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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission file number 000-30713

Intuitive Surgical, Inc.

(Exact name of Registrant as specified in its Charter)

Delaware	**77-0416458**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

1266 Kifer Road
Sunnyvale, California 94086
(Address of principal executive offices) (Zip Code)

(408) 523-2100
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 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 Registrant had 39,763,191shares of Common Stock, $0.001 par value per share, outstanding as of October 10, 2012.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

INTUITIVE SURGICAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN MILLIONS, EXCEPT PAR VALUES)

(UNAUDITED)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 396.2	$ 465.8
Short-term investments	745.2	563.4
Accounts receivable, net	336.2	297.9
Inventory	125.8	112.1
Prepaids and other current assets	42.6	20.9
Deferred tax assets	7.1	6.2
Total current assets	1,653.1	1,466.3
Property, plant and equipment, net	223.4	197.2
Long-term investments	1,559.7	1,142.6
Long-term deferred tax assets	88.1	69.1
Intangible and other assets, net	69.8	71.0
Goodwill	138.1	116.9
Total assets	$ 3,732.2	$ 3,063.1
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 56.1	$ 45.8
Accrued compensation and employee benefits	74.9	83.1
Deferred revenue	171.8	154.2
Other accrued liabilities	62.1	37.5
Total current liabilities	364.9	320.6
Other long-term liabilities	73.8	96.9
Total liabilities	438.7	417.5
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, 2.5 shares authorized, $0.001 par value, issuable in series; no shares issued and outstanding as of September 30, 2012 and December 31, 2011	—	—
Common stock, 100.0 shares authorized, $0.001 par value, 39.8 and 39.3 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively	—	—
Additional paid-in capital	2,078.9	1,742.8
Retained earnings	1,208.8	901.9
Accumulated other comprehensive income	5.8	0.9
Total stockholders' equity	3,293.5	2,645.6
Total liabilities and stockholders' equity	$ 3,732.2	$ 3,063.1

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

INTUITIVE SURGICAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue:				
Product	$ 450.0	$ 374.9	$1,317.5	$1,057.5
Service	87.8	71.8	252.0	203.0
Total revenue	537.8	446.7	1,569.5	1,260.5
Cost of revenue:				
Product	119.3	96.2	353.9	274.5
Service	28.4	25.0	83.2	75.1
Total cost of revenue	147.7	121.2	437.1	349.6
Gross profit	390.1	325.5	1,132.4	910.9
Operating expenses:				
Selling, general, and administrative	129.0	111.2	374.1	316.8
Research and development	49.7	35.4	128.3	98.8
Total operating expenses	178.7	146.6	502.4	415.6
Income from operations	211.4	178.9	630.0	495.3
Interest and other income (expense), net	4.3	1.9	12.1	11.3
Income before taxes	215.7	180.8	642.1	506.6
Income tax expense	32.4	58.4	160.4	162.7
Net income	$ 183.3	$ 122.4	$ 481.7	$ 343.9
Net income per share:				
Basic	$ 4.59	$ 3.13	$ 12.10	$ 8.77
Diluted	$ 4.46	$ 3.05	$ 11.72	$ 8.55
Shares used in computing net income per share:				
Basic	39.9	39.1	39.8	39.2
Diluted	41.1	40.1	41.1	40.2
Total comprehensive income	$ 185.5	$ 121.3	$ 486.6	$ 343.8

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

INTUITIVE SURGICAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS)
(UNAUDITED)

	Nine Months Ended September 30,	
	2012	2011
Operating Activities:		
Net income	$ 481.7	$ 343.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	25.2	20.9
Amortization of intangible assets	17.2	13.1
Accretion of discounts and amortization of premiums on investments, net	23.8	16.0
Deferred income taxes	(19.3)	8.2
Income tax benefits from employee stock option plans	54.8	36.2
Excess tax benefit from stock-based compensation	(54.7)	(44.9)
Stock-based compensation expense	115.0	101.8
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(34.8)	(18.2)
Inventory	(11.4)	(21.8)
Prepaids and other assets	(5.5)	(7.6)
Accounts payable	6.9	7.5
Accrued compensation and employee benefits	(8.1)	(3.2)
Deferred revenue	16.3	17.7
Other accrued liabilities	(10.1)	(5.7)
Net cash provided by operating activities	597.0	463.9
Investing Activities:		
Purchase of investments	(1,448.8)	(1,176.0)
Proceeds from sales of investments	262.8	371.1
Proceeds from maturities of investments	569.1	532.0
Purchase of property, plant and equipment, intellectual property and business	(53.1)	(67.7)
Acquisition of business, net of cash acquired	(27.6)	—
Acquisition-related restricted cash	(15.0)	—
Net cash used in investing activities	(712.6)	(340.6)
Financing Activities:		
Proceeds from issuance of common stock, net	176.5	181.6
Excess tax benefit from stock-based compensation	54.7	44.9
Repurchase and retirement of common stock	(185.1)	(331.8)
Net cash provided by (used in) financing activities	46.1	(105.3)
Effect of exchange rate changes on cash and cash equivalents	(0.1)	0.4
Net increase (decrease) in cash and cash equivalents	(69.6)	18.4
Cash and cash equivalents, beginning of period	465.8	279.8
Cash and cash equivalents, end of period	$ 396.2	$ 298.2

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

INTUITIVE SURGICAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

In this report, "Intuitive Surgical", "Intuitive", and the "Company" refer to Intuitive Surgical, Inc., and its wholly-owned subsidiaries.

NOTE 1. DESCRIPTION OF BUSINESS

Intuitive designs, manufactures and markets *da Vinci* Surgical Systems and related instruments and accessories, which taken together, are advanced surgical systems that the Company believes represent a new generation of surgery. The Company believes that this new generation of surgery, which the Company calls *da Vinci* Surgery, combines the benefits of minimally invasive surgery ("MIS") for patients with the ease of use, precision and dexterity of open surgery. A *da Vinci* Surgical System consists of a surgeon's console, a patient-side cart and a high performance vision system. The *da Vinci* Surgical System translates a surgeon's natural hand movements, which are performed on instrument controls at a console, into corresponding micro-movements of instruments positioned inside the patient through small incisions, or ports. The *da Vinci* Surgical System is designed to provide its operating surgeons with intuitive control, range of motion, fine tissue manipulation capability and 3-D, High-Definition ("HD") vision while simultaneously allowing them to work through the small ports of MIS.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements ("financial statements") of Intuitive Surgical, Inc. and its wholly-owned subsidiaries have been prepared on a consistent basis with the December 31, 2011 audited Consolidated Financial Statements and include all adjustments, consisting of only normal recurring adjustments, necessary to fairly state the information set forth herein. The financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"), and, therefore, omit certain information and footnote disclosure necessary to present the statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). These financial statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which was filed on February 6, 2012. The results of operations for the first nine months of fiscal 2012 are not necessarily indicative of the results to be expected for the entire fiscal year or any future periods. Certain prior year amounts in the financial statements and notes thereto have been reclassified to conform to the current year's presentation.

Revenue Recognition

The Company's revenue consists of product revenue resulting from the sales of systems, instruments and accessories, and service revenue. The Company recognizes revenue when all four revenue recognition criteria have been met: 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 Company's revenue recognition policy generally results in revenue recognition at the following points:

- System sales. For system sales directly to end customers, revenue is recognized when acceptance occurs, which is deemed to have occurred upon the receipt by the Company of a form executed by the customer acknowledging delivery and/or installation. For system sales through distributors, revenue is recognized upon transfer of title and risk of loss, which is generally at the time of shipment. Distributors do not have price protection rights. The Company's system contracts do not allow rights of return. The Company's system revenue contains a software component. Since the *da Vinci* Surgical System's software and non-software elements function together to deliver the System's essential functionality, they are considered to be one deliverable that is excluded from the software revenue recognition guidance.

- Instruments and accessories. Revenue from sales of instruments and accessories is generally recognized when the product has been shipped. The Company records an allowance on instruments and accessories sales returns based on historical returns experience.
- Service. Service contract revenue is recognized ratably over the term of the service period. Revenue related to services performed on a time-and-materials basis is recognized when it is earned and billable.

The Company determined that its multiple-element arrangements are generally comprised of the following elements that would qualify as separate units of accounting: system sales, service contracts and instruments and accessories sales.

The Company offers its customers the opportunity to trade in their older systems for credit towards the purchase of a newer generation system. The Company generally does not provide specified trade-in rights or upgrade rights at the time of system purchase. Such trade-in or upgrade transactions are separately negotiated based on the circumstances at the time of the trade-in or upgrade and are generally not based on any pre-existing rights granted by the Company. Accordingly, such trade-ins and upgrades are not considered as separate deliverables in the arrangement for a system sale.

As part of a trade-in transaction, the customer receives a new generation system in exchange for its older used system. The trade-in credit is negotiated at the time of the trade-in and is applied towards the purchase price of the new generation unit. Traded-in systems can be reconditioned and resold. The Company accounts for trade-ins consistent with the guidance in AICPA Technical Practice Aid 5100.01, *Equipment Sales Net of Trade-Ins* (“*TPA 5100.01”*). The Company applies the accounting guidance by crediting system revenue for the negotiated price of the new generation system, and the difference between (a) the trade-in allowance and (b) the amount determined by pricing the trade-in system at net realizable value minus a normal profit margin, is treated as a sales allowance. The value of the traded-in system is determined as the amount to which when reconditioning costs are added, will allow a normal profit margin on the sale of the reconditioned unit. When there is no market for the traded-in units, no value is assigned. Traded-in units are reported as a component of inventory until reconditioned and resold, or otherwise disposed.

In addition, customers may also have the opportunity to upgrade their systems, for example, by adding a fourth arm to a three-arm system, adding a second surgeon console for use with the *da Vinci Si* Surgical System or adding new vision systems to the *Standard da Vinci* and *da Vinci S* Surgical Systems. Such upgrades are performed by completing component level upgrades at the customer’s site. Upgrade revenue is recognized when the component level upgrades are complete and the four revenue recognition criteria are met.

In September 2009, the Financial Accounting Standards Board (“FASB”) amended the accounting standards related to revenue recognition for arrangements with multiple deliverables and arrangements that include software elements. The new accounting principles permit prospective or retrospective adoption, and the Company elected prospective adoption at the beginning of the first quarter of 2010.

Subsequent to the adoption of the new revenue accounting principles, for multiple-element arrangements entered into on or after January 1, 2010, revenue is allocated to each element based on their relative selling prices. Relative selling prices are based first on vendor specific objective evidence (“VSOE”), then on third-party evidence of selling price (“TPE”) when VSOE does not exist, and then on estimated selling price (“ESP”) when VSOE and TPE do not exist.

Because the Company has neither VSOE nor TPE for its systems, the allocation of revenue has been based on the Company’s ESPs. The objective of ESP is to determine the price at which the Company would transact a sale if the product was sold on a stand-alone basis. The Company determines ESP for its systems by considering multiple factors including, but not limited to, features and functionality of the system, geographies, type of customer, and market conditions. The Company regularly reviews ESP and maintains internal controls over the establishment and updates of these estimates.

New Accounting Standards Recently Adopted

Effective January 1, 2012, the Company adopted guidance which eliminates the current option to report other comprehensive income (“OCI”) and its components in the statement of changes in stockholders’ equity and elected to disclose OCI in a single continuous statement during interim reporting periods.

Effective January 1, 2012, the Company adopted the new accounting guidance which allows a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. The adoption did not have any impact on the Company's consolidated financial statements.

