimates that may include uncertain elements.

Beginning with the fourth quarter of 2008, manufacturing overhead costs have been capitalized and included in inventory. Previously, such overhead costs were fully expensed as selling, general and administrative expense as capitalizable amounts were not significant.

Valuation Allowance for Deferred Income Tax Assets

Deferred income taxes are determined based on the differences between financial reporting and income tax bases of assets and liabilities and are measured using the enacted income tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred income tax assets to the amounts expected to be realized. A full valuation allowance has been recorded in the accompanying financial statements relating to all our net deferred income tax assets.

Impairment of Long-Lived Assets

We evaluate our long-lived assets for indicators of impairment by comparison of the carrying amounts to future net undiscounted cash flows expected to be generated by such assets when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the asset's fair value or discounted estimate of future cash flows.

Determination of Stock-Based Compensation

We recognize compensation expense for our stock-based awards in accordance with ASC 718, *Compensation-Stock Compensation.* ASC 718 requires the recognition of compensation expense, using a fair value based method, for costs related to all share-based payments including stock options. ASC 718 requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model.

We account for stock-based compensation arrangements with non-employees in accordance with the ASC 505-50, *Equity-Based Payments to Non-Employees.* We record the expense of such services based on the estimated fair value of the equity instrument using the Black-Scholes-Merton pricing model. The value of the equity instrument is charged to expense over the term of the service agreement.

We selected the Black-Scholes-Merton 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 an option-pricing model will be affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rates, forfeitures and expected dividends.

During the year ended December 31, 2009, we recognized $4.0 million of stock-based compensation expense including stock option grants, restricted stock grants, and compensation expense relating to shares issued under our employee share purchase plan, leaving $9.9 million to be recognized in future periods. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures, and is expected to be recognized over a remaining weighted average period of 2.7 years as of December 31, 2009.

RESULTS OF OPERATIONS

Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Revenue.

Revenue was $34.2 million for the year ended December 31, 2009, compared to $2.9 million for the year ended December 31, 2008. The increase in revenue of $31.3 million was primarily due to $14.7 million of revenue from nineteen unit sales of our RIO system and the recognition of approximately $11.3 million of revenue from seventeen previously deferred unit sales of our TGS. In accordance with our revenue recognition policy, recognition of revenue on unit sales of our TGS was deferred until delivery of the RIO system, which we commercially released in the first quarter of 2009. Prior to 2009, recognized revenue was primarily generated from the sale of implants and disposable products utilized in knee MAKOplasty procedures. Total revenue was also positively impacted by a $5.1 million increase in procedure revenue attributable to an increase in knee MAKOplasty procedures performed during the year ended December 31, 2009 as compared with the year ended December 31, 2008. There were 1,602 knee MAKOplasty procedures performed during the year ended December 31, 2009 compared to 601 knee MAKOplasty procedures performed during year ended December 31, 2008. We expect our revenue to continue to increase as unit sales of our RIO system increase in future periods and the number of knee MAKOplasty procedures performed increases in future periods.

Cost of Revenue.

Cost of revenue was $21.7 million for the year ended December 31, 2009, compared to $3.4 million for the year ended December 31, 2008. The increase in cost of revenue of $18.3 million was primarily due to the cost of revenue from nineteen unit sales of our RIO system, the recognition of the direct cost of revenue from seventeen previously deferred unit sales of our TGS, including the cost of providing the RIO system upgrades, as described in the "Critical Accounting Policies and Significant Judgments and Estimates" section above, and an increase in knee MAKOplasty procedures performed. We expect our cost of revenue to continue to increase as unit sales of our RIO system increase in future periods and the number of knee MAKOplasty procedures performed increases in future periods.

Selling, General and Administrative.

Selling, general and administrative expense was $31.9 million for the year ended December 31, 2009, compared to $23.2 million for the year ended December 31, 2008. The increase of $8.7 million, or 38%, was primarily due to an increase in sales, marketing and operations costs associated with the production and commercialization of our products and an increase in general and administrative costs to support growth and costs associated with operating as a public company. Selling, general and administrative expense for the year ended December 31, 2009 also included $3.3 million of stock-based compensation expense compared to $1.9 million for the year ended December 31, 2008. The increase in stock-based compensation expense was primarily due to additional option and restricted stock grants made in 2009. We expect our selling, general and administrative expenses to continue to increase substantially due to our planned increase in the number of employees necessary to support the sales and marketing efforts associated with the growing commercialization of our products, continued growth in operations and the costs associated with operating as a public company.

Research and Development.

Research and development expense was $13.1 million for the year ended December 31, 2009, compared to $12.5 million for the year ended December 31, 2008. The increase of $655,000, or 5%, was primarily due to an increase in research and development activities associated with on-going development of our RIO system, our MAKO implant systems and potential future products. This was partially offset by a nonrecurring charge of $949,000 incurred in the first quarter of 2008 associated with the vesting in full, upon completion of our IPO in February 2008, of restricted common stock issued pursuant to business consultation agreements entered into in December 2004. We expect our research and development expense to increase as we continue to expand our research and development activities, including the support of existing products and the research of potential future products.

Depreciation and Amortization.

Depreciation and amortization expense was $2.0 million for the year ended December 31, 2009, compared to $1.8 million for the year ended December 31, 2008. The increase of $123,000, or 7%, was primarily due to an increase in depreciation of property and equipment as a result of purchases made during 2009 and 2008.

Interest and Other Income.

Interest and other income was $432,000 for the year ended December 31, 2009, compared to $988,000 for the year ended December 31, 2008. The decrease of $556,000, or 56%, was primarily due to lower yields realized on our cash, cash equivalents and investments for the year ended December 31, 2009 compared with the same period of 2008.

Interest and Other Expense.

Interest and other expense was $3,000 for the year ended December 31, 2009, compared to $110,000 for the year ended December 31, 2008. Through February 2008, interest and other expense consisted primarily of the amortization of a $590,000 discount associated with a deferred license fee payment of $4.0 million which had been fully amortized and paid upon the completion of our IPO in February 2008.

Income Taxes.

No income taxes were recognized for the year ended December 31, 2009 and 2008, due to net operating losses in each period. In addition, no current or deferred income taxes were recorded for the year ended December 31, 2009 and 2008, as all income tax benefits were fully offset by a valuation allowance against our net deferred income tax assets.

Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Revenue.

Revenue was $2.9 million for the year ended December 31, 2008, compared to $771,000 for the year ended December 31, 2007, and was primarily generated from the sale of implants and disposable products utilized in knee MAKOplasty procedures. The increase in revenue of $2.2 million was primarily due to an increase in MAKOplasty procedures performed during the year ended December 31, 2008 as compared with the year ended December 31, 2007. There were 601 procedures performed during the year ended December 31, 2008 compared to 168 procedures performed during the year ended December 31, 2007. Total revenue was also positively impacted by a $434,000 increase in other revenue, which consists primarily of service revenue on extended warranty services and net royalty revenues.

Cost of Revenue.

Cost of revenue was $3.4 million for the year ended December 31, 2008, compared to $583,000 for the year ended December 31, 2007. The increase in cost of revenue of $2.9 million was primarily due to an increase in knee MAKOplasty procedures performed, a $730,000 write-off of obsolete and discontinued inventory in 2008 primarily due to the launch of our RESTORIS implant system in 2008 and the anticipated launch of our RIO system in the first half 2009, the establishment of warranty accruals on sales of twelve TGS units and royalties incurred on sales of twelve TGS units during the year ended December 31, 2008.

Selling, General and Administrative.

Selling, general and administrative expense was $23.2 million for the year ended December 31, 2008, compared to $12.0 million for the year ended December 31, 2007. The increase of $11.1 million, or 92%, was primarily due to an increase in sales, marketing and operations costs associated with the production and commercialization of our products, an increase in general and administrative costs to support growth and costs associated with operating as a public company. Selling, general and administrative expense for the year ended December 31, 2008 also included $1.9 million of stock-based compensation expense compared with $1.0 million for the year ended December 31, 2007. The increase in stock-based compensation expense was primarily due to additional option and restricted stock grants made in 2008 and 2007.

Research and Development.

Research and development expense was $12.5 million for the year ended December 31, 2008, compared to $8.3 million for the year ended December 31, 2007. The increase of $4.2 million, or 51%, was primarily due to an increase in research and development activities associated with on-going development of our RIO system and the RESTORIS and RESTORIS MCK implant systems. Research and development expense for the year ended December 31, 2008 also included $1.4 million of stock-based compensation expense compared with $184,000 for the year ended December 31, 2007. The increase in stock-based compensation expense is due primarily to a nonrecurring charge of $949,000 associated with the vesting in full, upon completion of our IPO in February 2008, of restricted common stock issued pursuant to business consultation agreements entered into in December 2004.

Depreciation and Amortization.

Depreciation and amortization expense was $1.8 million for the year ended December 31, 2008, compared to $1.3 million for the year ended December 31, 2007. The increase of $531,000, or 41%, was primarily due to an increase in depreciation of property and equipment as a result of purchases made during 2008 and 2007.

Interest and Other Income.

Interest income was $988,000 for the year ended December 31, 2008, compared to $1.1 million for the year ended December 31, 2007. The decrease of $85,000, or 8%, was primarily due to lower yields realized on our cash, cash equivalents and investments for the year ended December 31, 2008 compared with the year ended December 31, 2007.

Interest and Other Expense.

Interest and other expense was $110,000 for the year ended December 31, 2008, compared to $311,000 for the year ended December 31, 2007. Through February 2008, interest and other expense consisted primarily of the amortization of the $590,000 discount associated with a deferred license fee payment of $4.0 million which had been fully amortized and paid upon the completion of our IPO in February 2008. Interest and other expense also included a $63,000 write down of our variable auction rate securities in the first quarter of 2008.

Income Taxes.

No income taxes were recognized for the years ended December 31, 2008 and 2007, due to net operating losses in each period. In addition, no current or deferred income taxes were recorded for the years ended December 31, 2008 and 2007, as all income tax benefits were fully offset by a valuation allowance against our net deferred income tax assets.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)

	2009	Change	2008	Change	2007
Cash and cash equivalents	$ 17,159	$ (45,388)	62,547	$ 52,932	$ 9,615
Short-term investments	44,686	43,609	1,077	(2,007)	3,084
Long-term investments	9,368	9,368	—	—	—
Total cash, cash equivalents, and investments	$ 71,213	$ 7,589	$ 63,624	$ 50,925	$ 12,699
Cash used in operating activities	$ (45,572)	$ (15,752)	$ (29,820)	$ (13,745)	$ (16,075)
Cash used in investing activities	(54,180)	(50,631)	(3,549)	(333)	(3,216)
Cash provided by financing activities	54,364	(31,937)	86,301	59,503	26,798
Net increase (decrease) in cash and cash equivalents	$ (45,388)	$ (98,320)	$ 52,932	$ 45,425	$ 7,507

We have incurred net losses and negative cash flow from operating activities for each period since our inception in November 2004. As of December 31, 2009, we had an accumulated deficit of $114.2 million and have financed our operations principally through the sale of Series A, B and C redeemable convertible preferred stock, the sale of common stock in our IPO in February 2008, our equity financing in October 2008 and our sale of common stock in August 2009. In February 2008, we completed our IPO of common stock, issuing a total of 5.1 million shares at an offering price to the public of $10.00 per share, resulting in net proceeds to us, after underwriting discounts and commission and expenses, of approximately $43.8 million. In conjunction with the closing of the IPO in February 2008, all of our outstanding Series A, Series B and Series C redeemable convertible preferred stock was converted into 10,945,080 shares of common stock, as adjusted for a one-for-3.03 reverse stock split, which has been retroactively reflected in the accompanying financial statements.

In October 2008, we entered into a Securities Purchase Agreement for an equity financing of up to approximately $60 million, with initial gross proceeds of approximately $40.2 million, which we closed on October 31, 2008, and conditional access to an additional $20 million. The financing resulted in net proceeds of approximately $39.7 million, after expenses of approximately $525,000. In connection with the financing, we issued and sold to the participating investors 6,451,613 shares of our common stock at a purchase price of $6.20 per share and issued to participating investors, at the purchase price of $0.125 per warrant, warrants to purchase 1,290,323 shares of common stock at an exercise price of $7.44 per share. The warrants became exercisable on April 29, 2009 and have a seven-year term.

Subject to the satisfaction of certain business related milestones before December 31, 2009, we had the right, which we refer to as the call right, to require certain participants in the financing to purchase an additional $20 million of common stock and warrants to purchase common stock. We did not exercise our call right, which expired on December 31, 2009, to require these participants to purchase an additional $20 million of common stock. At the initial closing, the investors that agreed to provide the additional $20 million investment received warrants to purchase an additional 322,581 shares of our common stock at a purchase price of $0.125 per warrant and an exercise price of $6.20 per share. These warrants became exercisable on December 31, 2009.

