ROYCE VALUE TRUST INC
Form DEF 14A
August 06, 2012

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant [ ]
Filed by a Party other than the Registrant [ ]
Check the appropriate box:
[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

ROYCE VALUE TRUST, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
[X] No fee required.
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date filed:

ROYCE VALUE TRUST, INC.

745 Fifth Avenue
New York, New York 10151

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON SEPTEMBER 20, 2012

To the Stockholders of:

ROYCE VALUE TRUST, INC.

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the Meeting) of ROYCE VALUE TRUST, INC. (the Fund) will be held at the offices of the Fund, 745 Fifth Avenue, New York, New York 10151 on Thursday, September 20, 2012, at 12:30 p.m. (Eastern time), for the following purposes:

1. To elect four Directors to the Fund s Board:

   (i) two Directors to be elected by the holders of the Fund s Common Stock and its 5.90% Cumulative Preferred Stock (the Preferred Stock), voting together as a single class, and

   (ii) two Directors to be elected only by the holders of the Fund s Preferred Stock voting as a separate class; and

2. To transact such other business as may properly come before the Meeting or any adjournment thereof.

The Board of Directors of the Fund has set the close of business on July 13, 2012 as the record date for determining those stockholders entitled to vote at the Meeting or any adjournment thereof, and only holders of record at the close of business on that day will be entitled to vote.

IMPORTANT

To save the Fund the expense of additional proxy solicitation, please mark your instructions on the enclosed Proxy, date and sign it and return it in the enclosed envelope (which requires no postage if mailed in the United States), even if you expect to be present at the Meeting. You may also provide your vote via telephone or the Internet by following the instructions on the proxy card or Notice of Internet Availability of Proxy Materials, please take advantage of these prompt and efficient voting options. The accompanying Proxy is solicited on behalf of the Board of Directors, is revocable and will not affect your right to vote in person in the event that you attend the Meeting.

By order of the Board of Directors,

John E. Denneen
Secretary

August 6, 2012

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON SEPTEMBER 20, 2012

THE NOTICE, PROXY STATEMENT AND PROXY CARD FOR THE FUND ARE AVAILABLE AT WWW.PROXYVOTE.COM

PROXY STATEMENT

ROYCE VALUE TRUST, INC.
745 Fifth Avenue
New York, New York 10151

ANNUAL MEETING OF STOCKHOLDERS
September 20, 2012

INTRODUCTION

The enclosed Proxy is solicited on behalf of the Board of Directors for use at the Annual Meeting of Stockholders (the Meeting) of Royce Value Trust, Inc. (the Fund), to be held at the offices of the Fund, 745 Fifth Avenue, New York, New York 10151, on Thursday, September 20, 2012, at 12:30 p.m. (Eastern time) and at any adjournments thereof. The approximate mailing date of this Proxy Statement is August 6, 2012.

All properly executed Proxies received prior to the Meeting will be voted at the Meeting in accordance with the instructions marked thereon or otherwise as provided therein. Unless instructions to the contrary are marked, Proxies will be voted FOR the election of the Director nominees of the Fund.

You may revoke your Proxy at any time before it is exercised by sending written instructions to the Secretary of the Fund at the Fund s address indicated above or by filing a new Proxy with a later date, and any stockholder attending the Meeting may vote in person, whether or not he or she has previously filed a Proxy.

The cost of soliciting proxies will be borne by the Fund, which will reimburse brokerage firms, custodians, nominees and fiduciaries for their expenses in forwarding proxy material to the beneficial owners of the Fund s shares. Some officers and employees of the Fund and/or Royce & Associates, LLC (R&A), the Fund s investment adviser, may solicit proxies personally and by telephone, if deemed desirable. Stockholders vote at the Meeting by casting ballots (in person or by proxy) which are tabulated by one or two persons, appointed by the Board of Directors before the Meeting, who serve as Inspectors and Judges of Voting at the Meeting and who have executed an Inspectors and Judges Oath.

The Board of Directors of the Fund has set the close of business on July 13, 2012 as the record date (the Record Date) for determining those stockholders entitled to vote at the Meeting or any adjournment thereof, and only holders of record at the close of business on that day will be entitled to vote. Stockholders on the Record Date will be entitled to one vote for each outstanding share of Common Stock and 5.90% Cumulative Preferred Stock

(the Preferred Stock and, together with the Common Stock, Stock or shares) held (proportional voting rights for fractional shares held), with no shares having cumulative voting rights.

As of the Record Date, there were 69,171,006 shares of Common Stock and 8,800,000 shares of Preferred Stock of the Fund outstanding. The following persons were known to the Fund to be beneficial owners or owners of record of 5% or more of its outstanding shares of Common Stock or Preferred Stock as of the Record Date:

Name and Address of Owner	Class/Series of Stock	Amount and Nature of Ownership	Percent of Class/Series
Cede & Co.* Depository Trust Company P.O. Box #20 Bowling Green Station New York, NY 10028	Common 5.90% Preferred	67,682,153 shares Record* 8,800,000 shares Record*	97.85% 100%

* Shares held by brokerage firms, banks and other financial intermediaries on behalf of beneficial owners are registered in the name of Cede & Co.

The Board of Directors knows of no business other than that stated in Proposal 1 of the Notice of Meeting that will be presented for consideration at the Meeting. If any other matter is properly presented at the Meeting or any adjournment thereof, it is the intention of the persons named on the enclosed proxy card to vote in accordance with their best judgment.