NOTE 3. FINANCIAL INSTRUMENTS

Cash, Cash Equivalents and Investments

The following tables summarize the Company's cash and available-for-sale securities' amortized cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short-term or long-term investments as of September 30, 2012 and December 31, 2011 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments
September 30, 2012							
Cash	$ 57.2	$ —	$ —	$ 57.2	$ 57.2	$ —	$ —
Level 1:							
Money market funds	299.1	—	—	299.1	299.1	—	—
U.S. Treasuries & corporate equity securities	205.3	0.2	—	205.5	—	155.2	50.3
Subtotal	504.4	0.2	—	504.6	299.1	155.2	50.3
Level 2:							
Commercial paper	106.5	—	—	106.5	39.9	66.6	—
Corporate securities	910.8	6.8	(0.1)	917.5	—	271.7	645.8
U.S. government agencies	666.5	2.9	—	669.4	—	133.7	535.7
Non-U.S. government securities	92.0	0.7	—	92.7	—	22.8	69.9
Municipal securities	340.6	1.6	(0.1)	342.1	—	95.2	246.9
Subtotal	2,116.4	12.0	(0.2)	2,128.2	39.9	590.0	1,498.3
Level 3:							
Municipal securities	13.0	—	(1.9)	11.1	—	—	11.1
Subtotal	13.0	—	(1.9)	11.1	—	—	11.1
Total assets measured at fair value	$2,691.0	$ 12.2	$ (2.1)	$2,701.1	$ 396.2	$ 745.2	$ 1,559.7

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments
December 31, 2011							
Cash	$ 51.6	$ —	$ —	$ 51.6	$ 51.6	$ —	$ —
Level 1:							
Money market funds	403.2	—	—	403.2	403.2	—	—
U.S. Treasuries & corporate equity securities	183.9	0.5	—	184.4	—	130.5	53.9
Sub-total	587.1	0.5	—	587.6	403.2	130.5	53.9
Level 2:							
Commercial paper	63.5	—	—	63.5	11.0	52.5	—
Corporate securities	586.6	3.0	(1.4)	588.2	—	162.4	425.8
U.S. government agencies	521.1	1.4	(0.1)	522.4	—	126.6	395.8
Non-U.S. government securities	68.7	0.4	(0.1)	69.0	—	1.3	67.7
Municipal securities	272.1	1.1	(0.1)	273.1	—	90.1	183.0
Sub-total	1,512.0	5.9	(1.7)	1,516.2	11.0	432.9	1,072.3
Level 3:							
Municipal securities	20.0	—	(3.6)	16.4	—	—	16.4
Sub-total	20.0	—	(3.6)	16.4	—	—	16.4
Total assets measured at fair value	$2,170.7	$ 6.4	$ (5.3)	$2,171.8	$ 465.8	$ 563.4	$ 1,142.6

The following table summarizes the contractual maturities of the Company's cash equivalents and available-for-sale investments, excluding corporate equity securities, at September 30, 2012 (in millions):

	Amortized Cost	Fair Value
Mature in less than one year	$1,082.3	$1,083.5
Mature in one to five years	1,537.9	1,548.6
Mature after five years	13.0	11.1
Total	$2,633.2	$2,643.2

During the three and nine months ended September 30, 2012, realized gains or losses recognized on the sale of investments were not significant. Net realized gains recognized on the sale of investments during the three and nine months ended September 30, 2011 were approximately $2.5 million. As of September 30, 2012 and December 31, 2011, net unrealized gains (losses), net of tax of $6.9 million and $1.1 million, respectively, were included in accumulated other comprehensive income in the accompanying unaudited Condensed Consolidated Balance Sheets. At September 30, 2012, the Company evaluated its gross unrealized losses, the majority of which are from auction-rate securities ("ARS"), and determined these unrealized losses to be temporary. Factors considered in determining whether a loss is temporary included the length of time and extent to which the investment's fair value has been less than the cost basis; the financial condition and near-term prospects of the issuer; extent of the loss related to credit of the issuer; the expected cash flows from the security; the Company's intent to sell the security and whether or not the Company will be required to sell the security before the recovery of its amortized cost.

There have been no transfers between Level 1 and Level 2 measurements since December 31, 2011, and there were no changes in the Company's valuation technique. Level 3 assets consist of ARS whose underlying assets are student loans which are generally backed by the federal government. Since the auctions for these securities have continued to fail since February 2008, these investments are not currently trading and therefore do not have a readily determinable fair value. The Company has valued the ARS using a discounted cash flow model based on Level 3 assumptions, including estimates of, based on data available as of September 30, 2012, interest rates, timing and amount of cash flows, credit and liquidity premiums and expected holding periods of the ARS.

Foreign currency derivatives

The Company had $2.2 million of derivative liabilities recorded as other accrued liabilities in the Condensed Consolidated Balance Sheets at September 30, 2012, compared to $3.5 million of derivative assets recorded as prepaid and other assets at December 31, 2011. The derivative assets and liabilities are measured using Level 2 fair value inputs.

Cash Flow Hedges

The Company enters into currency forward contracts as cash flow hedges to hedge certain forecasted revenue transactions denominated in currencies other than the U.S. dollar, primarily the European Euro ("Euro or €"), the British Pound ("GBP or £") and the Korean Won ("KRW").

As of September 30, 2012, the Company had notional amounts of €19.4 million and KRW1.6 billion of outstanding currency forward contracts entered into to hedge Euro and KRW denominated sales, compared to none at December 31, 2011. The net gains (losses) reclassified to revenue related to the hedged revenue transactions for the three and nine months ended September 30, 2012 and 2011 were not significant. Other impacts of derivative instruments designated as cash flow hedges were not significant for the three and nine months ended September 30, 2012 and 2011.

Other Derivatives Not Designated as Hedging Instruments

Other derivatives not designated as hedging instruments consist primarily of forward contracts that the Company uses to hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the U.S. dollar, primarily the Euro, the GBP, the Swiss Franc ("CHF") and the KRW.

As of September 30, 2012, the Company had notional amounts of €21.7 million, £2.3 million, CHF(1.5) million and KRW6,327.0 million of outstanding currency forward contracts that were entered into to hedge non-functional currency denominated net monetary assets and liabilities, compared to €35.0 million, £1.8 million and CHF(1.7) million at December 31, 2011. For the three months ended September 30, 2012 and 2011, the Company had recognized gains (losses) of approximately $(0.2) million and $0.8 million, respectively, in interest and other income (expense), net, related to derivative instruments used to hedge against balance sheet foreign currency exposures. This was offset by approximately $0 and $(1.7) million of net foreign exchange gains (losses) during the three months ended September 30, 2012 and 2011, respectively, primarily related to the re-measurement of non-functional currency denominated net monetary assets and liabilities. For the nine months ended September 30, 2012 and 2011, the Company had recognized gains (losses) of approximately $0.4 million and $(2.4) million, respectively, in interest and other income (expense), net, related to derivative instruments used to hedge against balance sheet foreign currency exposures. This was offset by approximately $(0.6) million and $1.5 million of net foreign exchange gains (losses) during the nine months ended September 30, 2012 and 2011, respectively.

NOTE 4. BALANCE SHEET DETAILS

Inventory

The following table provides inventory details (in millions):

	September 30, 2012	December 31, 2011
Inventory		
Raw materials	$ 37.2	$ 34.8
Work-in-process	3.1	2.5
Finished goods	85.5	74.8
Total	$ 125.8	$ 112.1

Goodwill and intangible and other assets

The increases in goodwill and intangible assets as of September 30, 2012 compared with December 31, 2011 were primarily related to the acquisition of the Company's Korean distributor on January 11, 2012. The intangible assets acquired are primarily being amortized over seven years.

NOTE 5. CONTINGENCIES

On August 6, 2010, a shareholder purported class action lawsuit entitled *Perlmutter v. Intuitive Surgical et al.*, No. CV10-3451, was filed against the Company and seven of the Company's current and former officers and directors in the United States District Court for the Northern District of California. The lawsuit seeks unspecified damages on behalf of a putative class of persons who purchased or otherwise acquired the Company's common stock between February 1, 2008 and January 7, 2009. The complaint alleges that the defendants violated federal securities laws by making allegedly false and misleading statements and omitting certain material facts in the Company's filings with the Securities and Exchange Commission. On February 15, 2011, the Police Retirement System of St. Louis was appointed Lead Plaintiff in the case pursuant to the Private Securities Litigation Reform Act of 1995. An amended complaint was filed on April 15, 2011, making allegations substantially similar to the allegations described above. On May 23, 2011 the Company filed a motion to dismiss the amended complaint. On August 10, 2011 that motion was granted and the action was dismissed; the plaintiffs were given 30 days to file an amended complaint. On September 12, 2011, plaintiffs filed their amended complaint. The allegations contained therein are substantially similar to the allegations in the prior complaint. The Company filed a motion to dismiss the amended complaint. A hearing occurred on February 16, 2012, and on May 22, 2012 the Company's motion was granted. The complaint was dismissed with prejudice, and a final judgment was entered in the Company's favor on June 1, 2012. Plaintiffs filed a notice of appeal on June 20, 2012. That appeal remains pending.

On August 19, 2010, an alleged stockholder caused a purported stockholder's derivative lawsuit entitled *Himmel v. Smith et al.*, No. 1-10-CV-180416, to be filed in the Superior Court of California for the County of Santa Clara naming the Company as a nominal defendant, and naming 14 of the Company's current and former officers and directors as defendants. The lawsuit seeks to recover, for the Company's benefit, unspecified damages purportedly sustained by the Company in connection with allegedly misleading statements and/or omissions made in connection with the Company's financial reporting for the period between February 1, 2008 and January 7, 2009. It also seeks a series of changes to the Company's corporate governance policies and an award of attorneys' fees. On September 15, 2010, another purported stockholder filed an essentially identical lawsuit entitled *Applebaum v. Guthart et al.*, No. 1-10-CV-182645, in the same court against 15 of the Company's current and former officers and directors. On October 5, 2010, the court ordered that the two cases be consolidated for all purposes. By agreement with the plaintiffs, all activity in the case has been stayed pending the results of the appeal in the purported shareholder class action lawsuit discussed above.

Due to the uncertainty surrounding the litigation process, the Company is unable to reasonably estimate the ultimate outcome of the above cases at this time, and therefore no amounts have been accrued related to the outcome of the cases above. Based on currently available information, the Company believes that it has meritorious defenses to the above actions and that the resolution of these cases is not likely to have a material adverse effect on the Company's business, financial position or results of operations.

The Company is also a party to various other legal actions that arose in the ordinary course of its business. The Company does not believe that any of these other legal actions will have a material adverse impact on its business, financial position or results of operations.

NOTE 6. STOCKHOLDERS' EQUITY

Share Repurchase Program

As of September 30, 2012, the total amount of share repurchases authorized by the Company's Board of Directors (the "Board") and the cumulative share repurchases made to date were $1,248.7 million and $865.6 million, respectively. As of September 30, 2012, the remaining authorized amount of share repurchases that may be made under the Board-authorized share repurchase program was approximately $383.1 million.

The following table provides the share repurchase activities during the three and nine months ended September 30, 2012 and 2011 (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Shares repurchased	0.3	0.5	0.4	1.0
Average price per share	$ 495.09	$ 344.36	$ 497.28	$ 344.72
Value of shares repurchased	$ 169.8	$ 181.1	$ 185.1	$ 331.8

NOTE 7. STOCK-BASED COMPENSATION

Stock Option Plans

A summary of stock option activity under all stock plans for the nine months ended September 30, 2012 is presented as follows (in millions, except per share amounts):

		Stock Options Outstanding	
	Shares Available for Grant	Number Outstanding	Weighted Average Exercise Price Per Share
Balance at December 31, 2011	1.6	4.7	$ 254.19
Options authorized	1.4	—	—
Options granted	(1.4)	1.4	512.50
Options exercised	—	(0.7)	214.82
Options forfeited/expired	0.1	(0.2)	361.44
Balance at September 30, 2012	1.7	5.2	$ 324.59

As of September 30, 2012, 2.7 million options were exercisable at a weighted-average price of $247.29 per share.

New Option Grant Practice

In the past, annual stock option awards were granted on February 15th (or the next business day if February 15th was not a business day). These stock option awards typically vested 1/8 at the end of six months and 1/48 per month thereafter through a four-year period and had a ten-year term. Beginning in 2012, stock options have been awarded to employees bi-annually on February 15th and August 15th (or the next business day if the date is not a business day). The February 15th stock option awards are subjected to a four-year vesting period, while the August 15th stock option awards are subjected to a 3.5-year vesting period, with 7/48 vesting at the end of one month and 1/48 per month thereafter.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan (“ESPP”), employees purchased approximately 0.1 million shares for $27.8 million and 0.1 million shares for $18.5 million during the nine months ended September 30, 2012 and 2011, respectively.