In August 2009, we completed a public offering of our common stock, issuing 8,050,000 shares at an offering price to the public of $7.25 per share, resulting in net proceeds of approximately $54.3 million, after underwriting discounts and commissions and expenses.

As of December 31, 2009, we had approximately $71.2 million in cash, cash equivalents and investments. Our cash and investment balances are held in a variety of interest bearing instruments, including notes and bonds from U.S. government agencies, certificates of deposit and investment grade rated U.S. corporate debt.

Net Cash Used in Operating Activities

Net cash used in operating activities primarily reflects the net loss for those periods, which was reduced in part by depreciation and amortization, stock-based compensation and inventory write-downs. Net cash used in operating activities was also affected by changes in operating assets and liabilities. Included in changes in operating assets and liabilities for the year ended December 31, 2009 are approximately $11.0 million and $3.6 million of decreases to the deferred revenue balance and deferred cost of revenue balance, respectively, due to the recognition of seventeen previously deferred unit sales of our TGS, $7.4 million of increases in inventory necessitated by the commercial release of the RIO system, the commercial release of the RESTORIS MCK implant system and increased sales of implants and disposable products and $3.8 million of increases in accounts receivable due to increased sales in the

fourth quarter of 2009 as compared to the forth quarter of 2008. Included in changes in operating assets for the year ended December 31, 2008 are approximately $8.2 million of increases to the deferred revenue balance, which was partially offset by approximately $2.7 million of increases to the deferred cost of revenue balance. The increases to the deferred revenue and deferred cost of revenue balances are primarily related to twelve unit sales of our TGS during the year ended December 31, 2008. In accordance with our revenue recognition policy, recognition of revenue and direct cost of revenue associated with the unit sales of our TGS was deferred until delivery of the RIO system, which we commercially released in the first quarter of 2009.

Net Cash Used in Investing Activities

Net cash used in investing activities for the year ended December 31, 2009 was primarily attributable to the purchase of investments of $60.0 million and purchases of property and equipment of $790,000, which was partially offset by proceeds of $6.7 million from sales and maturities of investments. Net cash used in investing activities for the year ended December 31, 2008 was primarily attributable to the payment of the $4.0 million deferred license fee due upon completion of our IPO, purchases of $1.6 million of property and equipment as we invested in the infrastructure to support the growth of our company and $2.0 million for the purchase of investments, which was partially offset by proceeds of $4.0 million from sales and maturities of investments.

Net Cash Provided by Financing Activities

Net cash provided by our financing activities for the year ended December 31, 2009 was primarily attributable to net proceeds received in connection with our equity financing in August 2009. Net cash provided by our financing activities for the year ended December 31, 2008 was primarily attributable to net proceeds received in connection with our IPO in February 2008 and to net proceeds received in connection with our equity financing in October 2008.

Operating Capital and Capital Expenditure Requirements

To date, we have not achieved profitability. We anticipate that we will continue to incur substantial net losses for at least the next two or three years as we expand our sales and marketing capabilities in the orthopedic products market, commercialize our RIO system and RESTORIS unicompartmental and RESTORIS MCK multicompartmental knee implant systems, continue research and development of existing and future products and continue development of the corporate infrastructure required to sell and market our products, support operations and operate as a public company. We also expect to experience increased cash requirements for inventory and property and equipment in conjunction with the continued commercialization of our RESTORIS unicompartmental and RESTOIS MCK multicompartmental knee implant systems and our RIO system.

In executing our current business plan, we believe our existing cash, cash equivalents and investment balances, and interest income we earn on these balances will be sufficient to meet our anticipated cash requirements for at least the next twelve months. To the extent our available cash, cash equivalents and investment balances are insufficient to satisfy our operating requirements after that period, we will need to seek additional sources of funds, including selling additional equity, debt or other securities or entering into a credit facility, or modify our current business plan. The sale of additional equity and convertible debt securities may result in dilution to our current stockholders. If we raise additional funds through the issuance of debt securities, these securities may have rights senior to those of our common stock and could contain covenants that could restrict our operations and issuance of dividends. We may also require additional capital beyond our currently forecasted amounts. Any required additional capital, whether forecasted or not, may not be available on reasonable terms, or at all. If we are unable to obtain additional financing, we may be required to reduce the scope of, delay or eliminate some or all of our planned research, development and commercialization activities, which could materially harm our business and results of operations.

Because of the numerous risks and uncertainties associated with the development of medical devices and the current economic situation, we are unable to estimate the exact amounts of capital outlays and operating expenditures necessary to complete the development of our products and successfully deliver commercial products to the market. Our future capital requirements will depend on many factors, including but not limited to the following:

- the revenue generated by sales of our current and future products;
- the expenses we incur in selling and marketing our products;
- the costs and timing of regulatory clearance or approvals for upgrades or changes to our products;

- the rate of progress, cost and success of on-going product development activities;
- the emergence of competing or complementary technological developments;
- the costs of filing, prosecuting, defending and enforcing any patent or license claims and other intellectual property rights, or participating in litigation related activities;
- the acquisition of businesses, products and technologies, although we currently have no understandings, commitments or agreements relating to any material transaction of this type; and
- the continued downturn in general economic conditions and interest rates.

Contractual Obligations

The following table summarizes our outstanding contractual obligations as of December 31, 2009 and the effect those obligations are expected to have on our liquidity and cash flows in future periods:

(in thousands)	Payment Due by Period				
		December 31,			After
	Total	2010	2011-2012	2013-2014	2014
Contractual Obligations					
Minimum royalty payments – licenses	$ 11,724	$ 1,258	$ 3,358	$ 3,085	$ 4,023
Purchase commitments and obligations	7,140	7,140	—	—	—
Development agreement obligations	1,000	1,000	—	—	—
Operating lease – real estate	639	400	239	—	—
Total	$ 20,503	$ 9,798	$ 3,597	$ 3,085	$ 4,023

Our commitments for minimum royalty payments relate to payments under various licenses and sublicenses as discussed in Item 8, Financial Statements and Supplementary Data, Note 7 to the Financial Statements. Our commitments for purchase commitments and obligations include an estimate of open purchase orders and contractual obligations in the ordinary course of business, including commitments with contract manufacturers and suppliers, for which we have not received the goods or services. Our commitments for development agreement obligations relate to payments under a research and development agreement as discussed in Item 8, Financial Statements and Supplementary Data, Note 7 to the Financial Statements. Our commitments for operating leases relate to the lease for our headquarters in Fort Lauderdale, Florida.

RECENT ACCOUNTING PRONOUNCEMENTS

Adopted Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board, or FASB, issued an accounting standard update. As codified in Accounting Standards Codification 815-40, or ASC 815-40, *Derivatives and Hedging*, this update provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. The update applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative, for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception under ASC 815-10-15. The update also applies to any freestanding financial instrument that is potentially settled in an entity's own stock, regardless of whether the instrument has all the characteristics of a derivative under previous derivative Generally Accepted Accounting Principals, or GAAP, for purposes of determining whether the instrument is within the scope of derivative accounting. ASC 815-40 was effective beginning first quarter of fiscal 2009. The adoption did not have a material impact on our results of operations and financial position.

Effective January 1, 2009, we adopted a new accounting standard update regarding business combinations. As codified under ASC 805, *Business Combinations*, this update requires an entity to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred; that restructuring costs generally be expensed in periods subsequent to the acquisition date; and that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recognized as a component of provision for taxes. In addition, acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life. The adoption did not have a material impact on our results of operations and financial position.

In December 2007, the FASB issued accounting guidance regarding noncontrolling interests, as codified in ASC 810-10-65. ASC 810-10-65 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. ASC 810-10-65 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The adoption did not have a material impact on our results of operations and financial position.

Effective April 1, 2009, we adopted a new accounting standard, as codified in ASC 820-10-65, which provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. ASC 820-10-65 also includes guidance on identifying circumstances that indicate a transaction is not orderly. The adoption did not have a material impact on our results of operations and financial position.

In April 2009, the FASB issued an accounting standard update, as codified in ASC 320-10-65, to amend the other-than-temporary impairment guidance in debt securities to be based on intent to sell instead of ability to hold the security and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This pronouncement is effective for periods ending after June 15, 2009. The adoption did not have a material impact on our results of operations and financial position.

Effective April 1, 2009, we adopted a new accounting standard for subsequent events, as codified in ASC 855-10, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before the financial statements are issued or available to be issued ("subsequent events"). ASC 855-10 is effective for interim or annual periods ending after June 15, 2009. See Item 8, Financial Statements and Supplementary Data, Note 11 to the Financial Statements for discussion of subsequent event.

Effective July 1, 2009, we adopted *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, or ASC 105. ASC 105 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with generally accepted accounting principles. ASC 105 explicitly recognizes rules and interpretive releases of the SEC under federal securities laws as authoritative GAAP for SEC registrants. As ASC 105 was not intended to change or alter existing GAAP, it did not have any impact on our financial statements.

Recent Accounting Pronouncements

In September 2009, the FASB issued Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force*, or ASU 2009-13. ASU 2009-13 updates the existing multiple-element revenue arrangements guidance currently included under ASC 605-25. ASU 2009-13 eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting and eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. We are currently evaluating the future impact that ASU 2009-13 will have on our financial statements.

In September 2009, the FASB issued Update No. 2009-14, *Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force*, or ASU 2009-14. ASU 2009-14 modifies the scope of ASC 985-605 to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. ASU 2009-14 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. We are currently evaluating the future impact that ASU 2009-14 will have on our financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk is confined to our cash, cash equivalents and investments. The goals of our cash investment policy are the security of the principal invested and fulfillment of liquidity needs, with the need to maximize value being an important consideration. To achieve our goals, we maintain a portfolio of cash equivalents and investments in a variety of securities including notes and bonds from U.S. government agencies, certificates of deposit and investment grade rated U.S. corporate debt. The securities in our investment portfolio are not leveraged and are classified as available-for-sale. We currently do not hedge interest rate exposure. We do not believe that a variation in market rates of interest would significantly impact the value of our investment portfolio.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MAKO SURGICAL CORP.

Index to the Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
MAKO Surgical Corp.

We have audited the accompanying balance sheets of MAKO Surgical Corp. as of December 31, 2009 and 2008, and the related statements of operations, redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MAKO Surgical Corp. at December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), MAKO Surgical Corp.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2010 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP
Certified Public Accountants

Fort Lauderdale, Florida
March 10, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
MAKO Surgical Corp.

We have audited MAKO Surgical Corp.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). MAKO Surgical Corp.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, MAKO Surgical Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of MAKO Surgical Corp. as of December 31, 2009 and 2008, and the related statements of operations, redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2009 of MAKO Surgical Corp. and our report dated March 10, 2010 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP
Certified Public Accountants

Fort Lauderdale, Florida
March 10, 2010

MAKO SURGICAL CORP.

Balance Sheets

(in thousands, except share and per share data)

	December 31, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 17,159	$ 62,547
Short-term investments	44,686	1,077
Accounts receivable	6,536	2,727
Inventory	10,190	7,673
Deferred cost of revenue	—	3,608
Prepaids and other assets	532	483
Total current assets	79,103	78,115
Long-term investments	9,368	—
Property and equipment, net	6,205	3,424
Intangible assets, net	4,234	4,817
Other assets	193	177
Total assets	$ 99,103	$ 86,533
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,159	$ 1,809
Accrued compensation and employee benefits	3,709	2,338
Other accrued liabilities	2,872	4,283
Deferred revenue	548	11,518
Total current liabilities	8,288	19,948
Deferred revenue	21	71
Total liabilities	8,309	20,019
Stockholders' equity:		
Preferred stock, $0.001 par value; 27,000,000 authorized; 0 shares issued and outstanding as of December 31, 2009 and 2008	—	—
Common stock, $0.001 par value; 135,000,000 authorized; 33,036,378 and 24,684,786 shares issued and outstanding as of December 31, 2009 and 2008, respectively	33	25
Additional paid-in capital	204,977	146,607
Accumulated deficit	(114,195)	(80,172)
Accumulated other comprehensive income (loss)	(21)	54
Total stockholders' equity	90,794	66,514
Total liabilities and stockholders' equity	$ 99,103	$ 86,533

See accompanying notes.

MAKO SURGICAL CORP.