SUMMARY OF VOTING RIGHTS ON PROXY PROPOSALS

Proposal	Common Stockholders	Preferred Stockholders
Election of Directors	Common and Preferred Stockholders, voting together as a single class, elect two Directors	Preferred Stockholders, voting as a separate class, elect two additional Directors

PROPOSAL 1: ELECTION OF DIRECTORS

At the Meeting, four members of the Board of Directors of the Fund will be elected. The holders of both Common Stock and Preferred Stock, voting together as a single class, are entitled to elect six directors. These six directors are divided into three classes, each class having a term of three years. Each year the term of office of one class will expire. Charles M. Royce and G. Peter O Brien have each been nominated by the Board of Directors for a three-year term to expire at the Fund s 2015 Annual Meeting of Stockholders or until their successors are duly elected and qualified. The classes of Directors are indicated below:

CLASS I DIRECTORS TO SERVE UNTIL 2015 ANNUAL MEETING OF STOCKHOLDERS
Charles M. Royce
G. Peter O Brien

CLASS III DIRECTORS SERVING UNTIL 2014 ANNUAL MEETING OF STOCKHOLDERS
Richard M. Galkin
Stephen L. Isaacs

CLASS II DIRECTORS SERVING UNTIL 2013 ANNUAL MEETING OF STOCKHOLDERS
Mark R. Fetting
Arthur S. Mehlman

The holders of Preferred Stock, voting as a separate class, are entitled to elect two directors to serve until the next Annual Meeting of Stockholders and until their successors are duly elected and qualified or until their earlier resignation or removal. The Board of Directors has nominated the following two persons to continue as Directors of the Fund, to be elected by holders of the Preferred Stock: Patricia W. Chadwick and David L. Meister.

Each of these persons has agreed to serve if elected, and the Fund s management has no reason to believe that any of them will be unavailable for service as a Director. However, if any of them become unwilling or unable to serve, the persons named in the accompanying Proxy will vote for the election of such other persons, if any, as the Board of Directors may nominate.

Certain biographical and other information concerning the existing Directors and the nominees who are interested persons as defined in the Investment Company Act of 1940, as amended (the Investment Company Act), of the Fund, including their designated classes, is set forth below.

Name, Address* and Principal Occupations During Past Five Years**	Age	Positions With the Fund	Length of Time Served	Current Term Expires	Elected By	Number of Portfolios in Fund Complex Overseen	Other Public Company Directorships
Charles M. Royce*** President, Co-Chief Investment Officer and Member of Board of Managers of Royce & Associates, LLC (R&A), investment adviser to the Fund, Royce Focus Trust, Inc. (RFT), Royce Micro-Cap Trust, Inc. (RMT), The Royce Fund (TRF) and Royce Capital Fund (RCF) (the Fund, RFT, RMT, TRF and RCF collectively, The Royce Funds).	72	Class I Director and President	1986	2012	Common and Preferred	35	TICC Capital Corp.
Mark R. Fetting*** President, Chief Executive Officer, Chairman and Director of Legg Mason, Inc. Mr. Fetting s prior business experience includes having served as a Member of the Board of Managers of R&A; Senior Executive Vice President of Legg Mason, Inc.; Division President and Senior Officer of Prudential Financial Group, Inc. and related companies; Partner, Greenwich Associates; and Vice President, T. Rowe Price Group, Inc.	57	Class II Director	2001	2013	Common and Preferred	49 (Director/Trustee of all Royce Funds consisting of 35 portfolios; Director/Trustee of the Legg Mason Family of Funds consisting of 14 portfolios)	Legg Mason, Inc.

* Mr. Royce s address is c/o Royce & Associates, LLC, 745 Fifth Avenue, New York, New York 10151. Mr. Fetting s address is c/o Legg Mason, Inc., 100 International Drive, Baltimore, Maryland 21202.

** Each of the Directors or nominees is also a director/trustee of certain other investment companies for which R&A acts as an investment adviser.

*** Interested person, as defined in the Investment Company Act, of the Fund.
Elected by and serves at the pleasure of the Board of Directors.

Interested Persons

Messrs. Royce and Fetting are interested persons of the Fund within the meaning of Section 2(a)(19) of the Investment Company Act due to the positions they hold with R&A and its affiliate Legg Mason, respectively, and their stock ownership in Legg Mason. There are no family relationships between any of the Fund s Directors and officers.

Certain biographical and other information concerning the existing Directors and nominees who are not interested persons, as defined in the Investment Company Act, of the Fund, including their designated classes, is set forth below.

Name, Address* and Principal Occupations During Past Five Years**	**Age**	**Positions With the Fund**	**Length of Time Served**	**Current Term Expires**	**Elected By**	**Number of Portfolios in Fund Complex Overseen**	**Other Public Company Directorships**
Patricia W. Chadwick Consultant and President of Ravengate Partners LLC (since 2000).	63	Director	2010	2012	Preferred only	35	Wisconsin Energy Corp. and ING Mutual Funds
Richard M. Galkin Private investor. Mr. Galkin s prior business experience includes having served as President of Richard M. Galkin Associates, Inc., telecommunications consultants, President of Manhattan Cable Television (a subsidiary of Time Inc.), President of Haverhills Inc. (another Time Inc. subsidiary), President of Rhode Island Cable Television and Senior Vice President of Satellite Television Corp. (a subsidiary of Comsat).	74	Class III Director	1986	2014	Common and Preferred	35	None