Stock-based Compensation

The following table summarizes stock-based compensation charges (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Cost of sales - products	$ 4.3	$ 3.2	$ 10.6	$ 9.2
Cost of sales - services	4.1	2.9	9.6	8.2
Total cost of sales	8.4	6.1	20.2	17.4
Selling, general and administrative	28.2	21.4	69.7	63.0
Research and development	10.7	7.4	25.1	21.4
Stock-based compensation expense before income taxes	47.3	34.9	115.0	101.8
Income taxes	14.9	10.4	36.0	32.1
Stock-based compensation expense after income tax effect	$ 32.4	$ 24.5	$ 79.0	$ 69.7

The fair value of each option grant and the fair value of the option component of the ESPP shares were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions, assuming no expected dividends:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Stock Options				
Average risk free interest rate	0.80%	1.13%	0.81%	2.24%
Average expected term (years)	4.1	4.5	4.3	4.8
Average expected volatility	35%	35%	33%	35%
Weighted average fair value at grant date	$148.05	$115.09	$145.60	$114.69
Total stock-based compensation expense (in millions)	$ 43.3	$ 32.9	$ 105.1	$ 95.7
ESPP				
Average risk free interest rate	0.19%	0.27	0.17%	0.32%
Average expected term (years)	1.3	1.3	1.3	1.3
Average expected volatility	32%	31	32%	33%
Weighted average fair value at grant date	143.36	$112.75	$138.61	$ 99.94
Total stock-based compensation expense (in millions)	$ 4.0	$ 2.0	$ 9.9	$ 6.1

NOTE 8. INCOME TAXES

Income tax expense for the three months ended September 30, 2012 was $32.4 million, or 15.0% of pre-tax income, compared with $58.4 million, or 32.3% of pre-tax income for the three months ended September 30, 2011. Income tax expense for the nine months ended September 30, 2012 was $160.4 million, or 25% of pre-tax income, compared with $162.7 million, or 32.1% of pre-tax income for the nine months ended September 30, 2011. The Company's effective tax rates for all these periods differ from the U.S. federal statutory rate of 35% due primarily to the effect of income earned by certain of the Company's overseas entities being taxed at rates lower than the federal statutory rate partially offset by state income taxes and non-deductible stock option expenses. The Company intends to indefinitely reinvest all of its undistributed foreign earnings outside the United States. The income tax provision for the three and nine months ended September 30, 2012 reflected discrete benefits of $35.1 million primarily associated with the reversal of unrecognized tax benefits in connection with the expiration of certain statutes of limitations in multiple jurisdictions and $2.5 million associated with the filing of the Company's 2011 federal tax returns. The income tax provision for the nine months ended September 30, 2012 also included a discrete recognition of certain previously unrecognized tax benefits as a result of new IRS guidance issued in the first quarter of 2012.

As of September 30, 2012, the Company had total gross unrecognized tax benefits of approximately $81.1 million compared with approximately $98.1 million as of December 31, 2011, representing a net decrease of approximately $17.0 million for the nine months ended September 30, 2012. The net decrease is primarily related to the reversal of previously unrecognized tax benefits of $41.2 million as a result of the expiration of certain statutes of limitations in multiple jurisdictions, and the release of reserves due to re-evaluation of certain previously unrecognized tax positions as a result of new IRS guidance issued in February 2012, partially offset by increases during the first nine months of 2012 related to other uncertain tax positions. Of the total gross unrecognized tax benefits, $76.8 million and $93.8 million as of September 30, 2012 and December 31, 2011, respectively, if recognized, would reduce the effective tax rate in the period of recognition. Gross interest related to unrecognized tax benefit accrued was approximately $4.0 million and $7.9 million, respectively, as of September 30, 2012 and December 31, 2011, representing a decrease of $3.9 million related to the expiration of statutes of limitations, net with increase related to other unrecognized tax positions.

The Company files federal, state and foreign income tax returns in many jurisdictions in the United States and abroad. Generally, years before 2009 are closed for most significant jurisdictions except for certain states, for which all years since inception remain open due to utilization of net operating losses and R&D credits generated in prior years or longer statutes of limitations. Certain of the Company's unrecognized tax benefits could reverse based on the normal expiration of various statutes of limitations, which could affect our effective tax rate in the period in which they reverse.

NOTE 9. NET INCOME PER SHARE

The following table presents the computation of basic and diluted net income per share (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$ 183.3	$ 122.4	$ 481.7	$ 343.9
Basic:				
Weighted-average shares outstanding	39.9	39.1	39.8	39.2
Basic net income per share	$ 4.59	$ 3.13	$ 12.10	$ 8.77
Diluted:				
Weighted-average shares outstanding used in basic calculation	39.9	39.1	39.8	39.2
Add common stock equivalents	1.2	1.0	1.3	1.0
Weighted-average shares used in computing diluted net income per share	41.1	40.1	41.1	40.2
Diluted net income per share	$ 4.46	$ 3.05	$ 11.72	$ 8.55

Employee stock options to purchase approximately 1.1 million and 2.2 million weighted shares for the three months ended September 30, 2012 and 2011, respectively, and 0.8 million and 2.2 million weighted shares for the nine months ended September 30, 2012 and 2011, respectively, were outstanding, but were not included in the computation of diluted net income per share because the effect of including such shares would have been antidilutive in the periods presented.

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

In this report, "Intuitive Surgical", "Intuitive", the "Company", "we", "us", and "our" refer to Intuitive Surgical, Inc., and its wholly-owned subsidiaries.

This management's discussion and analysis of financial condition as of September 30, 2012 and results of operations for the three and nine months ended September 30, 2012 and 2011 should be read in conjunction with management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2011.

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements relate to expectations concerning matters that are not historical facts. Words such as "estimates," "projects," "believes," "anticipates," "plans," "expects," "intends," "may," "will," "could," "should," "would," "targeted" and similar words and expressions are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements related to our expected business, new product introductions, procedures and procedure adoption, results of operations, future financial position, our ability to increase our revenues, the mix of our revenues between product and service revenues, our financing plans and capital requirements, our costs of revenue, our expenses, our potential tax assets or liabilities, the effect of recent accounting pronouncements, our investments, cash flows and our ability to finance operations from cash flows and similar matters and include statements based on current expectations, estimates, forecasts and projections about the economies and markets in which we operate and our beliefs and assumptions regarding these economies and markets. These forward-looking statements should be considered in light of various important factors, including the following: the impact of global and regional economic and credit market conditions on health care spending; health care reform legislation in the United States and its impact on hospital spending, reimbursement and fees which will be levied on certain medical device revenues; timing and success of product development and market acceptance of developed products; procedure counts; regulatory approvals, clearances and restrictions; guidelines and recommendations in the health care and patient communities; intellectual property positions and litigation; competition in the medical device industry and in the specific markets of surgery in which we operate; unanticipated manufacturing disruptions; the inability to meet demand for products; the results of legal proceedings to which we are or may become a party; our ability to expand into foreign markets; and other risk factors. Readers are cautioned that these forward-looking statements

are based on current expectation and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those risk factors described throughout this filing and detailed in the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and other periodic filings with the Securities and Exchange Commission, particularly in Part I, “Item 1A: Risk Factors”. Our actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

Overview

Products. We design, manufacture and market *da Vinci* Surgical Systems, which are advanced surgical systems that we believe represent a new generation of surgery. We believe that this new generation of surgery, which we call *da Vinci* surgery, extends the benefits of minimally invasive surgery (“MIS”) to a broader patient base. The *da Vinci* Surgical System consists of a surgeon’s console, or consoles, a patient-side cart and a high performance vision system. The *da Vinci* Surgical System translates the surgeon’s natural hand movements, which are performed on instrument controls at a console, into corresponding micro-movements of instruments positioned inside the patient through small incisions, or ports. We believe that the *da Vinci* Surgical System provides the surgeon with intuitive control, range of motion, fine tissue manipulation capability and 3-D, HD vision, while simultaneously allowing the surgeons to work through the small ports of MIS.

By placing computer-enhanced technology between the surgeon and the patient, we believe that the *da Vinci* Surgical System enables surgeons to deliver higher value minimally invasive surgical procedures to their patients. We model patient value as equal to: *procedure efficacy / invasiveness*. Here *procedure efficacy* is a measure of the success of the surgery in resolving the underlying disease and *invasiveness* is how disruptive and painful the treatment is itself. When the patient value of a *da Vinci* procedure is deemed higher than alternate treatment options, patients may seek out surgeons and hospitals that offer that specific *da Vinci* procedure, potentially resulting in a local market share shift for the specific treatment. Adoption occurs procedure by procedure, and is driven by the relative patient value of *da Vinci* procedures compared to alternative treatment options for the same disease state.

Business Model. In our business model, we generate revenue from both the initial capital sales of new and refurbished *da Vinci* Surgical Systems as well as recurring revenue, derived from sales of instruments, accessories, and service. The new and refurbished *da Vinci* Surgical System generally sells for between $1.0 million and $2.3 million, depending on configuration and geography, and represents a significant capital equipment investment for our customers. We then generate recurring revenue as our customers consume our *EndoWrist* instruments and accessory products for use in performing procedures with the *da Vinci* Surgical System. *EndoWrist* instruments and accessories have a limited life and will either expire or wear out as they are used in surgery, at which point they are replaced. We also generate recurring revenue from ongoing system service. We typically enter into multi-year service contracts at the time systems are sold generally at an annual rate of approximately $100,000 to $170,000 per year, depending on the configuration of the underlying system. The large majority of these service contracts have been renewed at the end of the initial contract periods.

Recurring revenue has grown at a rate equal to or faster than the rate of growth of system revenue. Recurring revenue increased from $752.7 million, or 53% of total revenue in 2010 to $979.5 million, or 56% of total revenue in 2011 to $901.5 million, or 57% of total revenue in the nine months ended September 30, 2012. The increase in recurring revenue relative to system revenue reflects continuing adoption of procedures on a growing base of installed *da Vinci* Surgical Systems and gradually increasing customer utilization per system. We expect recurring revenue to become a larger percentage of total revenue in the future. The installed base of *da Vinci* Surgical Systems has grown to 2,462 at September 30, 2012, compared with 2,132 at December 31, 2011 and 2,031 at September 30, 2011.

We have a direct sales force in the United States, Korea and Europe, excluding Spain, Italy, Greece and Eastern European countries. We utilize distributors in all other markets that we serve. On January 11, 2012, we completed the acquisition of our Korean distributor and began selling directly to Korean customers. The transaction was not material to our financial statements and is not expected to have a material impact on our future operations.

Procedures

The adoption of *da Vinci* surgery has the potential to progress for those procedures that offer greater patient value than non-*da Vinci* alternatives. We model patient value as equal to *procedure efficacy / invasiveness*. Here *procedure efficacy* is a measure of the success

of the surgery in resolving the underlying disease and *invasiveness* is how disruptive and painful the treatment is itself. When the patient value of robotic surgery is higher than alternate treatment options, patients may seek out surgeons and hospitals that offer that specific *da Vinci* procedure. Adoption occurs procedure by procedure, and is driven by the relative patient value of *da Vinci* procedures compared to alternatives for the same disease state.

We focus our organization and investments on developing, marketing and training those products and procedures where we believe *da Vinci* can bring significant patient value relative to competitive therapies. An increasing body of peer reviewed literature has indicated that *da Vinci* Prostatectomy (dVP) and *da Vinci* Hysterectomy (dVH) may offer improved functional outcomes as compared to traditional open surgery. Similarly, early indications are that *da Vinci* Surgery in our other key surgeries (*da Vinci* Partial Nephrectomy, *da Vinci* Myomectomy, *da Vinci* Sacrocolpopexy, *da Vinci* Mitral Valve Repair, *da Vinci* Lobectomy, *da Vinci* Low Anterior Colon Resections, and *da Vinci* Transoral Robotic Surgery (for cancers of the throat), may also offer improved functional outcomes as compared to traditional open surgery. For many patients, a minimally invasive approach using the *da Vinci* Surgical System may also offer reduced pain, reduced blood loss, shorter hospital stays, reduced post-operative complications and a quicker return to normal daily activities when compared to open surgery.