Statements of Operations
(in thousands, except per share data)

	Years Ended December 31,		
	2009	2008	2007
Revenue:			
Procedures	$ 7,550	$ 2,457	$ 718
Systems – RIO	14,715	—	—
Systems – TGS, previously deferred	11,297	—	—
Service and other	646	487	53
Total revenue	34,208	2,944	771
Cost of revenue:			
Procedures	3,337	1,521	197
Systems – RIO	9,032	1,692	361
Systems – RIO upgrades	5,183	—	—
Systems – TGS, previously deferred	3,606	—	—
Service and other	546	233	25
Total cost of revenue	21,704	3,446	583
Gross profit (loss)	12,504	(502)	188
Operating costs and expenses:			
Selling, general and administrative	31,878	23,158	12,042
Research and development	13,127	12,472	8,269
Depreciation and amortization	1,951	1,828	1,297
Total operating costs and expenses	46,956	37,458	21,608
Loss from operations	(34,452)	(37,960)	(21,420)
Interest and other income	432	988	1,073
Interest and other expenses	(3)	(110)	(311)
Net loss	(34,023)	(37,082)	(20,658)
Accretion of preferred stock	—	(44)	(301)
Dividends on preferred stock	—	(521)	(3,359)
Net loss attributable to common stockholders	$ (34,023)	$ (37,647)	$ (24,318)
Net loss per share – Basic and diluted attributable to common stockholders	$ (1.22)	$ (2.20)	$ (14.75)
Weighted average common shares outstanding – Basic and diluted	27,806	17,096	1,649

See accompanying notes.

MAKO SURGICAL CORP.

Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)

(in thousands)

	Redeemable Convertible Preferred		Common	Stock	Additional	Note Receivable		Other	Total Stockholders'
	Shares	Amount	Shares	Amount	Paid-in Capital	from Stockholder	Accumulated Deficit	Comprehensive Income (Loss)	Equity (Deficit)
Balance at December 31, 2006	19,650	$ 25,911	1,556	$ 2	$ —	$ (71)	$ (19,366)	$ (2)	$ (19,437)
Issuance of Series C redeemable convertible preferred stock, net of issuance costs of $84,000	13,514	29,916	—	—	—	—	—	—	—
Issuance of common stock upon exercise of options	—	—	1	—	2	—	—	—	2
Employee share-based compensation expense	—	—	—	—	531	—	—	—	531
Interest on note receivable from stockholder	—	—	—	—	4	(4)	—	—	—
Modification of restricted stock	—	—	300	—	394	75	—	—	469
Return of 35,244 shares due to modification of restricted stock	—	—	(35)	—	(392)	—	—	—	(392)
Restricted common stock compensation expense	—	—	49	—	302	—	—	—	302
Accretion to redemption value of Series A, B and C redeemable convertible preferred stock	—	301	—	—	(301)	—	—	—	(301)
Accrued dividends on Series A, B and C redeemable convertible preferred stock	—	3,359	—	—	(540)	—	(2,819)	—	(3,359)
Change in unrealized gain on available-for-sale securities	—	—	—	—	—	—	—	6	6
Net loss	—	—	—	—	—	—	(20,658)	—	(20,658)
Total comprehensive loss	—	—	—	—	—	—	—	—	(20,652)
Balance at December 31, 2007	33,164	59,487	1,871	2	—	—	(42,843)	4	(42,837)
Issuance of common stock in initial public offering	—	—	5,100	5	43,789	—	—	—	43,794
Issuance of common stock in equity financing	—	—	6,451	7	39,726	—	—	—	39,733
Issuance of common stock upon exercise of options	—	—	62	—	46	—	—	—	46
Employee share-based compensation expense	—	—	—	—	1,467	—	—	—	1,467
Restricted common stock compensation expense	—	—	256	—	1,856	—	—	—	1,856
Accretion to redemption value of Series A, B and C redeemable convertible preferred stock	—	44	—	—	(44)	—	—	—	(44)
Accrued dividends on Series A, B and C redeemable convertible preferred stock	—	521	—	—	(274)	—	(247)	—	(521)
Conversion of Series A, B and C redeemable convertible preferred shares into common shares	(33,164)	(53,667)	10,945	11	53,656	—	—	—	53,667
Reclassification of accrued dividends on redeemable convertible preferred stock to additional paid-in capital	—	(6,385)	—	—	6,385	—	—	—	6,385
Change in unrealized gain on available-for-sale securities	—	—	—	—	—	—	—	50	50
Net loss	—	—	—	—	—	—	(37,082)	—	(37,082)
Total comprehensive loss	—	—	—	—	—	—	—	—	(37,032)
Balance at December 31, 2008	—	$ —	24,685	$ 25	$ 146,607	$ —	$ (80,172)	$ 54	$ 66,514

(continued)

MAKO SURGICAL CORP.

Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)

(in thousands)

	Redeemable Convertible Preferred		Common	Stock	Additional	Note Receivable		Other	Total Stockholders'
	Shares	Amount	Shares	Amount	Paid-in Capital	from Stockholder	Accumulated Deficit	Comprehensive Income (Loss)	Equity (Deficit)
Balance at December 31, 2008	—	$ —	24,685	$ 25	$ 146,607	$ —	$ (80,172)	$ 54	$ 66,514
Issuance of common stock in equity financing	—	—	8,050	8	54,300	—	—	—	54,308
Issuance of common stock under employee stock purchase plan	—	—	72	—	455	—	—	—	455
Issuance of common stock upon exercise of options and warrants	—	—	140	—	149	—	—	—	149
Employee share-based compensation expense	—	—	—	—	3,032	—	—	—	3,032
Restricted common stock compensation expense	—	—	145	—	982	—	—	—	982
Receipt of 56,045 shares delivered in payment of payroll taxes	—	—	(56)	—	(492)	—	—	—	(492)
Deferred equity financing costs	—	—	—	—	(56)	—	—	—	(56)
Change in unrealized gain (loss) on available-for-sale securities	—	—	—	—	—	—	—	(75)	(75)
Net loss	—	—	—	—	—	—	(34,023)	—	(34,023)
Total comprehensive loss	—	—	—	—	—	—	—	—	(34,098)
Balance at December 31, 2009	—	$ —	33,036	$ 33	$ 204,977	$ —	$ (114,195)	$ (21)	$ 90,794

See accompanying notes.

MAKO SURGICAL CORP.

Statements of Cash Flows
(in thousands)

	Years Ended December 31,		
	2009	2008	2007
Operating activities:			
Net loss	$ (34,023)	$ (37,082)	$ (20,658)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	1,769	1,502	678
Amortization of intangible assets	682	660	645
Stock-based compensation	4,014	3,323	1,227
Inventory write-down	1,081	730	8
Amortization of premium on investment securities	188	—	—
Loss on asset impairment	51	—	14
Accrued interest expense on deferred license fee	—	45	305
Changes in operating assets and liabilities:			
Accounts receivable	(3,809)	(514)	(1,634)
Inventory	(7,358)	(7,056)	(2,123)
Prepaid and other assets	(49)	(173)	97
Other assets	(16)	(7)	156
Accounts payable	(650)	298	1,078
Accrued compensation and employee benefits	1,371	1,305	523
Other accrued liabilities	(1,411)	1,603	1,664
Deferred cost of revenue	3,608	(2,682)	(716)
Deferred revenue	(11,020)	8,228	2,661
Net cash used in operating activities	(45,572)	(29,820)	(16,075)
Investing activities:			
Purchase of investments	(59,961)	(1,990)	(15,159)
Proceeds from sales and maturities of investments	6,721	4,047	13,480
Acquisition of property and equipment	(790)	(1,606)	(1,087)
Acquisition of intangible assets	(150)	—	(450)
Payment of deferred license fee	—	(4,000)	—
Net cash used in investing activities	(54,180)	(3,549)	(3,216)
Financing activities:			
Proceeds from issuance of common stock in equity financing, net of underwriting fees of $3,502 and $0 for the years ended December 31, 2009 and 2008, respectively	54,861	40,202	—
Deferred equity financing costs	(609)	(469)	—
Proceeds from initial public offering of common stock, net of underwriting fees of $3,570	—	47,430	—
Deferred initial public offering costs	—	(908)	(2,728)
Proceeds from issuance of Series C redeemable convertible preferred stock, net of stock issuance costs	—	—	29,916
Proceeds from employee stock purchase plan	455	—	—
Exercise of common stock options for cash	149	46	2
Payment of payroll taxes relating to vesting of restricted stock	(492)	—	—
Payment of CEO payroll taxes relating to restricted stock modification	—	—	(392)
Net cash provided by financing activities	54,364	86,301	26,798
Net increase (decrease) in cash and cash equivalents	(45,388)	52,932	7,507
Cash and cash equivalents at beginning of year	62,547	9,615	2,108
Cash and cash equivalents at end of year	$ 17,159	$ 62,547	$ 9,615
Non-cash investing and financing activities:			
Receipt of 56,045 and 35,244 shares of common stock delivered in payment of payroll taxes for the years ended December 31, 2009 and 2007, respectively	$ 492	$ —	$ 392
Transfers of inventory to property and equipment	3,760	999	695
Accretion of redeemable convertible preferred stock	—	44	301
Accrued dividends on redeemable convertible preferred stock	—	521	3,359
Conversion of redeemable convertible preferred stock into 10,945,080 common shares	—	53,667	—
Reclassification of accrued dividends on redeemable convertible preferred stock to additional paid-in capital	—	6,385	—
Reclassification of deferred initial public offering costs to additional paid-in capital	—	3,636	—
Licensing of intellectual property	—	—	30
Deferred license fee payable	—	—	30
Interest on note receivable for common stock	—	—	4

See accompanying notes.

1. DESCRIPTION OF THE BUSINESS

MAKO Surgical Corp. (the "Company" or "MAKO") is an emerging medical device company that markets its advanced robotic arm solution and orthopedic implants for minimally invasive orthopedic knee procedures. The Company was incorporated in the State of Delaware on November 12, 2004 and is headquartered in Fort Lauderdale, Florida.

In February 2008, the Company effected a one for 3.03 reverse split of its issued and outstanding common stock, which has been retroactively reflected in these financial statements and accompanying notes. Also, in February 2008, the Company completed its initial public offering ("IPO") of common stock, issuing a total of 5.1 million shares at an offering price to the public of $10.00 per share, resulting in net proceeds to the Company, after underwriting discounts and commissions and expenses, of approximately $43.8 million.

In conjunction with the completion of the Company's IPO in February 2008, all of the Company's outstanding Series A, B and C redeemable convertible preferred stock was converted into 10,945,080 shares of common stock, adjusted for the February 2008 reverse stock split. In connection therewith, all remaining redeemable convertible preferred stock discounts and accrued dividends were reclassified to additional paid-in capital and were not paid.

In October 2008, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") for an equity financing of up to approximately $60 million, with initial gross proceeds of approximately $40.2 million, which the Company closed on October 31, 2008, and conditional access to an additional $20 million (which conditional access expired on December 31, 2009). The financing resulted in net proceeds to the Company of approximately $39.7 million, after expenses of approximately $525,000. See Note 5 for further discussion of the Securities Purchase Agreement.

In August 2009, the Company completed a public offering of its common stock, issuing 8,050,000 shares at an offering price to the public of $7.25 per share, resulting in net proceeds to the Company, after underwriting discounts and commissions and expenses, of approximately $54.3 million.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The accounting estimates that require management's most significant, difficult and subjective judgments include revenue recognition, allowance for doubtful accounts, inventory valuation, valuation allowance for deferred income tax assets, impairment of long-lived assets and the determination of stock-based compensation. Actual results could differ significantly from these estimates.

Liquidity and Operations

In executing its current business plan, the Company believes its existing cash, cash equivalents and investment balances and interest income earned on these balances will be sufficient to meet its anticipated cash requirements for at least the next twelve months. To the extent the Company's available cash, cash equivalents and investment balances are insufficient to satisfy its operating requirements after that period, the Company will need to seek additional sources of funds, including selling additional equity, debt or other securities or entering into a credit facility, or modifying its current business plan. The sale of additional equity and convertible debt securities may result in dilution to the Company's current stockholders. If the Company raises additional funds through the issuance of debt securities, these securities may have rights senior to those of its common stock and could contain covenants that could restrict its operations and issuance of dividends. The Company may also require additional capital beyond its currently forecasted amounts. Any required additional capital, whether forecasted or not, may not be available on reasonable terms, or at all. If the Company is unable to obtain additional financing, the Company may be required to reduce the scope of, delay or eliminate some or all of its planned research, development and commercialization activities, which could materially harm its business and results of operations.

Concentrations of Credit Risk and Other Risks and Uncertainties

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and investments. The Company's cash and cash equivalents are held in demand and money market accounts at three large financial institutions. The Company's investments are held in a variety of interest bearing instruments, including notes and bonds from U.S. government agencies, certificates of deposit and investment grade rated U.S. corporate debt at three large financial institutions. Such deposits are generally in excess of insured limits. The Company has not experienced any historical losses on its deposits of cash and cash equivalents.