Name, Address* and Principal Occupations During Past Five Years**	Age	Positions With the Fund	Length of Time Served	Current Term Expires	Elected By	Number of Portfolios in Fund Complex Overseen	Other Public Company Directorships
Stephen L. Isaacs President of The Center for Health and Social Policy (since September 1996); Attorney and President of Health Policy Associates, Inc., consultants. Mr. Isaacs s prior business experience includes having served as Director of Columbia University Development Law and Policy Program and Professor at Columbia University (until August 1996).	72	Class III Director	1986	2014	Common and Preferred	35	None
Arthur S. Mehlman Director of The League for People with Disabilities, Inc.; Director of University of Maryland Foundation (non-profits). Formerly: Director of Municipal Mortgage & Equity, LLC (from October 2004 to April 2011); Director of University of Maryland College Park Foundation (non-profit)(from 1998 to 2005); Partner, KPMG LLP (international accounting firm) (from 1972 to 2002); Director of Maryland Business Roundtable for Education (from July 1984 to June 2002).	70	Class II Director	2004	2013	Common and Preferred	49 (Director/ Trustee of all Royce Funds consisting of 35 portfolios; Director/ Trustee of the Legg Mason Family of Funds consisting of 14 portfolios)	None

Name, Address* and Principal Occupations During Past Five Years**	Age	Positions With the Fund	Length of Time Served	Current Term Expires	Elected By	Number of Portfolios in Fund Complex Overseen	Other Public Company Directorships
David L. Meister Consultant. Chairman and Chief Executive Officer of The Tennis Channel (from June 2000 to March 2005). Mr. Meister s prior business experience includes having served as Chief Executive Officer of Seniorlife.com, a consultant to the communications industry, President of Financial News Network, Senior Vice President of HBO, President of Time-Life Films and Head of Broadcasting for Major League Baseball.	72	Director	1986	2012	Preferred only	35	None
G. Peter O Brien Director, Bridges School (since 2006); Trustee Emeritus of Colgate University (since 2005); Board Member of Hill House, Inc. (since 1999). Formerly: Trustee of Colgate University (from 1996 to 2005); President of Hill House, Inc. (from 2001 to 2005); and Managing Director/Equity Capital Markets Group of Merrill Lynch & Co. (from 1971 to 1999).	66	Class I Director	2001	2012	Common and Preferred	49 (Director/Trustee of all Royce Funds consisting of 35 portfolios; Director/Trustee of the Legg Mason Family of Funds consisting of 14 portfolios)	TICC Capital Corp.

* Ms. Chadwick s and Messrs. Galkin, Isaacs, Mehlman, Meister and O Brien s address is c/o Royce & Associates, LLC, 745 Fifth Avenue, New York, New York 10151.

** Each of the Directors or nominees is a director/trustee of certain other investment companies for which R&A acts as an investment adviser. Ms. Chadwick and Messrs. Galkin, Isaacs, Mehlman, Meister and O Brien are each a member of the Fund s Audit Committee and its Nominating Committee.

Additional information about each Director follows (supplementing the information provided in the table above) that describes some of the specific experiences, qualifications, attributes or skills that each Director possesses which the Board of Directors (the Board) believes has prepared them to be effective Directors.

Charles M. Royce - In addition to his tenure as a Director/Trustee of The Royce Funds, Mr. Royce serves as the President, Co-Chief Investment Officer and as a member of the Board of Managers of R&A, having been President of R&A since 1972. Mr. Royce has over 40 years of investment and business experience.

Mark R. Fetting - In addition to his tenure as a Director/Trustee of The Royce Funds and of the Legg Mason Family of Funds, Mr. Fetting serves as the Chairman, President and Chief Executive Officer of Legg Mason, Inc. and has served as a member of the Board of Managers of R&A. Mr. Fetting has over 30 years of investment and business experience.

Patricia W. Chadwick - In addition to her tenure as a Director/Trustee of The Royce Funds, Ms. Chadwick is designated as an Audit Committee Financial Expert. Ms. Chadwick has over 30 years of investment and business experience, including extensive experience in the financial sector and as a consultant to business and non-profit entities. In addition, Ms. Chadwick has served on the boards of a variety of public and private companies and non-profit entities, including currently serving on the boards of two public companies.

Richard M. Galkin - In addition to his tenure as a Director/Trustee of The Royce Funds, Mr. Galkin has served as the Chairman of the Board s Audit Committee for more than 15 years, acting as liaison between the Board and the Fund s independent registered public accountants and as co-Chairman of the Board s Nominating Committee. Mr. Galkin has over 40 years of business experience, including extensive experience in the telecommunications industry.

Stephen L. Isaacs - In addition to his tenure as a Director/Trustee of The Royce Funds, Mr. Isaacs serves as Attorney and President of a private consulting firm. Mr. Isaacs has over 40 years of business and academic experience, including extensive experience related to public health and philanthropy.

Arthur S. Mehlman - In addition to his tenure as a Director/Trustee of The Royce Funds and of the Legg Mason Family of Funds, Mr. Mehlman is designated as an Audit Committee Financial Expert. Mr. Mehlman has over 35 years of business experience, including as Partner of an international accounting firm and a Director for various private companies and non-profit entities.

David L. Meister - In addition to his tenure as a Director/Trustee of The Royce Funds, Mr. Meister has over 40 years of business experience, including extensive experience as an executive officer in and consultant to the communications industry.