In 2011, approximately 360,000 surgical procedures were performed with the *da Vinci* Surgical System, up approximately 29% compared with 2010. The growth in our overall procedure volume was driven primarily by *da Vinci* Hysterectomy (dVH) in the U.S., *da Vinci* Prostatectomy (dVP) outside the U.S. and other urologic and gynecologic procedures including Nephrectomy (partial and full), Sacrocolpopexy, Myomectomy and Endometriosis Resection in the U.S. Emerging procedures within other specialties, including lobectomy for lung cancer and low anterior resection for colon cancer also contributed to 2011 procedure growth.

dVH is our highest volume procedure, having surpassed dVP in 2010. dVH procedure volume grew from approximately 110,000 cases in 2010 to approximately 146,000 cases in 2011, of which approximately 39,000 were for the treatment of cancer and the remaining 107,000 related to benign conditions. The very large majority of our 2011 dVH volume came from the U.S. market, where we estimate the total annual addressable robotic market to be approximately 300,000 to 350,000 cases, of which approximately 50,000 are for cancer.

dVP procedure volume grew from approximately 98,000 cases in 2010 to approximately 113,000 cases worldwide in 2011. We estimate that the majority of the approximately 85,000 prostatectomies performed in the U.S. in 2011 were done robotically with the *da Vinci* Surgical System. The majority of our 2011 worldwide dVP growth came from European markets, led by Germany and France.

Other procedures (non-dVH/dVP) grew over approximately 40% in 2011 to approximately 101,000 cases. Growth in these other procedures was driven by *da Vinci* adoption in urologic and gynecologic procedures such as *da Vinci* Partial Nephrectomy and *da Vinci* Sacrocolpopexy as well as early stage growth in other emerging procedures from other surgical specialties, including lobectomy for lung cancer, low anterior resection for colon cancer, and transoral robotic surgery (“TORS”) for head and neck surgery. While early results in emerging procedures are encouraging and may point to significant patient value, their growth is off of smaller absolute bases and their future growth rates are uncertain.

Total 2012 *da Vinci* procedures through the first three quarters grew approximately 25%, driven by growth in Gynecology and General Surgery procedures in the U.S., partially offset by an approximately 20% reduction in dVP procedures in the U.S. We believe the reduction in dVP procedures in the U.S. primarily reflects pressures from reduced levels of prostate-specific antigen (“PSA”) testing and increases in non-surgical disease management. dVP’s and total procedures have declined in Europe from the first quarter of 2012 to the second and third quarters of 2012, reflecting seasonality and austerity measures as well as the PSA testing and non-surgical disease management trends that have impacted the U.S.

Regulatory Activities

We believe that we have obtained the clearances required to market our products to our targeted surgical specialties within the United States and most of Europe. As we make additions to target procedures and introduce new products, we will continue to seek necessary clearances.

In November 2009, we received regulatory (Shonin) approval from the Japanese Ministry of Health, Labor, and Welfare (“MHLW”) for our *da Vinci S* System in Japan. We have sold 70 systems into Japan through September 30, 2012. These sales were primarily made to early adopters. Since receiving Shonin approval, we have been focusing our efforts on obtaining specific reimbursement for *da Vinci* procedures in Japan and building our own organization, Intuitive Surgical Japan. Prior to April 2012, we had partnered with the experienced regulatory team from Johnson & Johnson K.K. Medical Company (“JJKK”) in our Japanese regulatory process. In

April 2012, the Marketing Authorization Application for *da Vinci* products was transferred to Intuitive Surgical Japan from JJKK, and Intuitive Surgical Japan now has primary responsibility for regulatory support of our products in Japan. We continue to partner with Adachi Co., LTD as our separate independent distribution partner in Japan who is responsible for marketing, selling, and servicing our products in Japan. Effective April 2012, we obtained national reimbursement for dVP procedures in Japan. If we are not successful in obtaining additional regulatory clearances, importation licenses, and adequate procedure reimbursements for future products and procedures, then the demand for our products in Japan could be limited.

2012 Business Events and Trends

Economic Environment. The credit and sovereign debt issues impacting Europe have slowed capital sales and curtailed procedure growth throughout most of 2012. European procedure growth of approximately 17% for the nine months ended September 30, 2012 was lower than we anticipated. Although capital sales and procedure growth outside of Europe have been strong, European uncertainties could adversely impact demand for our products globally. Demand for *da Vinci* systems fluctuates quarter to quarter based upon changing economic and geopolitical factors.

***da Vinci* Prostatectomy.** The U.S. Preventive Service Task Force recommendation against PSA screening, as well as changes in treatment patterns for low risk prostate cancer away from definitive treatment, have led to a decline in our dVP business. We estimate that U.S. dVP declined approximately 20% in the third quarter of 2012 compared with the same period in 2011. We are unable to predict the extent to which these recommendations and treatment pattern changes will be followed by governments or clinicians within non-U.S. jurisdictions.

***da Vinci* Skills Simulator.** In the first quarter of 2011, we began shipping our *da Vinci* Skills Simulator. The simulator is a practice tool for the *da Vinci Si* Surgical System that gives a user the opportunity to practice in his or her facility with the surgeon console controls. The simulator incorporates three-dimensional, physics-based computer simulation technology to immerse the user within a virtual environment. The user navigates through the environment and completes exercises by controlling virtual instruments from the surgeon console. Upon completion of a skills exercise, the simulator provides a quantitative assessment of user performance based on a variety of task-specific metrics. The simulator is intended to augment, not replace, existing training programs for the *da Vinci Si* Surgical System. Most *da Vinci* Skills Simulators have been sold in connection with new *da Vinci Si* Surgical System sales. We sold 87 and 310 *da Vinci* Skills Simulators during the three and nine months ended September, 2012, respectively, compared with 98 and 260 units during the same periods in 2011.

***da Vinci Single-Site* Instruments.** *da Vinci Single-Site* is a set of instruments and accessories that allow the *da Vinci Si* systems to work through a single incision, typically in the umbilicus, rather than multiple incisions. Single incision surgery is intended to minimize trauma to patients by reducing the number of ports required to enter the body. Non-robotic single incision surgery today is typically performed with modified laparoscopic instruments. Early clinical adoption of this manual technique has been mostly positive, however, physicians have reported that manual single incision surgery is technically and ergonomically challenging. *da Vinci Single-Site* instruments and accessories were designed to address these issues. In February 2011, we received the CE mark for our *da Vinci Single-Site* instrument kit and began selling these new products in Europe. The majority of *da Vinci Single-Site* procedures performed in Europe to date has been cholecystectomies. In December 2011, we received Food and Drug Administration (“FDA”) FDA regulatory clearance to market our *Single-Site* instrumentation in the United States for laparoscopic cholecystectomy procedures, our only United States clearance to date. We are encouraged by early hospital, surgeon, and patient interest in *da Vinci Single-Site*, with over 350 U.S. customers having purchased *da Vinci Single-Site* kits as of September 30, 2012. However, as we are in the early stages of introducing this instrumentation to the U.S. market, we are not able to predict the extent to which *da Vinci Single-Site* may be adopted. We are working on expanding our *da Vinci Single-Site* instrument offering to enable its use in additional indications. In the third quarter of 2012, we submitted and have received from the FDA questions on our 510(k) submission for *da Vinci Single-Site* instruments and indications for use in benign Hysterectomy and Salpingo oophorectomy.

***da Vinci Firefly* Fluorescence Imaging.** In the first quarter of 2011, we launched our *Firefly* Fluorescence Imaging product (“*Firefly*”) for use with the *da Vinci Si* Surgical System in the U.S. and Europe. This new imaging capability combines a fluorescent dye with a specialized *da Vinci* camera head, endoscope and laser-based illuminator to allow surgeons to identify vasculature in three dimensions beneath tissue surfaces to visualize critical anatomy. *Firefly* kits configured into new *da Vinci* system sales are included in systems revenue, while *Firefly* kits sold separately for existing systems are included in instruments and accessories revenue. Adoption of *Firefly* is progressing, with its primary utilization in partial nephrectomy procedures. *Firefly* is also being used in certain gynecology and general surgery cases.

***EndoWrist One* Vessel Sealer.** In December 2011, we received FDA clearance for the *EndoWrist One* Vessel Sealer. The *EndoWrist One* Vessel Sealer is a wristed, single-use instrument intended for bipolar coagulation and mechanical transection of vessels up to 7 mm in diameter and tissue bundles that fit in the jaws of the instrument. This instrument enables *da Vinci Si* surgeons to fully control vessel sealing, while providing the benefits of *da Vinci* Surgery. This instrument is designed to enhance surgical efficiency and autonomy in a variety of general surgery and gynecologic procedures. Clinical response to the *EndoWrist One* Vessel Sealer has been encouraging, with positive commentary on precision, articulation, vessel sealing quality and thermal spread. We expect applications

for the *EndoWrist One* Vessel Sealer to be centered on general surgery and gynecologic oncology procedures. We are still in the early stages of introducing *EndoWrist One* Vessel Sealer and are not able to predict the extent to which the *EndoWrist One* Vessel Sealer may be adopted.

Third Quarter 2012 Financial Highlights

- Total revenue increased 20% to $537.8 million during the three months ended September 30, 2012 from $446.7 million during the three months ended September 30, 2011.
- *da Vinci* procedures performed during the three months ended September 30, 2012 were up approximately 22% compared with the three months ended September 30, 2011.
- Instruments and accessories revenue increased 24% to $218.0 million during the three months ended September 30, 2012 from $175.8 million during the three months ended September 30, 2011.
- Recurring revenue increased 24% to $305.8 million during the three months ended September 30, 2012, representing 57% of total revenue, from $247.6 million during the three months ended September 30, 2011, representing 55% of total revenue.
- We sold 155 *da Vinci* Surgical Systems during the three months ended September 30, 2012, compared with 133 during the three months ended September 30, 2011.
- System revenue increased 17% to $232.0 million during the three months ended September 30, 2012 from $199.1 million during the three months ended September 30, 2011.
- As of September 30, 2012, we had a *da Vinci* Surgical System installed base of 2,462 systems, 1,789 in the United States, 400 in Europe, and 273 in the rest of the world.
- We added 92 employees during the three months ended September 30, 2012, of which the majority were in field sales, service, training, and product operations, bringing our total headcount to 2,192 as of September 30, 2012.
- Operating income increased 18% to $211.4 million during the three months ended September 30, 2012 compared with $178.9 million during the three months ended September 30, 2011. Operating income included $47.3 million and $34.9 million during the three months ended September 30, 2012 and 2011, respectively, of stock-based compensation expense related to employee stock programs.
- As of September 30, 2012, we had $2.7 billion in cash, cash equivalents and investments. Cash, cash equivalents, and investments increased by $69.9 million during the three months ended September 30, 2012 driven by cash flow from operations and $38.1 million generated from employee stock programs, partially offset by $169.8 million of stock repurchases.

Results of Operations

The following table sets forth, for the periods indicated, certain unaudited Consolidated Statements of Income information (in millions, except percentages):

	Three months Ended September 30,				Nine months Ended September 30,			
	2012	% of total revenue	2011	% of total revenue	2012	% of total revenue	2011	% of total revenue
Revenue:								
Products	$450.0	84%	$374.9	84%	$1,317.5	84%	$1,057.5	84%
Services	87.8	16%	71.8	16%	252.0	16%	203.0	16%
Total revenue	537.8	100%	446.7	100%	1,569.5	100%	1,260.5	100%
Cost of revenue:								
Products	119.3	22%	96.2	22%	353.9	23%	274.5	22%
Services	28.4	5%	25.0	6%	83.2	5%	75.1	6%
Total cost of revenue	147.7	27%	121.2	27%	437.1	28%	349.6	28%
Products gross profit	330.7	61%	278.7	62%	963.6	61%	783.0	61%
Services gross profit	59.4	11%	46.8	10%	168.8	11%	127.9	10%
Gross profit	390.1	73%	325.5	73%	1,132.4	72%	910.9	72%
Operating expenses:								
Selling, general, and administrative	129.0	24%	111.2	25%	374.1	24%	316.8	25%
Research and development	49.7	9%	35.4	8%	128.3	8%	98.8	8%
Total operating expenses	178.7	33%	146.6	33%	502.4	32%	415.6	33%
Income from operations	211.4	39%	178.9	40%	630.0	40%	495.3	39%
Interest and other income, net	4.3	1%	1.9	0%	12.1	1%	11.3	1%
Income before taxes	215.7	40%	180.8	40%	642.1	41%	506.6	40%
Income tax expense	32.4	5%	58.4	13%	160.4	10%	162.7	13%
Net income	$183.3	34%	$122.4	27%	$ 481.7	31%	$ 343.9	27%

Total Revenue

Total revenue was $537.8 million for the three months ended September 30, 2012, compared with $446.7 million for the three months ended September 30, 2011. For the nine months ended September 30, 2012, total revenue increased to $1,569.5 million from $1,260.5 million for the nine months ended September 30, 2011. Total revenue growth for these periods was driven by the continued adoption of *da Vinci* Surgery, resulting largely from growth in U.S. gynecologic procedures, including dVH, Sacrocolpopexy, Endometriosis Resection, and Myomectomy; U.S. general surgery procedures, including Cholecystectomy and colon procedures; and dVP procedures growth in international markets, partially offset by a decline of approximately 20% in dVP procedures in the U.S. The reduction in dVP procedures in the U.S. reflects pressures from reduced levels of PSA testing and non-surgical disease management. Procedure growth in Europe was lower than our overall growth due to broad economic pressures, structural issues, need for increased depth in our commercial organization as well as the PSA testing and non-surgical disease management trends that have impacted the U.S.