The Company is subject to risks common to emerging companies in the medical device industry including, but not limited to: new technological innovations, dependence on key personnel, dependence on key suppliers, changes in general economic conditions and interest rates, protection of proprietary technology, compliance with changing government regulations and taxes, uncertainty of widespread market acceptance of products, access to credit for capital purchases by our customers, product liability and the need to obtain additional financing. The Company's products include components subject to rapid technological change. Certain components used in manufacturing have relatively few alternative sources of supply and establishing additional or replacement suppliers for such components cannot be accomplished quickly. The inability of any of these suppliers to fulfill the Company's supply requirements may negatively impact future operating results. While the Company has ongoing programs to minimize the adverse effect of such uncertainty and considers technological change in estimating the net realizable value of its inventory, uncertainty continues to exist.

The Company's current versions of its RIO® Robotic Arm Interactive Orthopedic system ("RIO"), which is the version 2.0 of its Tactile Guidance System™ ("TGS™"), its RESTORIS® unicompartmental and RESTORIS MCK multicompartmental knee implant systems and its TGS have been cleared by the U.S. Food and Drug Administration ("FDA"). Certain products currently under development by the Company will require clearance or approval by the FDA or other international regulatory agencies prior to commercial sale. There can be no assurance that the Company's products will receive the necessary clearances or approvals. If the Company were to be denied such clearance or approval or such clearance or approval were delayed, it could have a material adverse impact on the Company.

The Company may perform credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The Company will provide an allowance for doubtful accounts when collections become doubtful but has not experienced any credit losses to date.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 280, *Segment Reporting*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its CEO. The Company's CEO reviews financial information presented on an aggregate basis for purposes of allocating resources and evaluating financial performance. The Company has one business activity 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, the Company reports as a single operating segment. To date, all of the Company's revenue is from companies located in the United States. No one customer accounted for more than 10% of the Company's total revenue for the year ended December 31, 2009. The following table presents information about the Company's revenue by significant customer for the years ended December 31, 2008 and 2007:

(in thousands)	Years Ended December 31,	
	2008	2007
Company A	$ 417	$ 331
Company B	277	161
Company C	493	126
Company D	274	18
Others	996	82
Net Revenue	$ 2,457	$ 718

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity at date of purchase of 90 days or less to be cash equivalents.

Fair Value of Financial Instruments

Carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, investments, accounts receivable and other accrued liabilities approximate fair value due to their short maturities or market rates of interest.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, the age of the accounts receivable balances and current economic conditions that may affect a customer's ability to pay. The Company has not experienced any collectability issues to date and has no allowance, provision for doubtful accounts receivable or write-offs to date in the accompanying financial statements.

Accrual for Warranty Costs

Upon installation of a RIO system, the Company establishes an accrual for the estimated costs associated with providing a standard one-year warranty for defects in materials and workmanship.

Inventory

Inventory is stated at the lower of cost or market value on a first-in, first-out basis. Inventory costs include direct materials, direct labor and manufacturing overhead. The Company reviews its inventory periodically to determine net realizable value and considers product upgrades in its periodic review of realizability. The Company writes down inventory, if required, based on forecasted demand and technological obsolescence. These factors are impacted by market and economic conditions, technology changes and new product introductions and require estimates that may include uncertain elements.

Beginning with the fourth quarter of 2008, manufacturing overhead costs have been capitalized and included in inventory. As of December 31, 2009 and 2008, capitalized manufacturing overhead included in inventory was approximately $1.1 million and $282,000, respectively. Previously, such overhead costs were fully expensed as selling, general and administrative expense as capitalizable amounts were not significant.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation of property and equipment is computed using the straight-line method over their estimated useful lives of two to seven years. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful life or the term of the lease and are included in depreciation expense in the accompanying statements of operations. Upon retirement or sale, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in operations. Maintenance and repairs are charged to operations as incurred.

Intangible Assets

The Company's intangible assets are comprised of licenses to intellectual property rights. These intangible assets are carried at cost, net of accumulated amortization. Amortization is recorded using the straight-line method, over their respective useful lives (generally the life of underlying patents), which range from approximately 5 to 13 years.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets for indicators of impairment by comparison of the carrying amounts to future net undiscounted cash flows expected to be generated by such assets when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the asset's fair value or estimated discounted future cash flows.

Revenue Recognition

Revenue is generated from unit sales of the Company's RIO system, including installation services, training, upgrades and enhancements, from sales of implants and disposable products, and by providing extended warranty services. The Company's RIO system, as well as upgrades and enhancements to its RIO system, include software that is essential to the functionality of the product and, accordingly, the Company accounts for the sale of the RIO system pursuant to ASC 985-605, *Software – Revenue Recognition* ("ASC 985-605").

The Company recognizes system revenue for sales of the RIO system when there is persuasive evidence of a sales arrangement, the fee is fixed or determinable, collection of the fee is probable and delivery has occurred as prescribed by ASC 985-605. For all sales, the Company uses either a signed agreement or a binding purchase order as evidence of an arrangement.

For arrangements with multiple elements, the Company allocates arrangement consideration to the RIO systems, upgrades, enhancements and services based upon vendor specific objective evidence ("VSOE") of fair value of the respective elements. Revenue and direct cost of revenue associated with the sale of the RIO systems are recognized upon the earlier of (1) delivery of all elements or (2) establishment of VSOE of fair value for all undelivered elements.

Subsequent to December 31, 2008, the Company no longer manufactures TGS units, to which associated TGS sales arrangements required it to provide upgrades and enhancements, through and including the delivery of the RIO system. The Company commercially released the RIO system in the first quarter of 2009. Sales arrangements for RIO systems do not require the Company to provide upgrades and enhancements. As a result, revenues related to RIO system sales will be recognized upon installation of the system, delivery of associated instrumentation and training of at least one surgeon.

For sales of TGS units through December 31, 2008, VSOE of fair value was not established for upgrades and enhancements (through and including delivery of the RIO), which the TGS sales arrangements required the Company to provide. Accordingly, prior to delivery of the RIO system, sales of TGS units were recorded as deferred revenue and the direct cost of revenue associated with the sale of TGS units was recorded as deferred cost of revenue. Revenue for all previously deferred TGS sales was recognized in our statement of operations during the year ended December 31, 2009, upon delivery of the RIO system. As of December 31, 2009, the deferred revenue balance consists primarily of deferred service revenue as discussed below.

A portion of the Company's customers acquire the RIO system through a leasing arrangement with a third-party leasing company. In these instances, the Company typically sells the RIO system to the leasing company, and the customer enters into an independent leasing arrangement with the leasing company. The Company treats these leasing transactions the same as sales transactions for purposes of recognizing revenue for the sale. The Company sells implants and disposable products utilized in knee MAKOplasty procedures directly to the customers.

Procedure revenue from the sale of implants and disposable products utilized in knee MAKOplasty procedures is recognized when persuasive evidence of an arrangement exists, delivery has occurred or service has been rendered, the price is fixed or determinable and collectability is reasonably assured. The implants and disposable products are a separate unit of accounting from the RIO systems as (1) they have value to the customer on a standalone basis, (2) objective and reliable evidence of the fair value of the item exists and (3) no right of return exists once the implants and disposable products are implanted or consumed. Accordingly, as the Company's implants and disposable products are sold on a procedural basis, the revenue and costs associated with the sale of implants and disposable products are recognized at the time of sale (i.e., at the time of the related surgical procedure).

Costs associated with establishing an accrual for the RIO system standard one-year warranty liability and royalties covered by licensing arrangements related to the sale of RIO systems are expensed upon installation and are included in cost of revenue - systems, in the statements of operations.

Service revenue, which is included in other revenue, consists of extended warranty services on the RIO system hardware, and is deferred and recognized ratably over the service period until no further obligation exists. Costs associated with providing extended warranty services are expensed as incurred.

Deferred Revenue and Deferred Cost of Revenue

Deferred revenue consists of deferred system revenue and deferred service revenue. Deferred system revenue arises from timing differences between the installation of RIO systems and satisfaction of all revenue recognition criteria consistent with the Company's revenue recognition policy. Deferred service revenue also results from the advance payment for services to be delivered over a period of time, usually in one-year increments. Service revenue is recognized ratably over the service period. Deferred cost of revenue consists of the direct costs associated with the manufacture of RIO systems for which the revenue has been deferred in accordance with the Company's revenue recognition policy. Deferred revenue and associated deferred cost of revenue expected to be realized within one year are classified as current liabilities and current assets, respectively. The deferred revenue balance as of December 31, 2009 consists primarily of deferred service revenue for extended warranty services on the RIO system hardware.

Research and Development Costs

Costs related to research, design and development of products are charged to research and development expense as incurred. These costs include direct salary costs for research and development personnel, costs for materials used in research and development activities and costs for outside services.

Shipping and Handling Costs

Costs incurred for shipping and handling are included in cost of revenue at the time the expense is incurred.

Software Development Costs

Software development costs are included in research and development and are expensed as incurred. After technological feasibility is established, material software development costs are capitalized. The capitalized cost is then amortized on a straight-line basis over the estimated product life, or on the ratio of current revenue to total projected product revenue, whichever is greater. To date, the period between achieving technological feasibility, which the Company has defined as the establishment of a working model which typically occurs when the verification and validation testing is complete, and the general availability of such software has been short and software development costs qualifying for capitalization have been insignificant. Accordingly, the Company has not capitalized any software development costs to date.

Stock-Based Compensation

The Company recognizes compensation expense for its stock-based awards in accordance with ASC 718, *Compensation-Stock Compensation*. ASC 718 requires the recognition of compensation expense, using a fair value based method, for costs related to all share-based payments including stock options. ASC 718 requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model.

The Company accounts for stock-based compensation arrangements with non-employees in accordance with the ASC 505-50, *Equity-Based Payments to Non-Employees*. The Company records the expense of such services based on the estimated fair value of the equity instrument using the Black-Scholes-Merton pricing model. The value of the equity instrument is charged to expense over the term of the service agreement.

See Note 8 for a detailed discussion of the various stock option plans and related stock-based compensation.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were approximately $1.3 million, $1.4 million and $431,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

Income Taxes

The Company accounts for income taxes under ASC 740, Income Taxes. Deferred income taxes are determined based upon differences between financial reporting and income tax bases of assets and liabilities and are measured using the enacted income tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred income tax assets to the amounts expected to be realized. The Company recognizes any interest and penalties related to unrecognized tax benefits as a component of income tax expense.

Operating Leases

Rental payments and incentives, if any, are recognized on a straight-line basis over the life of a lease. See Note 7 for further discussion of operating leases.

Net Loss Per Share

The Company calculated 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 available to common stockholders adjusted for redeemable convertible preferred stock accretion and dividends 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 available to common stockholders 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 potential shares of common stock 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:

(in thousands)	December 31,		
	2009	2008	2007
Stock options outstanding	3,478	2,193	1,917
Warrants to purchase common stock	2,065	2,076	463
Unvested restricted stock	222	267	428
Redeemable convertible preferred stock	—	—	33,164

Comprehensive Loss

Comprehensive loss is defined as the change in equity from transactions and other events and circumstances other than those resulting from investments by owners and distributions to owners. For the years ended December 31, 2009, 2008 and 2007, the Company recorded comprehensive losses of approximately $34.1 million, $37.0 million and $20.7 million, respectively. The difference between comprehensive loss and net loss for the years ended December 31, 2009, 2008 and 2007 is due to changes in unrealized gains and losses on the Company's available-for-sale securities.

Recent Accounting Pronouncements

Adopted Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board ("FASB") issued an accounting standard update. As codified in ASC 815-40, *Derivatives and Hedging*, this update provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. The update applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative, for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception under ASC 815-10-15. The update also applies to any freestanding financial instrument that is potentially settled in an entity's own stock, regardless of whether the instrument has all the characteristics of a derivative under previous derivative Generally Accepted Accounting Principals ("GAAP"), for purposes of determining whether the instrument is within the scope of derivative accounting. ASC 815-40 was effective beginning with the first quarter of fiscal 2009. The adoption did not have a material impact on the Company's results of operations and financial position.

Effective January 1, 2009, the Company adopted a new accounting standard update regarding business combinations. As codified under ASC 805, *Business Combinations*, this update requires an entity to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred; that restructuring costs generally be expensed in periods subsequent to the acquisition date; and that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recognized as a component of provision for taxes. In addition, acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life.

Effective April 1, 2009, the Company adopted a new accounting standard, as codified in ASC 820-10-65, which provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. ASC 820-10-65 also includes guidance on identifying circumstances that indicate a

transaction is not orderly. The adoption did not have a material impact on the Company's results of operations and financial position.