G. Peter O Brien - In addition to his tenure as a Director/Trustee of The Royce Funds and of the Legg Mason Family of Funds, Mr. O Brien serves as co-Chairman of the Board s Nominating Committee. Mr. O Brien has over 35 years of business experience, including extensive experience in the financial sector. In addition, Mr. O Brien has served on the boards of public companies and non-profit entities.

The Board believes that each Director s experience, qualifications, attributes and skills should be evaluated on an individual basis and in consideration of the perspective such Director brings to the entire Board, with no single Director, or particular factor, being indicative of Board effectiveness. However, the Board believes that Directors need to have the ability to critically review, evaluate, question and discuss information provided to them, and to interact effectively with Fund management, service providers and counsel, in order to exercise effective business judgment in the performance of their duties; the Board believes that their members satisfy this standard. Experience relevant to having this ability may be achieved through a Director s educational background; business, professional training or practice, public service or academic positions; experience from service as a board member (including the Board of the Fund) or as an executive of investment funds, public companies or significant private or non-profit entities or other organizations; and/or other life experiences. The charter for the Board s Nominating Committee contains certain other specific factors considered by the Nominating Committee in identifying and selecting Director candidates (as described below).

To assist them in evaluating matters under federal and state law, the Directors are counseled by their own independent legal counsel, who participates in Board meetings and interacts with R&A, and also may benefit from information provided by R&A s internal counsel; both Board and R&A s internal counsel have significant experience advising funds and fund board members. The Board and its committees have the ability to engage other experts as appropriate. The Board evaluates its performance on an annual basis.

Board Composition and Leadership Structure

The Investment Company Act requires that at least 40% of a Fund s Directors not be interested persons (as defined in the Investment Company Act) of the Fund and as such are not affiliated with the Fund s investment adviser (Independent Directors). To rely on certain exemptive rules under the Investment Company Act, a majority of a Fund s directors must be Independent Directors, and for certain important matters, such as the approval of investment advisory agreements or transactions with affiliates, the Investment Company Act or the rules thereunder require the approval of a majority of the Independent Directors. Currently, 75% of the Fund s Directors are Independent Directors. The Board does not have a chairman, but the President, Mr. Royce, an interested person of the Fund, acts as chairman at the Board meetings. The Independent Directors have not designated a lead Independent Director, but the Chairman of the Audit Committee, Mr. Galkin, generally acts as chairman of meetings or executive sessions of the Independent Directors and, when appropriate, represents the views of the Independent Directors to management. The Board has determined that its leadership structure is appropriate in light of the services that Royce and its affiliates provide to the Fund and potential conflicts of interest that could arise from these relationships.

Audit Committee Report

The Board of Directors has a standing Audit Committee (the Audit Committee), which consists of the Independent Directors who also are independent as defined in the listing standards of the New York Stock Exchange. The current members of the Audit Committee are Patricia W. Chadwick, Richard M. Galkin, Stephen L. Isaacs, Arthur S. Mehlman, David L. Meister and G. Peter O Brien. Mr. Galkin serves as Chairman of the Audit Committee and Ms. Chadwick and Mr. Mehlman have been designated as Audit Committee Financial Experts, as defined under Securities and Exchange Commission (SEC) regulations.

The principal purposes of the Audit Committee are to (i) assist Board oversight of the (a) integrity of the Fund s financial statements; (b) independent accountants qualifications and independence; and (c) performance of the Fund s independent accountants and (ii) prepare, or oversee the preparation of any audit committee report required by rules of the SEC to be included in the Fund s proxy statement for its annual meeting of stockholders. The Board of Directors has adopted an Audit Committee Charter for the Fund which is attached hereto as Exhibit A.

The Audit Committee also has (i) received written disclosures and the letter required by Independence Standards Board Standard No. 1 from Tait, Weller & Baker (TW&B), independent auditors for the Fund, and (ii) discussed certain matters required to be discussed under the requirements of The Public Company Accounting Oversight Board with TW&B. The Audit

Committee has considered whether the provision of non-audit services by the Fund s independent auditors is compatible with maintaining their independence.

At its meeting held on February 16, 2012, the Audit Committee reviewed and discussed the audit of the Fund s financial statements as of December 31, 2011 and for the fiscal year then ended with Fund management and TW&B. Had any material concerns arisen during the course of the audit and the preparation of the audited financial statements mailed to stockholders and included in the Fund s 2011 Annual Report to Stockholders, the Audit Committee would have been notified by Fund management or TW&B. The Audit Committee received no such notifications. At the same meeting, the Audit Committee recommended to the Board of Directors that the Fund s audited financial statements be included in the Fund s 2011 Annual Report to Stockholders.

Nominating Committee

The Board of Directors has a Nominating Committee composed of the six Independent Directors, namely Ms. Chadwick and Messrs. Galkin, Isaacs, Mehlman, Meister and O Brien. Messrs. Galkin and O Brien serve as co-Chairmen of the Nominating Committee. The Board of Directors has adopted a Nominating Committee Charter which is attached hereto as Exhibit B.