Revenue within the United States accounted for 79% and 80% of total revenue for the three and nine months ended September 30, 2012, and 79% and 78% of total revenue for the three and nine months ended September 30, 2011, respectively. We believe domestic revenue has accounted for the large majority of total revenue primarily due to rapid procedure adoption in the United States driven by the ability of patients to choose their provider and method of treatment. For the three and nine months ended September 30, 2012, international revenue grew in absolute dollars compared with the prior year, primarily due to higher system sales in the Japanese market and higher instrument and accessory sales driven by increased procedures. The credit and sovereign debt issues impacting Europe have slowed capital sales and procedure growth in that region, and our European sales reflect a challenging economic environment.

In September 2012, we entered into a contract with Department of Veteran Affairs (“VA”) for $34.0 million of systems, skill simulators and instruments and accessories. The products are required to be delivered to the customer’s designated sites within a period of 120 calendar days after the execution of the contract. The contract is cancellable and the customer is not obligated to purchase the full amount of the contract. In September 2012, we entered into a separate contract with Department of Defense for $34.0 million with a customer for instruments and accessories over a five-year period. The contract is cancellable and the customer is not obligated to purchase the full amount of the contract. No deliveries have occurred under the two contracts during the quarter ended September 30, 2012.

The following table summarizes our revenue and *da Vinci* Surgical System unit sales for the three and nine months ended September 30, 2012 and 2011 (in millions, except percentages and unit sales):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue				
Instruments and accessories	$218.0	$175.8	$ 649.5	$ 504.7
Systems	232.0	199.1	668.0	552.8
Total product revenue	450.0	374.9	1,317.5	1,057.5
Services	87.8	71.8	252.0	203.0
Total revenue	$537.8	$446.7	$1,569.5	$1,260.5
Recurring revenue	$305.8	$247.6	$ 901.5	$ 707.7
% of total revenue	57%	55%	57%	56%
Domestic	$422.6	$352.3	$1,248.6	$ 988.4
International	115.2	94.4	320.9	272.1
Total revenue	$537.8	$446.7	$1,569.5	$1,260.5
% of Revenue - Domestic	79%	79%	80%	78%
% of Revenue - International	21%	21%	20%	22%
Unit Sales by Region:				
Domestic unit sales	114	99	343	287
International unit sales	41	34	102	95
Total Unit Sales	155	133	445	382
Unit Sales by Model:				
da Vinci Si-e - Single console Unit Sales (3 arm)	6	4	13	11
da Vinci Si - Single console Unit Sales (4 arm)	113	84	327	274
da Vinci Si - Dual console Unit Sales	20	29	73	66
Total *da Vinci Si* Unit Sales	139	117	413	351
da Vinci S Unit Sales	16	16	32	31
Total Unit Sales	155	133	445	382
Unit Sales involving System Trade-ins:				
Unit sales trading in *da Vinci standard* Surgical Systems	8	14	39	42
Unit sales trading in *da Vinci S* Surgical Systems	26	21	76	61
Total unit sales involving trade-ins	34	35	115	103
Unit Sales not trading in any systems	121	98	330	279
Total Unit Sales	155	133	445	382

Product Revenue

Product revenue was $450.0 million for the three months ended September 30, 2012 compared with $374.9 million for the three months ended September 30, 2011.

Instruments and accessories revenue increased 24% to $218.0 million for the three months ended September 30, 2012 compared with $175.8 million for the three months ended September 30, 2011. Instrument and accessory revenue growth was driven by approximately 22% higher *da Vinci* surgical procedure volume and revenue generated from initial sales of new instrument and accessory products, including *Single-Site*, *Firefly*, thoracic lung kit and the *EndoWrist One* Vessel Sealer, prior to procedures being performed. Overall procedure growth was led by U.S. gynecologic procedures, driven by dVH, Sacrocolpopexy, Endometriosis Resection, and Myomectomy; U.S. general surgery growth, driven by Cholecystectomy and colon procedures; and dVP growth in international markets partially offset by a decline in dVP procedures in the U.S. by approximately 20%..

Systems revenue increased to $232.0 million during the three months ended September 30, 2012 from $199.1 million during the three months ended September 30, 2011 primarily due to higher *da Vinci* system unit sales and a higher average selling price (“ASP”). We sold 155 *da Vinci* Surgical Systems during the three months ended September 30, 2012, compared with 133 in the same period last year. The growth in system units reflects sales of 16 systems to Japanese customers compared to 6 systems in the same period last year and a greater number of systems sold to U.S. customers; partially offset by 5 fewer systems sold to European customers. The *da Vinci* system ASP was $1.49 million during the three months ended September 30, 2012, compared with $1.46 million for the three months ended September 30, 2011, driven primarily by product mix as system sales during the three months ended September 30, 2012 contained a higher proportion of *Firefly* Fluorescence Imaging configurations, which have higher prices than standard HD vision configurations.

Product revenue was $1,317.5 million for the nine months ended September 30, 2012 compared with $1,057.5 million for the nine months ended September 30, 2011.

Instruments and accessories revenue increased 29% to $649.5 million for the nine months ended September 30, 2012 compared with $504.7 million for the nine months ended September 30, 2011. Instrument and accessory revenue growth was driven by approximately 25% higher *da Vinci* surgical procedure volume and revenue generated from initial sales of new instrument and accessory products, including *da Vinci Single-Site*, *Firefly*, and the *EndoWrist One* Vessel Sealer prior to first cases being completed. Overall procedure growth was led by U.S. gynecologic procedures, driven by dVH, Sacrocolpopexy, Endometriosis Resection, and Myomectomy; U.S. general surgery growth, driven by Cholecystectomy and colon procedures; and dVP growth in international markets partially offset by a decline in dVP in the U.S.

Systems revenue increased to $668.0 million during the nine months ended September 30, 2012 from $552.8 million during the nine months ended September 30, 2011 primarily due to higher *da Vinci* system unit sales and a higher average selling price (“ASP”). We sold 445 *da Vinci* Surgical Systems during the nine months ended September 30, 2012, compared with 382 in the same period last year. The *da Vinci* system ASP was $1.49 million during the nine months ended September 30, 2012, compared with $1.43 million for the nine months ended September 30, 2011, driven primarily by product mix as system sales during the nine months ended September 30, 2012 contained a higher proportion of surgical simulator, and *Firefly* Fluorescence Imaging configurations, which have higher prices than standard HD vision configurations and favorable geographical mix.

Service Revenue

Service revenue, comprised primarily of system service and customer training, increased 22% to $87.8 million for the three months ended September 30, 2012 compared with $71.8 million for the three months ended September 30, 2011 and increased 24% to $252.0 million for the nine months ended September 30, 2012 compared with $203.0 million for the nine months ended September 30, 2011. We typically enter into multi-year, fixed revenue system service contracts at the time systems are sold. The large majority of these service contracts have been renewed at the end of the initial contract periods. Higher service revenue during the three and nine months ended September 30, 2012 was primarily driven by a larger base of *da Vinci* Surgical Systems.

Gross Profit

Product gross profit for the three months ended September 30, 2012 increased 19% to $330.7 million, or 73.5% of product revenue, compared with $278.7 million, or 74.3% of product revenue, for the three months ended September 30, 2011. Product gross profit for the nine months ended September 30, 2012 increased 23% to $963.6 million, or 73.1% of product revenue, compared with $783.0 million, or 74.0% of product revenue, for the nine months ended September 30, 2011. The higher 2012 product gross profit was driven by higher product revenue, as described above. The slightly lower 2012 product gross profit percentage primarily reflects the introduction of newly launched products possessing lower margins at their introduction point, particularly *da Vinci Single-Site*

Instruments and the *EndoWrist One* Vessel Sealer, and higher charges taken for inventory. Margins on newly launched products will typically be lower than our mature products reflecting vendor pricing on low volumes, temporary tooling costs and other start-up costs. Over time as volumes increase, and we refine the manufacturing processes and products, we would expect to see improvement in the margins of these newer products. However, gross margins may ultimately differ for these newer products relative to our previous products based on the volume and complexity of the product. Product gross profit for the three months ended September 30, 2012 and 2011 reflected stock-based compensation expense of $4.3 million and $3.2 million, respectively. Product gross profit for the nine months ended September 30, 2012 and 2011 reflected stock-based compensation expense of $10.6 million and $9.2 million, respectively.

Service gross profit during the three months ended September 30, 2012 was $59.4 million, or 67.7% of service revenue, compared with $46.8 million, or 65.2% of service revenue during the three months ended September 30, 2011. Service gross profit during the nine months ended September 30, 2012 was $168.8 million, or 67.0% of service revenue, compared with $127.9 million, or 63.0% of service revenue during the nine months ended September 30, 2011. The higher 2012 service gross profit was driven by a larger installed base of *da Vinci* Surgical Systems. The higher 2012 gross service profit percentage was primarily driven by reduced service parts consumption rates. Service gross profit for the three months ended September 30, 2012 and 2011 reflected stock-based compensation expense of $4.1 million and $2.9 million, respectively. Service gross profit for the nine months ended September 30, 2012 and 2011 reflected stock-based compensation expense of $9.6 million and $8.2 million, respectively.

In the past, annual stock option awards were granted on February 15th (or the next business day if February 15th was not a business day). These stock option awards typically vested 1/8 at the end of six months and 1/48 per month thereafter through a four-year period and had a ten-year term. Beginning 2012, stock options have been awarded bi-annually on February 15th and August 15th (or the next business day if the date is not a business day). The February 15th stock option awards are subjected to a four-year vesting period, while the August 15th stock option awards are subjected to a 3.5-year vesting period, with 7/48 vesting at the end of one month and 1/48 per month thereafter. As a result of this change in option grant practice our stock-based compensation in the first and second quarters of 2012 was $34.4 million and $33.3 million compared to $47.3 million in the third quarter. As of September 30, 2012, all of the quarterly timing differences related to our revised 2012 employee grant process have cycled through.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include costs for sales, marketing and administrative personnel, proctoring expenses, tradeshow expenses, regulatory fees, and general corporate expenses.

Selling, general and administrative expenses for the three months ended September 30, 2012 increased 16% to $129.0 million compared with $111.2 million for the three months ended September 30, 2011. Selling, general and administrative expenses for the nine months ended September 30, 2012 increased 18% to $374.1 million compared with $316.8 million for the nine months ended September 30, 2011. The increase in absolute dollars was due to stock-based compensation expenses, organizational growth to support our expanding business, particularly in the clinical field sales function, higher commissions related to higher revenue levels. Stock-based compensation expense during the three months ended September 30, 2012 and 2011 were approximately $28.2 million and $21.4 million, respectively. Stock-based compensation expense during the nine months ended September 30, 2012 and 2011 were approximately $69.7 million and $63.0 million, respectively.

Please refer to our stock option grant practice discussion in the Gross Profit section above for information on the increase of our stock-based compensation expense in the third quarter of 2012.