In April 2009, the FASB issued an accounting standard update, as codified in ASC 320-10-65, to amend the other-than-temporary impairment guidance in debt securities to be based on intent to sell instead of ability to hold the security and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This pronouncement is effective for periods ending after June 15, 2009. The adoption did not have a material impact on the Company's results of operations and financial position.

Effective April 1, 2009, the Company adopted a new accounting standard for subsequent events, as codified in ASC 855-10, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before the financial statements are issued or available to be issued ("subsequent events"). ASC 855-10 is effective for interim or annual periods ending after June 15, 2009. See Note 11 for discussion of subsequent event.

Effective July 1, 2009, the Company adopted *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* ("ASC 105"). ASC 105 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with generally accepted accounting principles. ASC 105 explicitly recognizes rules and interpretive releases of the SEC under federal securities laws as authoritative GAAP for SEC registrants. As ASC 105 was not intended to change or alter existing GAAP, it did not have any impact on the Company's financial statements.

New Accounting Pronouncements

In September 2009, the FASB issued Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force* ("ASU 2009-13"). ASU 2009-13 updates the existing multiple-element revenue arrangements guidance currently included under ASC 605-25. ASU 2009-13 eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting and eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company is currently evaluating the future impact that ASU 2009-13 will have on its financial statements.

In September 2009, the FASB issued Update No. 2009-14, *Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force* ("ASU 2009-14"). ASU 2009-14 modifies the scope of ASC 985-605 to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. ASU 2009-14 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company is currently evaluating the future impact that ASU 2009-14 will have on its financial statements.

Reclassifications

Certain insignificant reclassifications have been made to the prior periods' statements of cash flows to conform to the current period's presentation.

3. INVESTMENTS

The Company's investments are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses included in other comprehensive income within stockholders' equity (deficit). Realized gains and losses and declines in value determined to be other-than-temporary on available-for-sale securities are included in interest and other expenses. During the years ended December 31, 2009, 2008 and 2007, realized gains or losses recognized on the sale of investments were not significant. Interest and dividends on securities classified as available-for-sale are included in interest and other income. The cost of securities sold is based on the specific identification method.

The amortized cost and fair value of short and long-term investments, with gross unrealized gains and losses, were as follows:

As of December 31, 2009 *(in thousands)*	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Short-term investments:				
U.S. government agencies	$ 32,860	$ 31	$ (24)	$ 32,867
Certificates of deposit	10,297	1	(25)	10,273
U.S. corporate debt	1,532	14	—	1,546
Long-term investments:				
U.S. government agencies	5,418	—	(18)	5,400
Certificates of deposit	2,462	—	(10)	2,452
U.S. corporate debt	1,506	10	—	1,516
Total investments	$ 54,075	$ 56	$ (77)	$ 54,054

As of December 31, 2008 *(in thousands)*	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Short-term investments:				
Certificates of deposit	$ 61	$ —	$ —	$ 61
Variable auction rate securities	962	54	—	1,016
Total short-term investments	$ 1,023	$ 54	$ —	$ 1,077

As of December 31, 2009 and December 31, 2008, all short-term investments had maturity dates or interest reset dates of less than one year. As of December 31, 2009, all long-term investments had maturity dates between one and two years.

The fair values of the Company's investments based on the level of inputs are summarized below:

(in thousands)		**Fair Value Measurements at the Reporting Date Using**		
	December 31, 2009	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Short-term investments:				
U.S. government agencies	$ 32,867	$ 32,867	$ —	$ —
Certificates of deposit	10,273	10,273	—	—
U.S. corporate debt	1,546	1,546	—	—
Long-term investments:				
U.S. government agencies	5,400	5,400	—	—
Certificates of deposit	2,452	2,452	—	—
U.S. corporate debt	1,516	1,516	—	—
Total investments	$ 54,054	$ 54,054	$ —	$ —

The table below provides a reconciliation of auction rate securities assets measured at fair value on a recurring basis which use Level 3 or significant unobservable inputs for the year ended December 31, 2009.

(in thousands)	Fair Value Measurements Using Significant Unobservable Inputs Year Ended December 31, 2009
Balance at beginning of year	$ 1,016
Transfers into Level 3	—
Total gains realized included in earnings	63
Total change in other comprehensive income	(54)
Sales/Redemptions	(1,025)
Balance at December 31, 2009	$ —
The total amount of gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ —

In February 2008, the FASB issued an accounting standard update, as codified in ASC 820-10, that delayed the effective date of fair value measurements accounting for certain nonfinancial assets and certain nonfinancial liabilities, until the beginning of the first quarter of fiscal 2009. The Company adopted this accounting standard update effective January 1, 2009. The adoption of this update did not have a material impact on the Company's financial position or its results of operations.

4. SELECTED BALANCE SHEET COMPONENTS

The following table provides details of selected balance sheet items:

(in thousands)	December 31, 2009	December 31, 2008
Inventory:		
Raw materials	$ 2,770	$ 3,809
Work-in-process	932	748
Finished goods	6,488	3,116
Total inventory	$ 10,190	$ 7,673

The Company incurred write-offs totaling approximately $1.1 million and $730,000 during the years ended December 31, 2009 and 2008, respectively. Write-offs in 2009 primarily relate to technology changes associated with the launch of the RIO system in 2009 and disposal of spare TGS inventory associated with the launch of the RIO system. Write-offs in 2008 primarily relate to discontinued portions of the Company's existing implant lines in connection with the launch of RESTORIS and to the discontinuation of the manufacturing of the Company's TGS in anticipation of the launch of the RIO system.

(in thousands)	December 31, 2009	December 31, 2008	Estimated Useful Life
Property and equipment:			
Consigned RIO systems and instruments	$ 2,551	$ 705	2-5 years
Service and demo RIO systems and instruments	2,354	549	2-5 years
Computer equipment and software	2,160	1,669	3-5 years
Manufacturing and laboratory equipment	1,654	1,261	5 years
Office furniture and equipment	882	804	7 years
Leasehold improvements	607	387	Lesser of useful life or lease term
	10,208	5,375	
Less accumulated depreciation and amortization	(4,003)	(1,951)	
Total property and equipment, net	$ 6,205	$ 3,424	

(in thousands)	December 31, 2009	December 31, 2008
Other accrued liabilities:		
Accrued royalties	$ 413	$ 429
Accrued legal fees	172	586
Other	2,287	3,268
	$ 2,872	$ 4,283

5. RELATED PARTIES

Employee Loans

During 2006, the Company issued $225,000 in employee loans to certain officers of the Company (the "Employee Loans"). The Employee Loans accrued interest at a rate of 4.0% per annum, compounded annually. The interest was paid biweekly. The Employee Loans and accrued interest were due upon the earlier of one year from the date of the Employee Loan or a liquidation event, as defined. The Employee Loans were fully repaid in April 2007. In May and June 2007, the Company issued $225,000 in employee loans to certain officers of the Company under terms that were substantially similar to the Employee Loans issued in 2006. In August and September 2007, the Company forgave the $225,000 of outstanding loans, including accrued interest, with a charge to the statement of operations. No Employee Loans were outstanding as of December 31, 2009 and 2008.

Restricted Stock and Note Receivable from Related Party

In July 2005 and May 2006, the Company issued a total of 446,287 shares of restricted common stock to its CEO and 49,504 shares of unrestricted common stock to an entity affiliated with the CEO in exchange for promissory notes from the CEO totaling approximately $631,000 (representing the fair value of the shares on the date of issuance) approximately 50% of which was nonrecourse. The promissory notes accrued interest at a rate of 8% per annum, with 25% of the restricted stock vesting immediately and the remainder vesting monthly over 48 months as service is provided. The restricted stock was pledged as collateral against the promissory notes. In March 2007, the Company issued 82,508 shares of restricted common stock to its CEO at a purchase price of $2.48 per share (the estimated fair value at the date of issuance) in exchange for a promissory note of $205,000, 50% of which was nonrecourse and a pledge agreement. The March 2007 restricted stock, pledge agreement and promissory note were issued under terms substantially similar to the July 2005 and May 2006 restricted stock issuances. Because it was unclear as to whether the recourse portion had substance as of the dates of issuance of the restricted stock and the promissory notes, the Company determined to treat the entire amount of the promissory notes related to the restricted stock as nonrecourse for accounting purposes. A nonrecourse note issued for restricted stock is in substance an option to acquire the stock. Accordingly, the Company recorded compensation expense for the restricted stock grants and the promissory notes and the restricted stock were not then recorded in the financial statements. The compensation expense was determined under the Black-Scholes-Merton model assuming a risk free interest rate of 0.0% (as the interest rate on the promissory notes was greater than the risk free interest rate and the excess was not significant to the Black-Scholes-Merton valuation — risk free interest rate ranging from 4.08% to 4.96% less the stated interest rate of 8% implicit in the promissory notes), a volatility factor ranging from 57.1% to 66.5% and a 6.25 year estimated life. The value of the common stock was initially determined by the Company's board of directors and was validated as reasonable on a retrospective basis in a March 2007 valuation by an independent valuation firm.

On September 5, 2007, the Company forgave approximately $1,149,000 of outstanding loans, including accrued interest of $113,000, to its CEO, which represents all loans outstanding to the Company's CEO. Of this amount $949,000 was associated with the issuances of the restricted and unrestricted stock and $200,000 was associated with the employee loans discussed above. In connection with the forgiveness of the loans, 35,244 shares of common stock were surrendered by the CEO to the Company to pay for the payroll taxes associated with the taxable income from the forgiveness of the loans. The forgiveness of the notes receivable resulted in a modification to the original award. Accordingly, the Company accounted for the modification by determining the amount of the incremental compensation charge to be recorded in accordance with ASC 718-20-35. The original award, which was accounted for as a stock option, was revalued on the date of modification using the Black-Scholes-Merton model with current inputs for risk-free rate, volatility and market value. This calculated amount was compared to the fair value of the restricted stock award on the date of modification resulting in the incremental charge. Due to the forgiveness of the note, the Company ceased to record the award as a stock option and commenced the recording of the award as a restricted stock award.

Accordingly, on the date of modification, the Company recognized the incremental charge for the portion of the vested shares and is recording the additional portion related to the unvested shares over the remaining term. The forgiveness resulted in a modification to the original terms of the restricted stock-based awards with a charge of approximately $395,000 recorded in the financial statements in September 2007. The remaining unrecognized compensation expense of approximately $533,000 relating to the unvested restricted stock will be recorded in the financial statements over the remaining vesting period, along with the related vested common stock. The compensation expense associated with the modification of the terms of the restricted stock was determined under the Black-Scholes-Merton model assuming a risk free interest rate of 0.0% (as the interest rate on the promissory notes was greater than the risk free interest rate and the excess was not significant to the Black-Scholes-Merton valuation — risk free interest rate of 4.29% less the stated interest rate of 8% implicit in the promissory notes), a volatility factor of 54.07% and an estimated life ranging from 4.10 to 5.80 years. The value of the common stock on the modification date was determined in an August 2007 valuation by an independent valuation firm.

See Note 8 for further discussion of restricted stock.

Securities Purchase Agreement

In October 2008, the Company entered into a Securities Purchase Agreement for an equity financing of up to approximately $60 million, with initial gross proceeds of approximately $40.2 million, which the Company closed on October 31, 2008, and conditional access to an additional $20 million. The financing resulted in net proceeds to the Company of approximately $39.7 million, after expenses of approximately $525,000. In connection with the financing, the Company issued and sold to the participating investors 6,451,613 shares of its common stock at a purchase price of $6.20 per share and issued to participating investors, at the purchase price of $0.125 per warrant, warrants to purchase 1,290,323 shares of common stock at an exercise price of $7.44 per share. The warrants became exercisable on April 29, 2009 and have a seven-year term.

Subject to the Company's satisfaction of certain business related milestones before December 31, 2009, the Company had the right (the "Call Right") to require certain participants in the financing to purchase an additional $20 million of common stock and warrants to purchase common stock. The Company did not exercise its Call Right, which expired on December 31, 2009, to require these participants to purchase an additional $20 million of common stock. At the initial closing, the investors that agreed to provide the additional $20 million investment received warrants to purchase an additional 322,581 shares of common stock at a purchase price of $0.125 per warrant and an exercise price of $6.20 per share. These warrants became exercisable on December 31, 2009 and have a seven-year term.

The participating investors consisted of eleven accredited investors, six of which were existing stockholders of the Company who were deemed to be affiliates of the Company by virtue of their being represented on the Company's Board of Directors or by virtue of their Board membership.

6. INTANGIBLE ASSETS

The Company's intangible assets are comprised of a purchased patent application and licenses to intellectual property rights (the "Licenses"). The Licenses are amortized on a straight line basis over their estimated useful lives which range from approximately 5 to 13 years. See Note 7 for additional discussion of Licenses.