The Nominating Committee is responsible for identifying and recommending to the Board of Directors individuals believed to be qualified to become Board members in the event that a position is vacated or created. The Nominating Committee will consider Director candidates recommended by stockholders. In considering potential nominees, the Nominating Committee will take into consideration (i) the contribution which the person can make to the Board, with consideration given to the person s business and professional experience, education and such other factors as the Committee may consider relevant, including but not limited to whether a potential nominee s personal and professional qualities and attributes would provide a beneficial diversity of skills, experience and/or perspective to the Board; (ii) the character and integrity of the person; (iii) whether or not the person is an interested person as defined in the Investment Company Act and whether the person is otherwise qualified under applicable laws and regulations to serve as a Director or Independent Director of the Fund; (iv) whether or not the person has any relationships that might impair his or her independence, such as any business, financial or family relationships with Fund management, the investment adviser of the Fund, Fund service providers or their affiliates; (v) whether or not the person is financially literate pursuant to the New York Stock Exchange s audit committee membership standards; (vi) whether or not the person serves on boards of, or is otherwise affiliated with, competing financial service organizations or their related investment company complexes; (vii) whether or not the person is willing to serve as, and willing and able to commit the time necessary for the performance of the duties of, a

Director of the Fund; and (viii) whether or not the selection and nomination of the person would be in the best interest of the Fund in light of the requirements of the Fund s retirement policies. While the Nominating Committee does not have a formal policy regarding diversity, as noted above, it may consider the diversity of skills, experience and/or perspective a potential nominee will bring to the Board as part of its evaluation of the contribution such potential nominee will make to the Board. Such factors will be considered in light of the other factors described above and in the context of the Board s existing membership at the time such potential candidate is considered.

To have a candidate considered by the Nominating Committee, a stockholder must submit the recommendation in writing and must include biographical information and set forth the qualifications of the proposed nominee. The stockholder recommendation and information described above must be sent to the Fund s Secretary, John E. Denneen, c/o Royce Value Trust, Inc., 745 Fifth Avenue, New York, New York 10151.

Although the Board of Directors does not have a standing compensation committee, the Independent Directors review their compensation annually.

Board s Oversight Role in Management

The Board s role in management of the Fund is oversight. As is the case with virtually all investment companies (as distinguished from operating companies), service providers to the Fund, primarily R&A and its affiliates, have responsibility for the day-to-day management of the Fund, which includes responsibility for risk management (including management of investment performance and investment risk, valuation risk, issuer and counterparty credit risk, compliance risk and operational risk). As part of its oversight, the Board, acting at its scheduled meetings, or the Chairman of the Audit Committee, acting between Board meetings, regularly interacts with and receives reports from senior personnel of service providers, including the Fund s and R&A s Chief Compliance Officer and portfolio management personnel. The Board s Audit Committee (which consists of the six Independent Directors) meets during its scheduled meetings, and between meetings the Chairman of the Audit Committee maintains contact with the Fund s independent registered public accounting firm and the Fund s Vice President and Treasurer. The Board also receives periodic presentations from senior personnel of R&A or its affiliates regarding risk management generally, as well as periodic presentations regarding specific operational, compliance or investment areas such as business continuity, anti-money laundering, personal trading, valuation, investment research and securities lending. The Board also receives reports from counsel to R&A and the Board s own independent legal counsel regarding regulatory, compliance and governance matters. The

Board s oversight role does not make the Board a guarantor of the Fund s investments or activities.

Committee and Board of Directors Meetings

During the year ended December 31, 2011, the Board of Directors held six meetings, the Audit Committee held two meetings and the Nominating Committee did not hold any meetings. Each Director then in office attended 75% or more of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings of the Audit Committee held during that year.

Compensation of Directors and Affiliated Persons

Each Independent Director receives a base fee of $15,000 per year plus $1,100 for each meeting of the Board of Directors attended. No Director received remuneration for services as a Director for the year ended December 31, 2011 in addition to or in lieu of this standard arrangement.

Set forth below is the aggregate compensation paid by the Fund and the total compensation paid by The Royce Funds to each Independent Director of the Fund for the year ended December 31, 2011.

Name	Aggregate Compensation From the Fund	Pension or Retirement Benefits Accrued as Part of Fund Expenses	Estimated Annual Benefits upon Retirement	Total Compensation From The Royce Funds Paid to Directors	Total Compensation From the Fund and Fund Complex Paid to Directors[1]
Patricia W. Chadwick, Director	$20,000	None	None	$176,000	$176,000
Richard M. Galkin, Director	20,000	None	None	176,000	176,000

Other post-market regulatory requirements apply to our commercial distribution of the *a*
the following:

QSR, which requires manufacturers to follow elaborate design, testing, contro
assurance procedures during the manufacturing process;

labeling regulations;

the FDA s general prohibition against promoting products for unapproved or

the Reports of Corrections and Removals regulation, which requires that manu
and field corrective actions taken to reduce a risk to health or to remedy a viol
risk to health; and

the Medical Device Reporting regulation, which requires that manufacturers r
have caused or contributed to a death or serious injury or malfunctioned in a v
contribute to a death or serious injury if it were to recur.

We are subject to inspection and marketing surveillance by the FDA to determine compl
requirements. If the FDA finds that we have failed to comply, it can institute a wide vari
from a public warning letter to more severe sanctions including the following:

- fines, injunctions, and civil penalties;
- recall or seizure of our products;
- operating restrictions, partial suspension or total shutdown of production;
- refusing our requests for 510(k) clearance or PMA approval of new products;
- withdrawing 510(k) clearance or PMA approvals already granted; and
- criminal prosecution.

California Regulation

The State of California requires that we obtain a license to manufacture medical devices
inspection. Our facilities and manufacturing processes were last inspected in February 2
compliance. In accordance with the California State regulations, the license to manufact
updated manufacturing information.