Research and Development Expenses

Research and development (“R&D”) costs are expensed as incurred. R&D expenses include costs associated with the design, development, testing and enhancement of our products. These enhancements represent significant improvements to our products.

R&D expenses for the three months ended September 30, 2012 increased 40% to $49.7 million compared with $35.4 million for the three months ended September 30, 2011. R&D expenses for the nine months ended September 30, 2012 increased 30% to $128.3 million compared with $98.8 million for the nine months ended September 30, 2011. The increase in absolute dollars was driven by higher stock-based compensation expense, higher prototype costs and growth in our organization. Prototype costs vary by quarter to quarter due to product development life cycles. Amortization expense related to purchased intellectual property during the three months ended September 30, 2012 and 2011 were $3.2 million and $3.2 million, respectively. Amortization expense related to purchased intellectual property during the nine months ended September 30, 2012 and 2011 were $9.8 million and $10.2 million, respectively. Stock-based compensation expense during the three months ended September 30, 2012 and 2011 were approximately $10.7 million and $7.4 million, respectively. Stock-based compensation expense during the nine months ended September 30, 2012 and 2011 were approximately $25.1 million and $21.4 million, respectively. We expect to continue to make substantial investments in R&D and anticipate that R&D expense, including co-development arrangements with industry partners, will continue to increase in the future.

Please refer to our stock option grant practice discussion in the Gross Profit section above for information on the increase of our stock-based compensation expense in the third quarter of 2012.

Interest and Other Income (Expense), Net

Interest and other income, net for the three months ended September 30, 2012 and 2011 was $4.3 million and $1.9 million, respectively. This was driven by higher interest income resulting from lower rates earned on higher cash and investment balances and offset by lower other non-operating gains.

Interest and other income, net for the nine months ended September 30, 2012 was $12.1 million compared with $11.3 million for the nine months ended September 30, 2011. This was driven by higher interest income resulting from lower rates earned on higher cash and investment balances.

Income Tax Expense

Income tax expense for the three months ended September 30, 2012 was $32.4 million, or 15.0% of pre-tax income, compared with $58.4 million, or 32.3% of pre-tax income for the three months ended September 30, 2011. Income tax expense for the nine months ended September 30, 2012 was $160.4 million, or 25% of pre-tax income, compared with $162.7 million, or 32.1% of pre-tax income for the nine months ended September 30, 2011. Our effective tax rates for all these periods differ from the U.S. federal statutory rate of 35% due primarily to the effect of income earned by certain of our overseas entities being taxed at rates lower than the federal statutory rate partially offset by state income taxes and non-deductible stock option expenses. We intend to indefinitely reinvest all of our undistributed foreign earnings outside the United States. The income tax provision for the three and nine months ended September 30, 2012 reflected discrete benefits of $35.1 million primarily associated with the reversal of unrecognized tax benefits in connection with the expiration of certain statutes of limitations in multiple jurisdictions and $2.5 million associated with the filing of our 2011 federal tax returns The income tax provision for the nine months ended September 30, 2012 also included a discrete recognition of certain previously unrecognized tax benefits as a result of new IRS guidance issued in the first quarter of 2012.

As of September 30, 2012, we had total gross unrecognized tax benefits of approximately $81.1 million compared with approximately $98.1 million as of December 31, 2011, representing a net decrease of approximately $17.0 million for the nine months ended September 30, 2012. The net decrease is primarily related to the reversal of previously unrecognized tax benefits of $41.2 million as a result of the expiration of certain statutes of limitations in multiple jurisdictions, and the release of reserves due to re-evaluation of certain previously unrecognized tax positions as a result of new IRS guidance issued in February 2012, partially offset by increases during the first nine months of 2012 related to other uncertain tax positions. Of the total gross unrecognized tax benefits, $76.8 million and $93.8 million as of September 30, 2012 and December 31, 2011, respectively, if recognized, would reduce the effective tax rate in the period of recognition. Gross interest related to unrecognized tax benefit accrued was approximately $4.0 million and $7.9 million, respectively, as of September 30, 2012 and December 31, 2011, representing a decrease of $3.9 million related to the expiration of statutes of limitations, net with increase related to other unrecognized tax positions.

We file federal, state and foreign income tax returns in many jurisdictions in the United States and abroad. Generally, years before 2009 are closed for our most significant jurisdictions except for certain states, for which all years since inception remain open due to utilization of net operating losses and R&D credits generated in prior years or longer statutes of limitations. Certain of our unrecognized tax benefits could reverse based on the normal expiration of various statutes of limitations, which could affect our effective tax rate in the period in which they reverse.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Our principal source of liquidity is cash provided by operations and the exercise of stock options. Cash and cash equivalents plus short and long-term investments increased from $2.2 billion at December 31, 2011 to $2.7 billion at September 30, 2012. Cash generation is one of our fundamental strengths and provides us with substantial financial flexibility in meeting our operating, investing and financing needs.

As of September 30, 2012, $418.8 million of our cash, cash equivalents and investments were held by foreign subsidiaries. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S. We currently have no plans to repatriate any foreign earnings back to the U.S. as we believe our cash flows provided by our U.S. operations will meet our U.S. liquidity needs.

Consolidated Cash Flow Data (unaudited) (in millions)

	Nine Months Ended September 30,	
	2012	2011
Net cash provided by (used in):		
Operating activities	$ 597.0	$ 463.9
Investing activities	(712.6)	(340.6)
Financing activities	46.1	(105.3)
Effect of exchange rates on cash and cash equivalents	(0.1)	0.4
Net decrease (increase) in cash and cash equivalents	$ (69.6)	$ 18.4

Operating Activities

For the nine months ended September 30, 2012, cash flow from operations of $597.0 million exceeded our net income of $481.7 million for two primary reasons:

1. Our net income included substantial non-cash charges in the form of stock-based compensation, amortization of intangible assets, taxes, depreciation and accretion of discounts on investments. These non-cash charges totaled $162.0 million during the nine months ended September 30, 2012.
2. Cash used in working capital and other assets during the nine months ended September 30, 2012 was approximately $46.7 million.

Working capital is comprised primarily of accounts receivable, inventory, deferred revenue and other liabilities. Accounts receivable increased by $34.8 million or 13% during the nine months ended September 30, 2012 reflecting timing of our system sales. Inventory increased by $11.4 million or 12% during the nine months ended September 30, 2012 primarily due to our business growth and expanded product offerings. Other liabilities including accounts payable, accrued compensation and employee benefits, and accrued liabilities decreased by $11.3 million during the nine months ended September 30, 2012 primarily due to the payments of 2011 incentive compensation and the purchase of stock by employees under the Employee Stock Purchase Plan during the nine months ended September 30, 2012. Deferred revenue increased by $16.3 million or 11% due to the increase in the number of installed systems for which service contracts exist.

For the nine months ended September 30, 2011, cash flow from operations of $463.9 million exceeded our net income of $343.9 million for two primary reasons:

1. Our net income included substantial non-cash charges in the form of stock-based compensation, amortization of intangible assets, taxes, and depreciation. These non-cash charges totaled $135.3 million during the nine months ended September 30, 2011.
2. Cash used in working capital and other assets during the nine months ended September 30, 2011 was approximately $31.3 million.

Working capital is comprised primarily of accounts receivable, inventory, deferred revenue and other liabilities. Accounts receivable increased by $18.2 million or 7% during the nine months ended September 30, 2011 reflecting timing of system sales. Inventory increased by $21.8 million or 25% during the nine months ended September 30, 2011 due to our business growth, expanded product offerings, and safety stock acquired for key components. Deferred revenue increased $17.7 million, or 14% during the nine months ended September 30, 2011 due to the increase in the number of installed systems for which service contracts exist.

Investing Activities

Net cash used in investing activities during the nine months ended September 30, 2012 consisted of purchases of investments (net of proceeds from sales and maturities of investments) of $616.9 million, purchase of property and equipment, intellectual property and business of $68.1 million, including the increase in acquisition-related restricted cash. Net cash used in investing activities during the nine months ended September 30, 2011 consisted primarily of purchases of investments (net of proceeds from sales and maturities of investments) of $272.9 million and property, plant and equipment and acquisitions of intellectual property of $67.7 million. The $67.7 million of property, plant and equipment and acquisitions of intellectual property includes $33.1 million in cash used when we completed our purchase of land and buildings near our headquarters in Sunnyvale, California. We invest predominantly in high quality, fixed income securities. Our investment portfolio may at any time contain investments in U.S. Treasury and U.S. government agency securities, taxable and/or tax exempt municipal notes (some of which may have an auction reset feature), corporate notes and bonds, commercial paper, cash deposits and money market funds. We are not a capital intensive business.

Financing Activities

Net cash provided by financing activities during the nine months ended September 30, 2012 consisted primarily of proceeds from stock option exercises and employee stock purchases of $176.5 million and excess tax benefits from stock-based compensation of $54.7 million, offset by $185.1 million used in the repurchase of approximately 372,155 shares of our common stock through open market transactions. Net cash used in financing activities during the nine months ended September 30, 2011 consisted primarily of $331.8 million for the repurchase of approximately 1.0 million shares of our common stock through open market transactions, offset by proceeds from stock option exercises and employee stock purchases of $181.6 million and excess tax benefits from stock-based compensation of $44.9 million.

Our cash requirements depend on numerous factors, including market acceptance of our products, the resources we devote to developing and supporting our products and other factors. We expect to continue to devote substantial resources to expand procedure adoption and acceptance of our products. Based upon our business model, we anticipate that we will continue to be able to fund future growth through cash provided from operations. We believe that our current cash, cash equivalents and investment balances, together with income to be derived from the sale of our products, will be sufficient to meet our liquidity requirements for the foreseeable future.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our unaudited Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our critical accounting policies and estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no material changes to our critical accounting policies and estimates discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the nine months ended September 30, 2012 compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in SEC Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in a variety of claims, lawsuits, investigations and proceedings relating to securities laws, product liability, patent infringement, contract disputes and other matters relating to various claims that arise in the normal course of our business. Certain of these lawsuits are described in further detail below. We do not know whether we will prevail in these matters nor can we assure that any remedy could be reached on commercially reasonable terms, if at all. Based on currently available information, we believe that we have meritorious defenses to these actions and that the resolution of these cases is not likely to have a material adverse effect on our business, financial position or future results of operations. In accordance with U.S. GAAP, we record a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case.

Purported Shareholder Class Action Lawsuit filed August 6, 2010

On August 6, 2010, a purported class action lawsuit entitled *Perlmutter v. Intuitive Surgical et al.*, No. CV10-3451, was filed against us and seven of our current and former officers and directors in the U.S. District Court for the Northern District of California. The lawsuit seeks unspecified damages on behalf of a putative class of persons who purchased or otherwise acquired our common stock between February 1, 2008 and January 7, 2009. The complaint alleges that the defendants violated federal securities laws by making allegedly false and misleading statements and omitting certain material facts in our filings with the Securities and Exchange Commission. On February 15, 2011, the Police Retirement System of St. Louis was appointed Lead Plaintiff in the case pursuant to the Private Securities Litigation Reform Act of 1995. An amended complaint was filed on April 15, 2011, making allegations

substantially similar to the allegations described above. On May 23, 2011, we filed a motion to dismiss the amended complaint. On August 10, 2011 that motion was granted and the action was dismissed; the plaintiffs were given 30 days to file an amended complaint. On September 12, 2011, plaintiffs filed their amended complaint. The allegations contained therein are substantially similar to the allegations in the prior complaint. We filed a motion to dismiss the amended complaint. A hearing occurred on February 16, 2012, and on May 22, 2012 the Company's motion was granted. The complaint was dismissed with prejudice, and a final judgment was entered in the Company's favor on June 1, 2012. Plaintiffs filed a notice of appeal on June 20, 2012. That appeal remains pending.

Purported Derivative Actions

On August 19, 2010, an alleged shareholder caused a purported shareholder's derivative lawsuit entitled *Himmel v. Smith et al.*, No. 1-10-CV-180416, to be filed in the Superior Court of California for the County of Santa Clara naming us as a nominal defendant, and naming 14 of our current and former officers and directors as defendants. The lawsuit seeks to recover, for our benefit, unspecified damages purportedly sustained by us in connection with allegedly misleading statements and/or omissions made in connection with our financial reporting for the period between February 1, 2008 and January 7, 2009. It also seeks a series of changes to our corporate governance policies and an award of attorney's fees. On September 15, 2010, another purported shareholder filed an essentially identical lawsuit entitled *Applebaum v. Guthart et al.*, No. 1-10-CV-182645, in the same court against 15 of our current and former officers and directors. On October 5, 2010, the court ordered that the two cases be consolidated for all purposes. By agreement with the plaintiffs, all activity in the case has been stayed pending the results of the appeal in the purported shareholder class action lawsuit discussed above.