The following tables present details of MAKO's intangible assets:

(in thousands)	December 31, 2009		December 31, 2008	
	Amount	Weighted Average Amortization Period	Amount	Weighted Average Amortization Period
Licenses	$ 6,679	9.9	$ 6,549	10.0
Patent	—		60	17.8
	6,679	9.9	6,609	10.1
Less: accumulated amortization	(2,445)		(1,792)	
Intangible assets, net	$ 4,234		$ 4,817	

Amortization expense related to intangible assets was approximately $682,000, $660,000 and $645,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

The estimated future amortization expense of intangible assets for the next five years as of December 31, 2009 is as follows:

(in thousands)	
2010	$ 688
2011	688
2012	688
2013	683
2014	655
Total	$ 3,402

7. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases its facility under an operating lease that expires in July 2011. The Company has the option to renew its facility lease for two consecutive three year periods. Rent expense on a straight-line basis was $613,000, $498,000 and $314,000 for the years ended December 31, 2009, 2008 and 2007, respectively. The rent expense for the years ended December 31, 2009, 2008 and 2007 included the Company's monthly variable operating costs of the facility.

Future minimum lease commitments, excluding monthly variable operating costs, under the Company's operating lease as of December 31, 2009 are approximately as follows:

(in thousands)	
2010	400
2011	239
	$ 639

Purchase Commitments

At December 31, 2009, the Company was committed to make future purchases for inventory related items under various purchase arrangements with fixed purchase provisions aggregating approximately $7.1 million.

License and Royalty Agreements

In December 2004, the Company was granted a limited license to Z-Kat, Inc.'s ("Z-Kat") computer assisted surgery ("CAS") and haptic robotic intellectual property portfolio for use in the field of orthopedics (the "Z-Kat License"). In December 2006, the Company entered into an addendum to the Z-Kat License (the "Addendum"). Under the Addendum, the Company obtained the right to take enforcement action against all third parties with respect to any intellectual property rights held by Z-Kat in the field of orthopedics; and MAKO assumed the obligation to pay the annual minimum royalty to a third-party CAS licensor due to the importance of maintaining the licensed rights. The Z-Kat License is fully paid up as to intellectual property owned by Z-Kat. The Z-Kat License includes sublicenses to third-party intellectual property rights for which the Company is obligated to make ongoing royalty payments of 2% on the sale of certain products or components thereof and minimum annual payments totaling $555,000. By their terms, the Z-Kat License and the component sublicenses generally continue until all of the licensed patents have expired, which, based on the licensed granted patents and presently pending patent applications is currently estimated to be December 2024.

In December 2008, a third-party CAS intellectual property licensee of Z-Kat from which MAKO had the right to receive royalty payments under the Addendum terminated its license. Accordingly, the Company no longer receives royalties under this license.

See Note 11 for further discussion of the Z-Kat License and Addendum.

In March 2006, the Company entered into a license agreement that covers a number of technologies related to the application of computers and robotics to surgery in exchange for a payment of $2 million upon execution of the agreement (the "Upfront License Fee") and a deferred payment of $4 million payable upon a change of control, as defined (e.g., IPO, acquisition or change in voting ownership greater than 50.01%) (the "Deferred License Fee"). The license also requires royalty payments of 2% of the selling price of each RIO system. The Upfront License Fee and net present value of the Deferred License Fee were included in intangible assets in the accompanying balance sheets. The

net present value of the Deferred License Fee obligation was approximately $3.4 million, net of a discount of $590,000 and was recorded as a long-term debt obligation as the Company believed it was probable at the inception of the agreement that the contingent obligation would become payable. The net present value of the Deferred License Fee was determined using an incremental borrowing rate of 8% and an expected payment date of approximately two years from the effective date of the license agreement. The discount on the debt obligation was being amortized over the estimated term of the Deferred License Fee obligation as interest expense which was approximately $45,000 and $305,000 for the years ended December 31, 2008 and 2007, respectively, in the accompanying statements of operations. In February 2008, the Company paid the $4 million Deferred License Fee due upon completion of the Company's IPO.

In May 2009, the Company entered into a license agreement for patents relating to its RIO system (the "Robotic Arm License"). The Robotic Arm License requires minimum running royalties on sales of the Company's RIO systems. The minimum running royalties are estimated to be approximately $600,000 for the year ended December 31, 2010, and increase annually thereafter through 2013. The minimum running royalties for the year ended December 31, 2013 and for each subsequent year through the term of the agreement are estimated to be approximately $1.3 million annually.

The Company has other license agreements related to current product offerings and research and development projects. Upfront license fees paid for these agreements total approximately $1.1 million. Royalty payments related to these agreements are anticipated to range between 1% and 5% of future sales of the Company's RIO system and components thereof and/or products. These royalty payments are subject to certain minimum annual royalty payments as shown in the schedule below. The terms of these license agreements continue until the related licensed patents and intellectual property rights expire, which is expected to range between 7 and 17 years. The net expense related to the Company's license and royalty agreements was approximately $1.5 million, $525,000 and $304,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

As of December 31, 2009, future annual minimum royalty payments under the licenses and sublicenses are anticipated to be as follows:

(in thousands)	
2010	$ 1,258
2011	1,499
2012	1,859
2013	1,689
2014	1,396
Thereafter	4,023
	$ 11,724

Development Agreement

In June 2009, the Company entered into a Research and Development License and Supply Agreement, or the R&D Agreement, associated with a potential future product for RIO enabled hip MAKOplasty procedures. The R&D Agreement required an up-front payment of $450,000, and requires future milestone payments based on development progress. The aggregate milestone payments the Company is obligated to pay under the R&D Agreement are $1.6 million assuming the achievement of all development milestones. Through December 31, 2009, the Company paid the $450,000 up-front payment and the Company paid $550,000 of milestone payments which became due upon the achievement of the related milestones. The aggregate up-front payment and milestone payments of $2.0 million the Company is required to pay under the R&D Agreement will be recognized as research and development expense on a straight-line basis over the period development services are performed based on the current expectation that all development milestones will be achieved.

Contingencies

The Company is a party to legal contingencies or claims arising in the normal course of business, none of which the Company believes is material to its financial position, results of operations or cash flows.

8. PREFERRED STOCK AND STOCKHOLDERS' EQUITY

Preferred Stock

As of December 31, 2009 and 2008, the Company was authorized to issue 27,000,000 shares of $0.001 par value preferred stock. As of December 31, 2009 and 2008, there were no shares of preferred stock issued or outstanding. All shares of Series A, B and C redeemable convertible preferred stock that were issued and outstanding as of December 31, 2007 converted into 10,945,080 shares of common stock upon closing of the Company's IPO in February 2008.

Common Stock

As of December 31, 2009 and 2008, the Company was authorized to issue 135,000,000 shares of $0.001 par value common stock. Common stockholders are entitled to dividends as and if 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 on the common stock. The holder of each share of common stock is entitled to one vote.

In December 2004, the Company issued 189,768 shares of restricted common stock to certain consultants (the "Consultant Restricted Stock"). The Consultant Restricted Stock vested in tranches upon the Company's achievement of certain business milestones and any unvested restricted stock vested immediately upon completion of an initial public offering of common stock. Upon vesting, the Company recorded a consulting expense equal to the estimated fair value of the Company's common stock on the date of vesting. As of January 1, 2008, 94,884 shares of the Consultant Restricted Stock were unvested. Upon closing of the IPO in February 2008, the vesting of the remaining 94,884 shares of Consultant Restricted Stock was accelerated and the Company recognized $949,000 of compensation expense associated with the accelerated vesting of the Consultant Restricted Stock during the year ended December 31, 2008 based on the IPO price of $10.00 per share.

401K Plan

The Company maintains a qualified deferred compensation plan under Section 401K of the Internal Revenue Code, covering substantially all full-time employees, which permits employees to contribute up to 84% of pre-tax annual compensation up to annual statutory limitations. The discretionary company match for employee contributions to the plan is 25% of up to the first 6% of the participant's earnings contributed to the plan. The discretionary company match commenced in 2008 and to date has not been significant.

Employee Stock Purchase Plan

In January 2008, the Company's Board of Directors and stockholders approved the MAKO Surgical Corp. 2008 Employee Stock Purchase Plan (the "2008 Employee Stock Purchase Plan"). The 2008 Employee Stock Purchase Plan became effective upon closing of the IPO. The 2008 Employee Stock Purchase Plan authorizes the issuance of 625,000 shares of the Company's common stock for purchase by eligible employees of the Company or any of its participating affiliates. The shares of common stock issuable under the 2008 Employee Stock Purchase Plan may be authorized but unissued shares, treasury shares or shares purchased on the open market. The purchase price for a purchase period may not be less than 85% of the fair market value of the Company's common stock on the first trading day of the applicable purchase period or the last trading day of such purchase period, whichever is lower. The initial purchase period of the 2008 Employee Stock Purchase Plan began on October 1, 2008. During the year ended December 31, 2009, the Company issued approximately 72,000 shares under the 2008 Employee Stock Purchase Plan. As of December 31, 2009, there were approximately 553,000 shares reserved for future grant under the 2008 Employee Stock Purchase Plan.

Stock Option Plans and Stock-Based Compensation

The Company recognizes compensation expense for its stock-based awards in accordance with ASC 718, *Compensation-Stock Compensation*. ASC 718 requires the recognition of compensation expense, using a fair value based method, for costs related to all stock-based payments including stock options. ASC 718 requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model.

During the year ended December 31, 2009, 2008 and 2007, stock-based compensation expense was $4.0 million, $3.3 million and $1.2 million respectively. Included within stock-based compensation expense for the year ended December 31, 2009 were $2.9 million related to stock option grants, $982,000 related to the partial vesting of shares of

restricted stock granted to the Company's CEO at various dates from 2005 through 2009, and $164,000 related to employee stock purchases under the 2008 Employee Stock Purchase Plan.

In December 2004, the Company's stockholders approved the Company's 2004 Stock Incentive Plan (the "2004 Plan"). Under the 2004 Plan, the Board of Directors was authorized to grant restricted common stock and options to purchase shares of common stock to employees, directors and consultants. No further awards will be made under the 2004 Plan. In January 2008, the Company's Board of Directors and stockholders approved the MAKO Surgical Corp. 2008 Omnibus Incentive Plan (the "2008 Plan," and together with the 2004 Plan, the "Plans"). The 2008 Plan became effective upon the closing of the IPO and will expire January 9, 2018 unless earlier terminated by the Board of Directors. The aggregate number of shares of the Company's common stock that may be issued initially pursuant to stock awards under the 2008 Plan is 1,084,703 shares, which includes approximately 85,000 shares previously reserved but unallocated under the 2004 Plan. Awards under the 2008 Plan may be made in the form of: stock options, which may be either incentive stock options or non-qualified stock options; stock appreciation rights; restricted stock; restricted stock units; dividend equivalent rights; performance shares; performance units; cash-based awards; other stock-based awards, including unrestricted shares; and any combination of the foregoing.

The 2008 Plan contains an evergreen provision whereby the authorized shares increase on January 1st of each year in an amount equal to the least of (1) four percent (4%) of the total number of shares of the Company's common stock outstanding on December 31st of the preceding year, (2) 2.5 million shares and (3) a number of shares determined by the Company's Board of Directors that is lesser than (1) and (2). The number of additional shares authorized under the 2008 Plan on January 1, 2009 and 2010 was approximately 998,000 and 1,330,000, respectively.

Generally, the Company's outstanding stock options vest over four years. Stock options granted to certain non-employee directors generally vest over three years. Continued vesting typically terminates when the employment or consulting relationship ends. Vesting generally begins on the date of grant; however, certain stock options granted in 2007 began vesting upon the achievement of performance conditions.

Under the terms of the Plans, the maximum term of options intended to be incentive stock options granted to persons who own at least 10% of the voting power of all outstanding stock on the date of grant is 5 years. The maximum term of all other options is 10 years. Options issued under the 2008 Plan that are forfeited or expire will again be made available for issuing grants under the 2008 Plan. Options issued under the 2004 Plan that are forfeited or expire will not be made available for issuing grants under the 2008 Plan. All future awards will be made under the Company's 2008 Plan.

As of December 31, 2009, the Company had reserved shares of common stock for the issuance of common stock under the 2008 Employee Stock Purchase Plan, the exercise of warrants and the issuance of options granted under the 2008 Plan as follows:

(in thousands)	
2008 Employee Stock Purchase Plan	625
Warrants to purchase common stock	2,076
2008 Plan	2,083
	4,784

Only employees are eligible to receive incentive stock options. Non-employees may be granted non-qualified options. The Board of Directors has the authority to set the exercise price of all options granted, subject to the exercise price of incentive stock options being no less than 100% of the estimated fair value, as determined by the Board of Directors, of a share of common stock on the date of grant; and no less than 85% of the estimated fair value for non-qualified stock options, except for an employee or non-employee with options who owns more than 10% of the voting power of all classes of stock of the Company, in which case the exercise price shall be no less than 110% of the fair market value per share on the grant date. Options become exercisable as determined by the Board of Directors.