Table of Contents

Foreign Regulation

In order for us to market our products in other countries, we must obtain regulatory appr
safety and quality regulations in other countries. These regulations, including the require
the time required for regulatory review, vary from country to country. Failure to obtain r
country in which we plan to market our products may harm our ability to generate reven

To be sold in Japan, most medical devices must undergo thorough safety examinations a
before they are granted approval, or Shonin. In November 2009, we received Shonin
Health, Labor, and Welfare, or MHLW, for our *da Vinci S* System in Japan. We are curr
Johnson & Johnson K.K. Medical Company (Japan) on obtaining specific reimbursemen
we are not successful in obtaining system wide single procedure reimbursements or obta
and procedures, then the demand for our products could be limited. We have partnered v
from Johnson & Johnson K.K. Medical Company (Japan) in our Japanese regulatory pro
them to meet government requirements. We have partnered with Adachi Co., LTD as ou
partner in Japan who is responsible for marketing, selling, and servicing our products in

Commercialization of medical devices in Europe is regulated by the European Union (E
medical products bear the Conformite Europeene, or CE mark for compliance with the M
(93/42/EEC). The CE mark is an international symbol of adherence to certain essential p
mandated in applicable European medical device directives, which once affixed, enables
countries of the EU. The CE mark is also recognized in many countries outside of the E
the clearance process. In order to affix the CE mark on products, a recognized European
manufacturer s quality system for compliance with international and European requiren

We have received permission from DGM, our Notified Body and agent of the Danish G
our *da Vinci* Surgical System and *EndoWrist* instruments. To maintain authorization to a
annual surveillance audits and periodic re-certification audits. To date we have met these
is valid until March 2012 and the MDD certificate is valid until March 2014. The most r
October 2010, and the facility was found to be in compliance.

If we modify existing products or develop new products in the future, we may need to ap
mark to such products. We do not know whether we will be able to obtain permission to
modified products or whether we will continue to meet the quality and safety standards r
we have already received. If we are unable to maintain permission to affix the CE mark
able to sell our products in member countries of the EU.

The regulations in other countries, including the requirements for approvals or clearance
review, vary from country to country. These regulations typically require regulatory app
extensive safety and quality system regulations. Failure to obtain regulatory approval in
to market our products, or failure to comply with any regulation in any foreign country i
impact our ability to generate revenue and harm our business.

Third Party Coverage and Reimbursement

In the United States and international markets where we sell our products, the governme
together are responsible for hospital and surgeon reimbursement for virtually all covered
and insurance companies generally reimburse hospitals and physicians for surgery when
medically necessary. In the United States, the Centers for

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Medicare & Medicaid Services, or CMS, administers the Medicare and Medicaid progra
professional services performed at the hospital by physicians is reported under separate
Medical Association, or AMA, known as Current Procedural Terminology, or CPT, cod
on a prospective payment system based on the professional service rendered. In addition
Health Statistics, or NCHS, are jointly responsible for overseeing changes and modifica
ICD-9-CM codes used by hospitals to report inpatient procedures. CMS generally reimb
during an inpatient stay based on a prospective payment system that is determined by a
Medicare-Severity Diagnostic Related Groupings, or DRGs and Ambulatory Payment C
outpatient services. MS-DRGs are assigned using a number of factors including the prin
discharged status, patient age and complicating secondary diagnoses among other things

On October 1, 2008, CMS and NCHS issued a new family of ICD-9-CM procedure cod
Procedures . For laparoscopic procedures completed with the *da Vinci* System, U.S. ho
primary surgical procedure code, along with ICD-9-CM 17.42, to describe a laparoscopi
purpose of the ICD-9-CM family of procedure codes, 17.4X, is to gather data on robotic
not influence the amount paid to hospitals. A surgical procedure, completed with or with
be assigned to the same MS-DRG.

Governments and insurance companies carefully review and increasingly challenge the
and surgical services. Reimbursement rates from private companies vary depending on t
party payor and other factors. Because both hospitals and physicians receive the same re
respective services regardless of the actual costs incurred by the hospital or physician in
the specific products used in that procedure, hospitals and physicians may decide not to
amounts are insufficient to cover any additional costs that hospitals incur in purchasing

Domestic institutions typically bill for the primary surgical procedure that includes our
such as Medicare, Medicaid and other government programs and private insurance plans
System has been cleared for commercial distribution in the United States by the FDA, M
are generally available for the primary surgical procedure using our device. We believe
intend to target are established surgical procedures that are generally already reimbursab
insurance companies. If hospitals do not obtain sufficient reimbursement from third-part
with our products, or if governmental and private payors policies do not cover surgical
products, we may not be able to generate the revenues necessary to support our business
to seek a unique CPTcode for robotic-assisted surgery from the AMA and/or work with
establish a higher reimbursement amount. If an application for a unique code or modifie
use of our products may be unavailable until appropriate new code is granted. The appli
adoption of a new code, can take two or more years.