ITEM 1A. RISK FACTORS

There have been no changes to the Risk Factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

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

There were no unregistered sales of equity securities during the period covered by this report.

(c) Issuer Purchases of Equity Securities

The table below summarizes our stock repurchase activity for the three months ended September 30, 2012:

Fiscal Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of a Publicly Announced Program	Approximate Dollar Value of Shares That May Yet be Purchased Under the Program
July 1, 2012 to July 31, 2012	11,866	$ 489.63	11,866	$ 547.1 million
August 1, 2012 to August 31, 2012	198,592	$ 497.03	198,592	$ 448.4 million
September 1, 2012 to September 30, 2012	132,591	$ 492.67	132,591	$ 383.1 million
Total during quarter ended September 30, 2012	343,049	$ 495.09	343,049	$ 383.1 million

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Intuitive Surgical, Inc. (incorporated by reference to Exhibit 3.1 on Form 10-K filed with the Securities and Exchange Commission on February 6, 2009).
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Intuitive Surgical, Inc. (incorporated by reference to Exhibit 3.2 on Form 10-K filed with the Securities and Exchange Commission on February 6, 2009).
3.3	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Intuitive Surgical, Inc (incorporated by reference to Exhibit A to Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on March 1, 2012).
3.4	Amended and Restated Bylaws of Intuitive Surgical, Inc. (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012).
10.1	2009 Employment Commencement Incentive Plan adopted October 22, 2009.
31.1	Certification of the Company’s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Company’s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Company’s Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Company’s Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Intuitive Surgical, Inc.’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the unaudited Condensed Consolidated Balance Sheets, (ii) the unaudited Condensed Consolidated Statements of Income, (iii) the unaudited Condensed Consolidated Statements of Comprehensive Income, (iv) the unaudited Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements (unaudited), tagged at Level I through IV.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTUITIVE SURGICAL, INC.

(Registrant)

By: /s/ MARSHALL L. MOHR
Marshall L. Mohr
Senior Vice President and Chief Financial Officer
(Principal Financial Officer and duly authorized signatory)

Date: October 18, 2012

INTUITIVE SURGICAL, INC.

2009 EMPLOYMENT COMMENCEMENT INCENTIVE PLAN

ADOPTED BY THE BOARD OF DIRECTORS OCTOBER 22, 2009
AMENDMENT AND RESTATEMENT ADOPTED BY THE BOARD OF DIRECTORS FEBRUARY 3, 2011
AMENDMENT AND RESTATEMENT ADOPTED BY THE BOARD OF DIRECTORS JULY 1, 2011
AMENDMENT AND RESTATEMENT ADOPTED BY THE BOARD OF DIRECTORS FEBRUARY 2, 2012
AMENDMENT AND RESTATEMENT ADOPTED BY THE BOARD OF DIRECTORS JULY 26, 2012

1. PURPOSES.

(a) Eligible Recipients. Only Eligible Participants may receive Options under the Plan.

(b) General Purpose. The purpose of the Plan is to provide a means by which Eligible Participants may be given an opportunity to benefit from increases in value of the Common Stock through the granting of Options, to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

2. DEFINITIONS.

(a) *"Administrator"* means the entity that conducts the general administration of the Plan as provided herein. The term "Administrator" shall refer to the Committee unless the Board has elected to exercise any of the rights and duties of the Committee under the Plan generally, as provided in Section 3 herein.

(b) *"Affiliate"* means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(c) *"Board"* means the Board of Directors of the Company.

(d) *"Code"* means the Internal Revenue Code of 1986, as amended.

(e) *"Committee"* means the Compensation Committee of the Board, or another committee or subcommittee of the Board, appointed as provided in Section 3 herein.

(f) *"Common Stock"* means the common stock of the Company.

(g) *"Company"* means Intuitive Surgical, Inc., a Delaware corporation.

(h) *"Consultant"* means any consultant or adviser if: (a) the consultant or adviser renders bona fide services to the Company or an Affiliate, (b) the services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital raising

transaction and do not directly or indirectly promote or maintain a market for the Company's securities, and (c) the consultant or adviser is a natural person who has contracted directly with the Company or an Affiliate to render such services.

(i) *"Continuous Service"* means that the Participant's service with the Company or an Affiliate, whether as an Employee or Consultant, is not interrupted or terminated. The Participant's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee or Consultant or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's service to the Company or an Affiliate. For example, a change in status without interruption from an Employee of the Company to a Consultant of an Affiliate will not constitute an interruption of Continuous Service. Unless otherwise determined by the Board or chief executive officer of the Company, in that party's sole discretion, any bona fide leave of absence authorized by the Company in accordance with established policies shall not be considered to constitute an interruption or termination of Continuous Service.

(j) *"Director"* means a member of the Board of Directors of the Company.

(k) *"Disability"* means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

(l) *"Eligible Participant"* means any Employee who has not previously been an Employee or Director of the Company or an Affiliate, or following a bona fide period of non-employment by the Company or an Affiliate, if he or she is granted an Option in connection with his or her commencement of employment with the Company or an Affiliate and such grant is an inducement material to his or her entering into employment with the Company or an Affiliate. The Board may in its discretion adopt procedures from time to time to ensure that an Employee is eligible to participate in the Plan prior to the granting of any Options to such Employee under the Plan (including, without limitation, a requirement, if any, that each such Employee certify to the Company prior to the receipt of an Option under the Plan that he or she has not been previously employed by the Company or an Affiliates, or if previously employed, has had a bona fide period of non-employment, and that the grant of Options under the Plan is an inducement material to his or her agreement to enter into employment with the Company or an Affiliate).

(m) *"Employee"* means any person employed by the Company or an Affiliate. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "employment" by the Company or an Affiliate.

(n) *"Exchange Act"* means the Securities Exchange Act of 1934, as amended.

(o) *"Fair Market Value"* means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any (i) established stock exchange (such as the New York Stock Exchange, the NASDAQ Global Market and the NASDAQ Global Select

Market), (ii) national market system or (iii) automated quotation system on which the shares of Common Stock are listed, quoted or traded, its Fair Market Value shall be the closing sales price for a share of Common Stock as quoted on such exchange or system for such date or, if there is no closing sales price for a share of Common Stock on the date in question, the closing sales price for a share of Common Stock on the last preceding date for which such quotation exists, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is not listed on an established securities exchange, national market system or automated quotation system, but the Common Stock is regularly quoted by a recognized securities dealer, its Fair Market Value shall be the mean of the high bid and low asked prices for such date or, if there are no high bid and low asked prices for a share of Common Stock on such date, the high bid and low asked prices for a share of Common Stock on the last preceding date for which such information exists, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

(iii) If the Common Stock is neither listed on an established securities exchange, national market system or automated quotation system nor regularly quoted by a recognized securities dealer, its Fair Market Value shall be determined in good faith by the Administrator.

(p) *"Incentive Stock Option"* means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder. Incentive Stock Options may not be granted under the Plan.

(q) *"Independent Director"* means a Director of the Company who is not an Employee and who qualifies as "independent" within the meaning of Nasdaq Stock Market Rule 5605(a)(2), if the Company's securities are traded on the Nasdaq Global Market, or the requirements of any other established stock exchange on which the Company's securities are traded, as such rules or requirements may be amended from time to time.

(r) *"Nonstatutory Stock Option"* means an Option not intended to qualify as an Incentive Stock Option.

(s) *"Option"* means a Nonstatutory Stock Option granted pursuant to the Plan.

(t) *"Option Agreement"* means a written or electronic agreement between the Company and a Participant evidencing certain terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(u) "***Participant***" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(v) *"Plan"* means this Intuitive Surgical, Inc. 2009 Employment Commencement Incentive Plan.

(w) *"Rule 16b-3"* means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(x) *"Securities Act"* means the Securities Act of 1933, as amended.

3. ADMINISTRATION.

(a) Administration by Committee. The Plan will be administered by a Committee of two or more Independent Directors, and the term "Administrator" will apply to any person or persons to whom such authority has been delegated. As of the Effective Date, the Plan will be administered by the Compensation Committee of the Board. The Board may at any time re-vest in the Board the administration of the Plan and thereafter for purposes of the Plan the term "Administrator" as used in this Plan will be deemed to refer to the Board; *provided*, *however*, that any action taken by the Board in connection with the administration of the Plan shall not be deemed approved by the Board unless such action is approved by a majority of the Independent Directors. Appointment of Committee members shall be effective upon acceptance of appointment. Committee members may resign at any time by delivering written notice to the Board. Vacancies in the Committee may be filled by the Board. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3 promulgated under the Exchange Act, Options under the Plan may be made by the entire Board (*provided*, *however*, that any action taken by the Board in connection with the administration of the Plan shall not be deemed approved by the Board unless such action is approved by a majority of the Independent Directors) or a Committee meeting the requirements set forth above and such other requirements as may be established from time to time by the Securities and Exchange Commission for Options intended to qualify for exemption under Rule 16b-3 promulgated under the Exchange Act.

(b) Powers of Administrator. The Administrator shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time which of the persons eligible under the Plan shall be granted Options; when and how each Option shall be granted; the provisions of each Option granted (which need not be identical), including the time or times when a person shall be permitted to receive Common Stock pursuant to an Option; and the number of shares of Common Stock with respect to which an Option shall be granted to each such person.

(ii) To adopt procedures from time to time in the Administrator's discretion to ensure that a person is eligible to participate in the Plan prior to the granting of any Options to such person under the Plan (including, without limitation, a requirement, if any, that each such person certify to the Company prior to the receipt of an Option under the Plan that he or she has not been previously employed by the Company or an Affiliate, or if previously employed, has had a bona fide period of non-employment, and that the grant of Options under the Plan is an inducement material to his or her agreement to enter into employment with the Company or an Affiliate).

(iii) To construe and interpret the Plan and Options granted under it, and to establish, amend and revoke rules and regulations for its administration. The Administrator, in

the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Option Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company, which are not in conflict with the provisions of the Plan.

(c) Majority Rule; Unanimous Written Consent. The Committee shall act by a majority of its members in attendance at a meeting at which a quorum is present or by a memorandum or other written instrument signed by all members of the Committee.

(d) Compensation; Professional Assistance; Good Faith Actions. Members of the Committee shall receive such compensation, if any, for their services as members as may be determined by the Board. All expenses and liabilities which members of the Committee incur in connection with the administration of the Plan shall be borne by the Company. The Committee may, with the approval of the Board, employ attorneys, consultants, accountants, appraisers, brokers or other persons. The Committee, the Company and the Company's officers and Directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee or the Board in good faith shall be final and binding upon all Participants, the Company and all other interested persons. No members of the Committee or Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or Options, and all members of the Committee and the Board shall be fully protected by the Company in respect of any such action, determination or interpretation.

4. SHARES SUBJECT TO THE PLAN.

(a) Share Reserve. The shares of stock subject to Options shall be Common Stock, subject to adjustment as provided in Section 10. Subject to adjustment as provided in Section 10, the aggregate number of such shares which may be issued with respect to Options granted under the Plan shall not exceed 730,000.

(b) Reversion of Shares to the Share Reserve. If any Option shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, the shares of Common Stock not acquired under such Option shall revert to and again become available for issuance under the Plan.

(c) Source of Shares. The shares of Common Stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

5. ELIGIBILITY.

Options may be granted only to Eligible Participants. All Options granted under the Plan shall be Nonstatutory Stock Options.

6. OPTION PROVISIONS.

The Administrator may grant Options, the terms of which Options shall be set forth in an appropriate Option Agreement. Each Option shall be in such form and shall contain such terms and conditions as the Administrator shall deem appropriate. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) Option Exercise Price and Option Term. The exercise price of each Option shall be not less than the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted. The term of an Option granted to an Eligible Participant shall be set by the Administrator in its discretion, but in no event shall the term of an Option exceed ten years from the date the Option is granted.