Activity under the Plans is summarized as follows:

(in thousands, except per share data)	Shares/Options Available For Grant	Outstanding Options	
		Number of Options	Weighted Average Exercise Price
Balance at December 31, 2008	733	2,193	5.56
Shares reserved	998	—	—
Restricted stock issued	(100)	—	—
Options granted	(1,482)	1,482	8.03
Options exercised	—	(133)	1.13
Options forfeited under the 2004 Plan	—	(39)	9.25
Options forfeited under the 2008 Plan	25	(25)	8.30
Balance at December 31, 2009	174	3,478	$ 6.71

The options outstanding and exercisable, by exercise price, at December 31, 2009 were as follows:

	Options Outstanding				Options Exercisable			
(in thousands, except per share data)	Number Of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)	Number Of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)
Range of Exercise Prices:								
$0.67	241		$ 0.67		241		$ 0.67	
$1.27 – $2.48	798		$ 1.72		680		$ 1.63	
$6.90 – $8.06	1,483		$ 7.94		282		$ 7.98	
$8.27 – 11.39	956		$ 10.49		383		$ 10.57	
	3,478	7.82	$ 6.71	$ 15,271	1,586	6.80	$ 4.77	$ 10,041

(1) The aggregate intrinsic value represents the total pre-tax intrinsic value, based on the Company's closing stock price of $11.10 on December 31, 2009, which would have been received by the option holders had all option holders exercised their options as of that date.

As of December 31, 2009, approximately 3,390,000 options were vested and expected to vest at a weighted average exercise price of $6.67 per share, a weighted average contractual life of 7.8 years and aggregate intrinsic value of $15.0 million.

The weighted average fair values of options granted were $4.43, $5.08 and $4.54 for the years ended December 31, 2009, 2008 and 2007, respectively. The total fair value of shares vested was approximately $2.8 million, $1.3 million and $260,000 during the years ended December 31, 2009, 2008 and 2007, respectively. The total intrinsic value of options exercised was $1.0 million and $491,000 for the years ended December 31, 2009 and 2008. The total intrinsic value of options exercised was not significant for the year ended December 31, 2007.

The Company records stock-based compensation expense on a straight-line basis over the vesting period. As of December 31, 2009, there was total unrecognized compensation cost of approximately $7.9 million, net of estimated forfeitures, related to non-vested stock option grants to the Company's employees and non-employee directors. The unrecognized compensation cost will be adjusted for future changes in estimated forfeitures, and is expected to be recognized over a remaining weighted average period of 2.8 years as of December 31, 2009.

On May 22, 2009, the Company issued 100,000 shares of restricted stock to its CEO at an estimated fair value of $8.70 per share on the date of issuance. The restricted stock will vest over a four-year period. For the year ended December 31, 2009, 56,045 shares of common stock were surrendered by the CEO to the Company to cover payroll taxes associated with the taxable income from the vesting of restricted stock previously granted to the Company's CEO. As of December 31, 2009, 755,105 shares of restricted stock granted to the Company's CEO were issued and outstanding.

Restricted stock activity for the year ended December 31, 2009 is as follows:

(in thousands, except per share data)	Shares	Weighted Average Fair Value
Unvested shares at December 31, 2008	267	$ 7.78
Unvested shares at December 31, 2009	222	8.86
Shares granted in 2009	100	8.70
Shares vested in 2009	145	6.77

As of December 31, 2009, the remaining stock-based compensation expense for the restricted stock awards was approximately $2.0 million, which will be recognized on a straight line basis over a remaining weighted average period of 2.30 years.

The Company uses the Black-Scholes-Merton 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 our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rates and expected dividends.

The estimated grant date fair values of the employee stock options were calculated using the Black-Scholes-Merton valuation model, based on the following assumptions:

Stock Option Plans	Years Ended December 31,		
	2009	2008	2007
Risk-free interest rate	1.99% - 3.53%	1.59% - 3.62%	4.50% - 5.14%
Expected life	6.25 years	6.25 years	6.25 years
Expected dividends	—	—	—
Expected volatility	54.43% - 57.71%	56.36% - 58.31%	56.24% - 60.00%

The Company estimates the fair value of each share of stock which will be issued under the 2008 Employee Stock Purchase Plan based upon its stock prices at the beginning of each offering period using a Black-Scholes-Merton pricing model and amortizes that value to expense over the plan purchase period. The fair values determined for the years ended December 31, 2009 and 2008, as well as the assumptions used in calculating those values are as follows:

2008 Employee Stock Purchase Plan	Year Ended December 31, 2009	Year Ended December 31, 2008
Fair Value	$1.82 - $2.54	$1.82 - $1.89
Assumptions		
Risk-free interest rate	0.60% - 3.20%	1.87% - 3.29%
Expected life	0.25 years	0.25 years
Expected dividends	—	—
Expected volatility	34.50% - 60.68%	57.05% - 60.68%

Risk-Free Interest Rate. The risk-free rate is based on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options.

Weighted-Average Expected Term. The expected term of options granted is determined using the average period the stock options are expected to remain outstanding and is based on the options vesting term, contractual terms and historical exercise and vesting information used to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior. The expected term of the 2008 Employee Stock Purchase Plan is equal to the duration of the purchase period.

Dividend Yield. The Company has never declared or paid any cash dividends and does not plan to pay cash dividends in the foreseeable future, and, therefore, used an expected dividend yield of zero in the valuation model.

Volatility. Since the Company was a private entity until February 2008 with no historical data regarding the volatility of its common stock, the expected volatility used for the years ended December 31, 2009, 2008 and 2007, is based on volatility of similar entities, referred to as "guideline" companies. In evaluating similarity, the Company considered factors such as industry, stage of life cycle and size.

Forfeitures. ASC 718 requires the Company to estimate forfeitures at the time of grant, and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and records stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods. If the Company's actual forfeiture rate is materially different from its estimate, the stock-based compensation expense could be significantly different from what the Company has recorded in the accompanying periods.

Warrants

In December 2004, the Company issued at the purchase price of $0.03 per share warrants to purchase 462,716 shares of common stock. The warrants are immediately exercisable at an exercise price of $3.00 per share, with the exercise period expiring in December 2014. As of December 31, 2009 and 2008, 451,916 and 462,716 warrants were outstanding and exercisable, respectively.

As more fully described in Note 5, in October 2008, the Company entered into a Securities Purchase Agreement for an equity financing of up to $60 million, with initial gross proceeds of approximately $40.2 million, and conditional access to an additional $20 million. In connection with the financing, the Company issued warrants to the participating investors to purchase 1,290,323 shares of common stock at a purchase price of $0.125 per warrant and an exercise price of $7.44 per share. The warrants became exercisable on April 29, 2009 and have a seven-year term. In addition, as consideration for the Call Right, the Company issued warrants to purchase 322,581 shares of common stock at a purchase price of $0.125 per warrant and an exercise price of $6.20 per share to participating investors. These warrants became exercisable on December 31, 2009 and have a seven-year term.

9. INCOME TAXES

The provision for income taxes is as follows:

(in thousands)	Years Ended		
	December 31, 2009	December 31, 2008	December 31, 2007
Current income taxes:			
Federal	$ —	$ —	$ —
State	—	—	—
Total current income taxes	—	—	—
Deferred income taxes	(12,593)	(13,031)	(7,835)
Change in valuation allowance	12,593	13,031	7,835
Provision for income taxes	$ —	$ —	$ —

The Company accounts for income taxes under ASC 740, *Income Taxes*. Deferred income taxes are determined based upon differences between financial reporting and income tax bases of assets and liabilities and are measured using the enacted income tax rates and laws that will be in effect when the differences are expected to reverse. The Company recognizes any interest and penalties related to unrecognized tax benefits as a component of income tax expense.

No current or deferred income taxes were recorded for the years ended December 31, 2009, 2008 and 2007, as the Company's income tax benefits were fully offset by a corresponding increase to the valuation allowance against its net deferred income tax assets.

At December 31, 2009, 2008 and 2007, the Company had federal and state net operating loss carryforwards of approximately $100.2 million, $60 million and $32.9 million, respectively, available to offset future taxable income. These net operating loss carryforwards will expire in varying amounts from 2024 through 2029.

The Tax Reform Act of 1986 limits the annual utilization of net operating loss and tax credit carryforwards, following an ownership change of the Company. Note that as a result of the Company's equity financings in 2008, the Company underwent a change of ownership for purposes of the Tax Reform Act during the tax year ended December 31, 2008.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income taxes are as follows:

(in thousands)	December 31, 2009	December 31, 2008
Current deferred income tax assets:		
Deferred revenue	$ 212	$ 4,443
Total current deferred income tax assets	212	4,443
Noncurrent deferred income tax assets:		
Net operating loss carryforwards	38,650	23,144
Amortization	404	322
Other	481	656
Total noncurrent deferred income tax assets	39,535	24,122
Current deferred income tax liabilities:		
Other deferred income tax liabilities	(2)	—
Deferred costs	—	(1,392)
Total current deferred income tax liabilities	(2)	(1,392)
Noncurrent deferred income tax liabilities:		
Other deferred income tax liabilities	—	(21)
Total noncurrent deferred income tax liabilities	—	(21)
Less valuation allowance	(39,745)	(27,152)
Total deferred income tax assets, net	$ —	$ —

Due to uncertainty surrounding realization of the deferred income tax assets in future periods, the Company has recorded a 100% valuation allowance against its net deferred tax assets. If it is determined in the future that it is more likely than not that the deferred income tax assets are realizable, the valuation allowance will be reduced.

The reconciliation of the income tax provision computed at the U.S. federal statutory rate to income tax provision is as follows:

	Years Ended		
	December 31, 2009	December 31, 2008	December 31, 2007
Tax at U.S. statutory rate	(35.00)%	(35.00)%	(35.00)%
State taxes, net of federal impact	(3.28)%	(3.26)%	(3.55)%
Non-deductible items	2.92%	3.13%	0.28%
Change in valuation allowance	35.13%	35.14%	37.93%
Other, net	0.23%	(0.01)%	0.34%
Effective income tax rate	0.00%	0.00%	0.00%

In accordance with ASC 740, the Company has decided to classify any interest and penalties as a component of income tax expense. To date, there have been no interest or penalties charged to the Company in relation to the underpayment of income taxes. The Company's primary tax jurisdictions are the United States, Florida, California, Rhode Island, Ohio, New York, Georgia, Texas, Illinois, North Carolina, Pennsylvania, Maryland, Colorado, Oklahoma, Washington, West Virginia, Wisconsin, Michigan, Mississippi and Tennessee. The tax years from 2005 through 2009 remain open and are subject to examination by the appropriate governmental agencies.

10. Selected Quarterly Data (Unaudited)

(in thousands, except per share data)	2009			
	Q1	Q2	Q3	Q4
Revenue	$ 3,727	$ 14,904	$ 6,726	$ 8,851
Gross profit (loss)	655	4,622	2,765	4,462
Loss from operations	(9,107)	(6,491)	(9,498)	(9,356)
Net loss	(8,885)	(6,424)	(9,439)	(9,275)
Net loss attributable to common stockholders	(8,885)	(6,424)	(9,439)	(9,275)
Net loss per share – basic and diluted attributable to common stockholders	(0.36)	(0.26)	(0.33)	(0.28)

Revenue for the first and second quarter of 2009 includes approximately $2.5 million and $8.8 million, respectively, of revenue from previously deferred unit sales of our TGS. In accordance with our revenue recognition policy, recognition of revenue on unit sales of our TGS was deferred until delivery of the RIO system, which we commercially released in the first quarter of 2009.