In countries outside the United States, reimbursement is obtained from various sources,
private health insurance plans, and labor unions. In most foreign countries, private insur
for some therapies. Additionally, health maintenance organizations are emerging in certa
conduct our business, we may need to seek international reimbursement approvals, and
approvals will be obtained in a timely manner or at all. In Japan, we intend to seek reimb
government for procedures performed with our products. The timing of these approvals
significantly impact our ability to commercialize our products in Japan. In some countri
directly for surgical services. However, such co-pay practices are not common in cou

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In March 2010, the President signed the Patient Protection and Affordable Care Act, as a
Education Affordability Reconciliation Act (collectively, the PPACA), which makes
significantly impact the pharmaceutical and medical device industries. One of the princi
enacted is to expand health insurance coverage to approximately 32 million Americans
consequences of these significant coverage expansions on the sales of the Company s p
this point.

The PPACA contains a number of provisions designed to generate the revenues necessa
among other things. This includes new fees or taxes on certain health-related industries,
manufacturers. Beginning in 2013, medical device manufacturers will have to pay an ex
certain U.S. medical device revenues. Though there are some exceptions to the excise ta
the Company s products and product candidates sold within the U.S..

The PPACA provisions on comparative clinical effectiveness research extend the initiati
Reinvestment Act of 2009, also known as the stimulus package, which included $1.1 bil
comparative effectiveness of health care treatments and strategies. This stimulus funding
things, conducting, supporting or synthesizing research that compares and evaluates the
effectiveness and appropriateness of products. The PPACA appropriates additional fund
effectiveness research. Although Congress has indicated that this funding is intended to
remains unclear how the research will impact current Medicare coverage and reimburser
influence other third-party payor policies. The PPACA, as well as other federal or state l
be adopted in the future, could have a material adverse effect on our industry generally a
commercialize our products or could limit or eliminate our spending on certain developr
the new federal legislation and the expansion in the government s role in the U.S. healt
profits to us, lower reimbursement by payors for our products, and/or reduced medical p
adversely affect our business, financial condition and results of operations.

Any regulatory or legislative developments in domestic or foreign markets that eliminat
procedures performed with our products could harm our ability to sell our products or ca
of our products, either of which would affect our ability to generate the revenues necessa

Employees

As of December 31, 2010, we had 1,660 employees, 218 of whom were engaged directly
manufacturing and service and 931 in marketing, sales, and administrative activities. No
collective bargaining agreement, and we consider our relationship with our employees to

Website Access to Reports

We make our periodic and current reports, including our Annual Reports on Form 10-K,
Current Reports on Form 8-K, our Code of Business Conduct and Ethics Policy and any
available free of charge, on our website as soon as practicable after such material is elec
Securities and Exchange Commission. Our website address is www.intuitivesurgical.com
Filings, on the Company Investor Relations portion of our website. We periodically w
product launch events and executive presentations which can be viewed via our Investor
provide notifications of our material news including SEC filings, investor events, and pr
Relations web site. The contents of these web sites are not intended to be incorporated b
other report or document we file and any references to these web sites are intended to be

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ITEM 1A. RISK FACTORS
RISKS RELATING TO OUR BUSINESS

**IF OUR PRODUCTS DO NOT ACHIEVE MARKET ACCEPTANCE, WE WILL
THE REVENUE NECESSARY TO SUPPORT OUR BUSINESS.**

The *da Vinci* Surgical System and our other products represent a fundamentally new wa
physician, patient and third-party payor acceptance of *da Vinci* surgery as a preferred m
crucial to our success. If our products fail to achieve market acceptance, hospitals will n
not be able to generate the revenue necessary to support our business. We believe that pl
acceptance of the benefits of procedures performed using our products will be essential
patients. Physicians will not recommend the use of our products unless we can demonstr
comparable or superior to existing surgical techniques. Even if we can prove the effectiv
trials, surgeons may elect not to use our products for any number of other reasons. For e
recommend conventional heart surgery simply because such surgery is already widely a
slow to adopt our products because of the perceived liability risks arising from the use o
reimbursement from third-party payors, particularly in light of ongoing health care refor

We expect that there will be a learning process involved for surgical teams to become pr
Broad use of our products will require training of surgical teams. Market acceptance cou
complete this training. We may not be able to rapidly train surgical teams in numbers su
for our products.

ECONOMIC CONDITIONS COULD MATERIALLY ADVERSELY AFFECT O

During 2009 and 2008, the global economy experienced a severe downturn due to the se
lending crisis, the credit market crisis, collateral effects on the finance and banking indu
rates and energy costs, concerns about inflation, slower economic activity, decreased co
profits and capital spending, adverse business conditions and liquidity concerns. Uncerta
conditions continue to pose a risk as customers may postpone spending in response to re
additional effects from the credit crisis on our business, including the insolvency of key
credit to finance the development and/or manufacture of our products resulting in produ
customers and distributors, to obtain credit to finance purchases of our products. If cond
economic conditions are slower than anticipated, our forecasted demand may not materi
achieve our anticipated financial results, which could in turn have a material adverse eff
the market price of our stock.

**BECAUSE OUR MARKETS ARE HIGHLY COMPETITIVE, CUSTOMERS MA
OUR COMPETITORS PRODUCTS OR MAY NOT ACCEPT *DA VINCI* SURG
IN REDUCED REVENUE AND LOSS OF MARKET SHARE.**

da Vinci surgery is a new technology that competes with established and emerging treatm
management and reconstructive medical procedures. These competitive treatment option
surgery, interventional approaches, or pharmacological regimens. Some of these proced
medical community and in many cases have a long history of use. Technological advanc
effective or less expensive than using our products, which could render our products obs
be published that show that other treatment options are more beneficial and/or cost-effec
cannot be certain that physicians will use our products to replace or supplement establis
will continue to be competitive with current or future technologies.