(b) Consideration. The purchase price of Common Stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either: (i) in cash at the time the Option is exercised, or (ii) at the discretion of the Administrator (A) by delivery to the Company of other Common Stock, (B) according to a deferred payment or other similar arrangement with the Participant or (C) in any other form of legal consideration that may be acceptable to the Administrator. Unless otherwise specifically provided in the Option, the purchase price of Common Stock acquired pursuant to an Option that is paid by delivery to the Company of other Common Stock acquired, directly or indirectly from the Company, shall be paid only by shares of the Common Stock of the Company that have been held for more than the period of time required to avoid a charge to earnings for financial accounting purposes. At any time that the Company is incorporated in Delaware, payment of the Common Stock's "par value," as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

(c) Deferred Payment. In the case of any deferred payment arrangement, interest shall be compounded at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

(d) Transferability of Options. An Option shall be transferable to the extent provided in the Option Agreement. If the Option does not provide for transferability, then the Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant. Notwithstanding the foregoing, the Participant may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Participant, shall thereafter be entitled to exercise the Option.

(e) Vesting Generally. The total number of shares of Common Stock subject to an Option may, but need not, vest and therefore become exercisable in periodic installments that may, but need not, be equal. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Administrator may deem appropriate. The vesting provisions of individual

Options may vary. The provisions of this subsection 6(e) are subject to any Option provisions governing the minimum number of shares of Common Stock as to which an Option may be exercised.

(f) Limitations on Exercise of Options Granted. Unless otherwise provided by the Administrator in the Option Agreement, no Option granted to an Eligible Participant may be exercised to any extent by anyone after the first to occur of the following events:

(i) The expiration of 18 months from the date of the Participant's death;

(ii) The expiration of 12 months from the date of the Participant's termination of Continuous Service by reason of his or her Disability;

(iii) The expiration of three months from the date of the Participant's termination of Continuous Service for any reason other than such Participant's termination by the Company or an Affiliate for "Cause" (as defined in the Participant's employment or consulting agreement with the Company in effect on the grant date of the Option, or, if the Participant does not have an employment or consulting agreement with the Company or the Participant's employment or consulting agreement does not include a definition of "Cause", as defined in the Option Agreement), death or Disability, unless the Participant dies within said three-month period;

(iv) The Participant's termination by the Company or an Affiliate for "Cause" (as defined in the Participant's employment or consulting agreement with the Company in effect on the grant date of the Option, or, if the Participant does not have an employment or consulting agreement with the Company or the Participant's employment or consulting agreement does not include a definition of "Cause", as defined in the Option Agreement);

(v) The expiration of the term of the Option, as set forth in the Option Agreement; or

(vi) Ten years from the date the Option was granted.

(g) Conditions to Issuance of Stock Certificates. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of any Option or portion thereof prior to fulfillment of all of the following conditions:

(i) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed;

(ii) The completion of any registration or other qualification of such shares under any state or federal law, or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Administrator shall, in its absolute discretion, deem necessary or advisable;

(iii) The obtaining of any approval or other clearance from any state or federal governmental agency which the Administrator shall, in its absolute discretion, determine to be necessary or advisable;

(iv) The lapse of such reasonable period of time following the exercise of the Option as the Administrator may establish from time to time for reasons of administrative convenience; and

(v) The receipt by the Company of full payment for such shares, including payment of any applicable withholding tax, which in the discretion of the Administrator may be in the form of consideration used by the Participant to pay for such shares under Section 6(b), subject to Section 9(e).

(h) Extension of Termination Date. A Participant's Option Agreement may also provide that if the exercise of the Option following the termination of the Participant's Continuous Service (other than upon the Participant's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of:

(i) the expiration of the term of the Option set forth in subsection (a);

(ii) ten years from the date the Option was granted; or

(iii) the expiration of a period of three months after the termination of the Participant's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

(i) Additional Limitations on Exercise of Options. Participants may be required to comply with any timing or other restrictions with respect to the settlement or exercise of an Option, including a window-period limitation, as may be imposed in the discretion of the Administrator.

7. COVENANTS OF THE COMPANY.

(a) Availability of Shares. During the terms of the Options, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Options.

(b) Securities Law Compliance. The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Options and to issue and sell shares of Common Stock upon exercise or vesting of the Options; *provided, however*, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Option or any Common Stock issued or issuable pursuant to any such Option. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise or vesting of such Options unless and until such authority is obtained.

8. USE OF PROCEEDS FROM STOCK

Proceeds from the sale of Common Stock pursuant to Options shall constitute general funds of the Company.

9. MISCELLANEOUS.

(a) Acceleration of Exercisability and Vesting. The Administrator shall have the power to accelerate the time at which an Option may first vest and/or be exercised in accordance with the Plan, notwithstanding the provisions in the Option stating the time at which it may first be exercised or the time during which it will vest.

(b) Stockholder Rights. No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Option unless and until such Participant has satisfied all requirements for exercise of the Option pursuant to its terms.

(c) No Employment or Other Service Rights. Nothing in the Plan or any instrument executed or Option granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Option was granted or shall affect the right of the Company or an Affiliate to terminate: (i) the employment of an Employee with or without notice and with or without cause; or (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate.

(d) Investment Assurances. The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Option: (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Option; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Option for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if: (A) the issuance of the shares of Common Stock upon the exercise or acquisition of Common Stock under the Option has been registered under a then currently effective registration statement under the Securities Act; or (B) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

(e) Withholding Obligations. To the extent provided by the terms of an Option Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under an Option by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock under the Option, provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (iii) delivering to the Company owned and unencumbered shares of Common Stock.

10. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) Capitalization Adjustments. If any change is made in the Common Stock subject to the Plan, or subject to any Option, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the class(es) and maximum number of securities subject to the Plan pursuant to subsection 4(a) and the outstanding Options will be appropriately adjusted in the class(es) and number of securities and price per share of Common Stock subject to such outstanding Options. The Administrator shall make such adjustments, and its determination shall be final, binding and conclusive. The conversion of any convertible securities of the Company shall not be treated as a transaction "without receipt of consideration" by the Company.

(b) Dissolution or Liquidation. In the event of a dissolution or liquidation of the Company, then all outstanding Options shall terminate immediately prior to such event.

(c) Asset Sale, Merger, Consolidation or Reverse Merger. In the event of: (i) a sale, lease or other disposition of all or substantially all of the assets of the Company, (ii) a merger or consolidation in which the Company is not the surviving corporation, or (iii) a reverse merger in which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise (collectively, a "change in control"), then any surviving corporation or acquiring corporation shall assume any Options outstanding under the Plan or shall substitute similar stock awards (including an award to acquire the same consideration paid to the stockholders in the change in control for those outstanding under the Plan). In the event any surviving corporation or acquiring corporation refuses to assume such Options or to substitute similar stock awards for those outstanding under the Plan, then with respect to Options held by Participants whose Continuous Service has not terminated, the vesting of such Options (and, if applicable, the time during which such Options may be exercised) shall be accelerated in full, and the Options shall terminate if not exercised (if applicable) at or prior to the change in control. With respect to any other Options outstanding under the Plan, such Options shall terminate if not exercised (if applicable) prior to the change in control.

11. AMENDMENT OF THE PLAN AND OPTIONS.

(a) Amendment of Plan. Except as otherwise provided in this Section 11(a), the Plan may be wholly or partially amended or otherwise modified at any time or from time to time by the Board. No amendment, suspension or termination of the Plan shall, without the consent of the Participant, alter or impair any rights or obligations under any Option theretofore granted or awarded, unless the Option itself otherwise expressly so provides.

(b) Contemplated Amendments. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide Eligible Participants with the maximum benefits provided or to be provided under the provisions of the Code.

(c) No Impairment of Rights. Rights under any Option granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless: (i) the Company requests the consent of the Participant; and (ii) the Participant consents in writing.

(d) Amendment of Options. The Board at any time, and from time to time, may amend the terms of any one or more Options; *provided*, *however*, that the rights under any Option shall not be impaired by any such amendment unless: (i) the Company requests the consent of the Participant; and (ii) the Participant consents in writing. Notwithstanding the foregoing, the Board shall not, without the approval of the stockholders of the Company, authorize the amendment of any outstanding Option to reduce its exercise price. Furthermore, no Option shall be canceled and replaced with grants having a lower exercise price without the further approval of stockholders of the Company.

12. TERMINATION OR SUSPENSION OF THE PLAN.

(a) Plan Term. The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on the day before the tenth (10th) anniversary of the date the Plan is adopted by the Board. No Option may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) No Impairment of Rights. Suspension or termination of the Plan shall not impair rights and obligations under any Option granted while the Plan is in effect except with the written consent of the Participant.

13. EFFECTIVE DATE OF PLAN

The Plan shall become effective upon its adoption by the Board.

14. CHOICE OF LAW/INTERPRETATION.

The law of the State of Delaware shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state's conflict of laws rules.

15. STOCKHOLDER APPROVAL NOT REQUIRED.

It is expressly intended that approval of the Company's stockholders not be required as a condition of the effectiveness of the Plan, and the Plan's provisions shall be interpreted in a manner consistent with such intent for all purposes. Specifically, Rule 5635(c) promulgated by The Nasdaq Stock Market generally requires stockholder approval for stock option plans or other equity compensation arrangements adopted by companies whose securities are listed on the Nasdaq Global Market pursuant to which stock awards or stock may be acquired by officers, directors, employees or consultants of such companies. Nasdaq Stock Market Rule 5635(c)(4) provides an exception to this requirement for issuances of securities to a person not previously an employee or director of the issuer, or following a bona fide period of non-employment, as an inducement material to the individual's entering into employment with the issuer, provided such issuances are approved by either the issuer's independent compensation committee or a majority of the issuer's independent directors. Notwithstanding anything to the contrary herein, Options under the Plan may only be made to Employees who have not previously been an Employee or member of the Board of the Company or an Employee or director of an Affiliate, or following a bona fide period of non-employment by the Company or an Affiliate, as an inducement material to the Employee's entering into employment with the Company or an Affiliate. Options under the Plan will be approved as set forth herein by: (i) the Committee, provided it is comprised solely of two or more Independent Directors, or (ii) a majority of the Company's Independent Directors. Accordingly, pursuant to Nasdaq Stock Market Rule 5635(c)(4), the issuance of Options and the shares of Common Stock issuable upon exercise or vesting of such Options pursuant to this Plan are not subject to the approval of the Company's stockholders.

16. SECTION 409A.

To the extent that the Administrator determines that any Option granted under the Plan is subject to Section 409A of the Code, the Option Agreement evidencing such Option shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan and Option Agreements shall be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the adoption of the Plan. Notwithstanding any provision of the Plan to the contrary, in the event that following the adoption of the Plan the Administrator determines that any Option may be subject to Section 409A of the Code and related Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the adoption of the Plan), the Administrator may adopt such amendments to the Plan and the applicable Option Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Administrator determines are necessary or appropriate to: (a) exempt the Option from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Option; or (b) comply with the requirements of Section 409A of the Code and related Department of Treasury guidance.

17. UNFUNDED STATUS OF AWARDS.

The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Option, nothing contained in the Plan or any Option Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Affiliate.

18. PARTICIPANTS IN FOREIGN COUNTRIES.

The Board shall have the authority to adopt such modifications, procedures and subplans as may be necessary or desirable to comply with provisions of the laws of foreign countries in which the Company or any Affiliate may operate to assure the viability of Options granted under the Plan in such countries and to meet the objectives of the Plan.

EXHIBIT 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Gary S. Guthart, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Intuitive Surgical, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 18, 2012

/s/ Gary S. Guthart
Gary S. Guthart
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Marshall L. Mohr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Intuitive Surgical, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 18, 2012

/s/ Marshall L. Mohr
Marshall L. Mohr
Senior Vice President and Chief Financial Officer
Principal Financial Officer)

EXHIBIT 32.1

Certification of Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Intuitive Surgical, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2012 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 18, 2012

/s/ Gary S. Guthart

Gary S. Guthart
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

Certification of Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Intuitive Surgical, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2012 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 18 , 2012

/s/ Marshall L. Mohr

Marshall L. Mohr
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)