(in thousands, except per share data)	2008			
	Q1	Q2	Q3	Q4
Revenue	$ 498	$ 704	$ 777	$ 965
Gross profit (loss)	128	224	(584)	(270)
Loss from operations	(8,552)	(7,805)	(10,443)	(11,160)
Net loss	(8,501)	(7,565)	(10,202)	(10,814)
Net loss attributable to common stockholders	(9,066)	(7,565)	(10,202)	(10,814)
Net loss per share – basic and diluted attributable to common stockholders	(0.95)	(0.42)	(0.56)	(0.48)

11. SUBSEQUENT EVENT

In February 2010, the Company completed the acquisition of substantially all of the intellectual property portfolio of Z-Kat. The terms of the Asset Purchase Agreement between the Company and Z-Kat (the "Asset Purchase Agreement") terminated the Company's prior licenses with Z-Kat, including Z-Kat's nonexclusive sublicense to the Company's intellectual property portfolio, and transferred to the Company ownership rights to certain intellectual property assets for core technologies in CAS, haptics and robotics, including U.S. and foreign patents and patent applications, proprietary software and documentation, trade secrets and trademarks owned by Z-Kat, and certain contractual and other rights to patents, patent applications and other intellectual property licensed to Z-Kat under licenses. In connection with the acquisition, the Company also entered into a new license agreement with Z-Kat (the "License Agreement") pursuant to which the Company obtained an exclusive worldwide, fully transferable, perpetual, royalty-free and fully paid-up sublicense to certain intellectual property for technologies in CAS licensed by Z-Kat. This new License Agreement expands the Company's rights in this intellectual property from the field of orthopedics to the medical field generally. Certain of the Company's rights under the Asset Purchase Agreement and License Agreement remain subject to any prior license granted by Z-Kat, including the license to Biomet Manufacturing Corp. In consideration for consummation of the transactions contemplated by the Asset Purchase Agreement and License Agreement, the Company issued 230,458 shares of its unregistered common stock to Z-Kat in a private placement. The Asset Purchase Agreement and License Agreement, the entry into which was deemed to be a related party transaction as certain directors and executive officers of the Company have a material interest in Z-Kat by virtue of their ownership of Z-Kat stock, were approved by the board of directors and audit committee of the Company.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934, or the Exchange Act, our management evaluated, with the participation of our chief executive officer and chief financial officer, or the Certifying Officers, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2009. Based upon their evaluation of these disclosure controls and procedures, our Certifying Officers concluded that the disclosure controls and procedures were effective as of December 31, 2009 to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC rules and forms, and to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

We believe that a controls system, no matter how well designed and operated, is based in part upon certain assumptions about the likelihood of future events, and therefore can only provide reasonable, not absolute, assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, a company's principal executive and financial officers, or the certifying officers, and effected by a company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of our board of directors and management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including the certifying officers, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation under the criteria established in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2009. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by our independent registered public account firm, as stated in their report, which is included herein.

During the most recently completed fiscal quarter, there was no change in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be contained under the following headings in our definitive proxy statement to be filed in connection with our 2010 annual meeting of stockholders and, upon filing with the SEC, will be incorporated herein by reference:

- Section 16(a) Beneficial Ownership Reporting Compliance
- Election of Directors
- Board of Directors and Corporate Governance
- Executive Officers

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be contained under the following headings in our definitive proxy statement to be filed in connection with our 2010 annual meeting of stockholders and, upon filing with the SEC, will be incorporated herein by reference:

- Director Compensation
- Compensation Discussion and Analysis
- Compensation Committee Report
- Executive Compensation

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

The information required by this item will be contained under the following heading in our definitive proxy statement to be filed in connection with our 2010 annual meeting of stockholders and, upon filing with the SEC, will be incorporated herein by reference:

- Principal Stockholders

The information under "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Equity Compensation Plan Information" in this annual report on Form 10-K is also incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item will be contained under the following heading in our definitive proxy statement to be filed in connection with our 2010 annual meeting of stockholders and, upon filing with the SEC, will be incorporated herein by reference:

- Board of Directors and Corporate Governance – Independent Directors
- Certain Relationships and Related Person Transactions

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item will be contained under the following heading in our definitive proxy statement to be filed in connection with our 2010 annual meeting of stockholders and, upon filing with the SEC, will be incorporated herein by reference:

- Ratification of the Appointment of Ernst & Young LLP as Independent Registered Public Accounting Firm

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS and FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

1. *Financial Statements*

See Item 8, Financial Statements and Supplementary Data, *Index to Financial Statements*.

2. *Financial Statement Schedules*

No financial statement schedules are provided because the information called for is not required or is shown either in the financial statements or the notes thereto.

(b) *Exhibits*

Exhibit No.	Description
3.1	Third Amended and Restated Certificate of Incorporation of the Registrant, dated February 20, 2008 (2)
3.2	Fourth Amended and Restated Bylaws of the Registrant effective October 31, 2008 (6)
4.1	Securities Purchase Agreement by and among the Registrant and Investors named therein, dated as of October 28, 2008 (6)
4.2	Form of Warrant (6)
4.3	Form of Call Warrant (6)
4.4	Form of Call Exercise Warrant (6)
10.1	Form of Indemnity Agreement for Directors and Executive Officers (3)
10.2+	2004 Stock Incentive Plan and forms of agreements related thereto (3)
10.3+	2008 Omnibus Incentive Plan (3)
10.4+	2008 Employee Stock Purchase Plan (3)
10.5+	Amended Employment Agreement, dated as of November 12, 2007, by and between Registrant and Maurice R. Ferré, M.D (3)
10.6+	Employment Agreement, dated as of January 1, 2005, by and between Registrant and Rony Abovitz (3)
10.7+	Amendment to Employment Agreement, dated as of February 5, 2007, by and between Registrant and Rony Abovitz (3)
10.8	Multi-Tenant Lease, by and between Registrant and Westport Business Park Associates LLP, last dated January 31, 2006 (3)
10.9+	Form of Incentive Stock Option Agreement related to the 2008 Omnibus Incentive Plan (4)
10.10+	Employment Agreement between Registrant and Duncan Moffat, effective as of April 28, 2008 (5)
10.11+	Form of Non-Qualified Stock Option Agreement related to the 2008 Omnibus Incentive Plan (5)
10.12+	Form of Restricted Stock Unit Agreement related to the 2008 Omnibus Incentive Plan (5)
10.13+	Form of Subscription Agreement related to the 2008 Employee Stock Purchase Plan (5)
10.14+	2009 Leadership Cash Bonus Plan (7)
10.15+	2009 Performance Bonus Plan for S. Nunes – SVP of Sales & Marketing (7)

Exhibit No.	Description
10.16+	Amendment to Amended Employment Agreement by and between Registrant and Maurice R. Ferré, M.D., effective February 13, 2009 (8)
10.17+	Amended and Restated Employment Agreement by and between Registrant and Fritz L. LaPorte, effective February 13, 2009 (8)
10.18+	Amended and Restated Employment Agreement by and between Registrant and Menashe R. Frank, effective February 13, 2009 (8)
10.19+	Amended and Restated Employment Agreement by and between Registrant and Steven J. Nunes, effective February 13, 2009 (8)
10.20+	Employment Agreement by and between Registrant and Ivan Delevic, effective April 27, 2009 (9)
10.21+	2010 Leadership Cash Bonus Plan (10)
10.22+	2010 Performance Bonus Plan for S. Nunes – SVP of Sales & Marketing (10)
10.23+	Second Amendment to Amended Employment Agreement by and between Registrant and Maurice R. Ferré, M.D., effective February 17, 2010 (10)
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm (1)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act (1)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act (1)
32.1	Certification of Chief Executive Officer pursuant to18 U.S.C. §1350 (1)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. §1350 (1)
99.1	Registration Rights Agreement by and between Registrant and Z-Kat, Inc. dated February 25, 2010 (1)

(1) Filed herewith

(2) Incorporated by reference to Registrant's Annual Report on Form 10-K for the period ended December 31, 2007 filed with the SEC on March 31, 2008

(3) Incorporated by reference to Registrant's Registration Statement on Form S-1, as amended, filed with the SEC on September 19, 2007 (Registration No. 333-146162)

(4) Incorporated by reference to Registrant's Current Report on Form 8-K filed with the SEC on February 26, 2008

(5) Incorporated by reference to Registrant's Current Report on Form 8-K filed with the SEC on April 29, 2008

(6) Incorporated by reference to Registrant's Current Report on Form 8-K filed with the SEC on October 30, 2008

(7) Incorporated by reference to Registrant's Current Report on Form 8-K filed with the SEC on February 13, 2009

(8) Incorporated by reference to Registrant's Current Report on Form 8-K filed with the SEC on February 20, 2009

(9) Incorporated by reference to Registrant's Current Report on Form 8-K filed with the SEC on April 28, 2009

(10) Incorporated by reference to Registrant's Current Report on Form 8-K filed with the SEC on February 23, 2010

+ Indicates management contract or compensatory plan.

SIGNATURES

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

By: /s/ MAURICE R. FERRÉ, M.D.
President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)

Dated: March 10, 2010

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

Signature	Title	Date
/s/ MAURICE R. FERRÉ, M.D. Maurice R. Ferré, M.D.	*President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)*	March 10, 2010
/s/ FRITZ L. LAPORTE Fritz L. LaPorte	*Senior Vice President of Finance and Administration, Chief Financial Officer and Treasurer (Principal Accounting and Financial Officer)*	March 10, 2010
/s/ S. MORRY BLUMENFELD, PH.D. S. Morry Blumenfeld, Ph.D.	*Director*	March 10, 2010
/s/ MARCELO G. CHAO Marcelo G. Chao	*Director*	March 10, 2010
/s/ CHRISTOPHER C. DEWEY Christopher C. Dewey	*Director*	March 10, 2010
/s/ CHARLES W. FEDERICO Charles W. Federico	*Director*	March 10, 2010
/s/ JOHN G. FREUND, M.D. John G. Freund, M.D.	*Director*	March 10, 2010
/s/ FREDERIC H. MOLL, M.D. Frederic H. Moll, M.D.	*Director*	March 10, 2010
/s/ WILLIAM D. PRUITT William D. Pruitt	*Director*	March 10, 2010
/s/ JOHN J. SAVARESE, M.D. John J. Savarese, M.D.	*Director*	March 10, 2010

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MAKO Surgical Corp.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Maurice R. Ferré, M.D.
President, Chief Executive Officer and Chairman
MAKO Surgical Corp.

S. Morry Blumenfeld, Ph.D.
Founder, Meditech Advisors LLC and Meditech Advisors Management LLC

Marcelo G. Chao*
Former Managing Director
The Exxel Group, an affiliate of MK Investment Company

Christopher C. Dewey
Vice Chairman
National Holdings Corporation

Charles W. Federico
Former President and Chief Executive Officer, Orthofix International N.V.
Director, Orthofix International N.V.

John G. Freund, M.D.
Managing Director
Skyline Ventures

Frederic H. Moll, M.D.
Chief Executive Officer and Director
Hansen Medical, Inc.

William D. Pruitt
President
Pruitt Enterprises, LP

John J. Savarese, M.D.
Managing Director
Montreux Equity Partners

EXECUTIVE OFFICERS

Maurice R. Ferré, M.D.
President, Chief Executive Officer and Chairman

Fritz L. LaPorte
Senior Vice President of Finance and Administration, Chief Financial Officer and Treasurer

Ivan Delevic
Senior Vice President of Strategic Marketing and Business Development

Menashe R. Frank
Senior Vice President, General Counsel and Secretary

James E. Keller
Senior Vice President of Regulatory Affairs and Quality Assurance

Richard Leparmentier
Senior Vice President of Engineering

Duncan H. Moffat
Senior Vice President of Operations

Steven J. Nunes
Senior Vice President of Sales and Marketing

CORPORATE DATA

Headquarters
MAKO Surgical Corp.
2555 Davie Road
Fort Lauderdale, Florida 33317

Independent Auditors
Ernst & Young LLP
Suite 700
100 Northeast Third Avenue
Fort Lauderdale, Florida 33301

Transfer Agent and Registrar
Continental Stock Transfer & Trust Company
17 Battery Place, 8th Floor
New York, New York 10004

Stock Exchange
MAKO's common shares are traded on The NASDAQ Global Market under the ticker symbol "MAKO".

Annual Meeting of Stockholders
MAKO's 2010 annual meeting of stockholders will be held on June 10, 2010 at 10:00 a.m., Eastern Time, at MAKO's corporate headquarters.

SEC Form 10-K
MAKO's 2009 Annual Report on Form 10-K as filed with the Securities and Exchange Commission is included within this annual report. Additional copies are available free of charge by writing to or calling:

MAKO Surgical Corp.
Attention: Susan M. Verde
2555 Davie Road
Fort Lauderdale, Florida 33317
(954) 927-2044 x349
sverde@makosurgical.com

* Mr. Chao is retiring from our board of directors at the expiration of his current term effective as of our 2010 annual meeting of stockholders.

MAKO Surgical Corp. is dedicated to advancing orthopedics through the discovery and development of quality innovative robotic and implantable surgical solutions that consistently, reproducibly, and precisely restore patient quality of life.

MAKO SURGICAL CORP®

Restoring Quality of Life Through Innovation®

MAKO Surgical Corp.
2555 Davie Road | Fort Lauderdale, FL 33317 | 866.647.6256 | www.makosurgical.com