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In addition, we may face competition from companies that develop wristed, robotic or c
products in the future. Our revenues may be reduced or eliminated if our competitors de
more effective or less expensive than our products. If we are unable to compete successf
may not be able to maintain or improve our competitive position against current or poter
with greater resources.

NEW PRODUCT INTRODUCTIONS MAY ADVERSELY IMPACT OUR FINAN

We introduce new products with enhanced features and extended capabilities from time
various regulatory processes, and we must obtain and maintain regulatory approvals in c
potential purchaser believes that we plan to introduce a new product in the near future o
a country where a new product that we have introduced has not yet received regulatory a
deferred or delayed. As a result, new product introductions may adversely impact our fi

**WE EXPERIENCE LONG AND VARIABLE CAPITAL SALES CYCLES AND S
BUSINESS, WHICH MAY CAUSE FLUCTUATIONS IN OUR FINANCIAL RES**

Our *da Vinci* Surgical System has a lengthy sales and purchase order cycle because it is
generally requires the approval of senior management of hospitals , their parent organiza
government bodies, as applicable. This approval process can be lengthy. In addition, hos
purchases in conjunction with timing of their capital budget timelines. As a result, it is d
capital sales cycles and, therefore, the exact timing of capital sales. Historically, our sale
tended to be heaviest during the third month of each fiscal quarter, and lighter in the thir
in the fourth fiscal quarter.

Recently, we have experienced procedure growth for a number of benign conditions, inc
conditions, sacrocolpoplexies, myomectomies, and certain other surgeries. Surgeries for
than 40% of our total procedures in 2010. Many of these types of surgeries may be postp
avoid vacation periods and for other personal scheduling reasons. Patients may also acce
of insurance funding cut-off dates. Historically, we have experienced lower procedure co
procedure counts in the fourth fiscal quarter and lower procedure counts in the first fisca
changes in procedure growth directly affect the timing of instrument and accessory purc

The above factors may contribute to substantial fluctuations in our quarterly operating re
it is likely that in some future quarters our operating results will fall below the expectati
If that happens, the market price of our stock would likely decrease. These fluctuations,
you will not be able to rely upon our operating results in any particular period as an indi
addition, the introduction of new products could adversely impact our sales cycle, as cus
the benefits and costs of such products.

**INTERNATIONAL SALES OF OUR PRODUCTS ACCOUNT FOR A SIGNIFIC
REVENUES, WHICH EXPOSES US TO RISKS INHERENT IN INTERNATION
GROWTH MAY BE LIMITED IF WE ARE UNABLE TO SUCCESSFULLY MA
ACTIVITIES.**

Our business currently depends in part on our activities in Europe and other foreign mar
of the United States accounted for approximately 20%, 21%, and 22% of our revenue fo

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years ended December 31, 2010, 2009 and 2008, respectively. We are subject to a numb
relate to our international business activities. These challenges include:

failure of local laws to provide the same degree of protection against infringer
rights;

protectionist laws and business practices that favor local competitors, which c
markets;

the risks associated with foreign currency exchange rate fluctuations;

the expense of establishing facilities and operations in new foreign markets; a

building an organization capable of supporting geographically dispersed opera

A large portion of our international sales are denominated in United States dollars. As a
United States dollar relative to foreign currencies could make our products less competi
international markets. If we are unable to meet and overcome these challenges, our inter
successful, which would limit the growth of our business.

**WE UTILIZE DISTRIBUTORS FOR A PORTION OF OUR SALES, THE LOSS
REVENUES IN THE TERRITORY SERVICED BY THESE DISTRIBUTORS.**

We have strategic relationships with a number of key distributors for sales and service o
countries. If these strategic relationships are terminated and not replaced, our revenues a
in the territories serviced by these distributors could be adversely affected.

**WE MAY INCUR LOSSES ASSOCIATED WITH CURRENCY FLUCTUATION
EFFECTIVELY HEDGE OUR EXPOSURE.**

Our operating results are subject to fluctuations in foreign currency exchange rates. We
risks through foreign currency hedging, based on our judgment of the appropriate trade-
expense. We have established a hedging program to partially hedge our exposure to fore
fluctuations primarily for the Euro and the British Pound. We regularly review our hedg
necessary based on our assessment of the relevant risks, opportunities and expenses. Ou
more than a portion of the adverse financial impact resulting from unfavorable moveme
which could adversely affect our financial condition or results of operations.

**IF DEFECTS ARE DISCOVERED IN OUR PRODUCTS, WE MAY INCUR ADD
COSTS, HOSPITALS MAY NOT PURCHASE OUR PRODUCTS AND OUR RE**

Our products incorporate mechanical parts, electrical components, optical components a
can contain errors or failures, especially when first introduced. In addition, new product
undetected errors or performance problems that, despite testing, are discovered only afte
products are designed to be used to perform complex surgical procedures, we expect tha
increased sensitivity to such defects. In the past, we have voluntarily recalled certain pro
problems. We cannot assure that our products will not experience component aging, erro
future. If we experience flaws or performance problems, any of the following could occu

delays in product shipments;

loss of revenue;

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- delay in market acceptance;
- diversion of our resources;
- damage to our reputation;
- product recalls;
- regulatory actions;
- increased service or warranty costs; or
- product liability claims.

**THE USE OF OUR PRODUCTS COULD RESULT IN PRODUCT LIABILITY C
EXPENSIVE, DIVERT MANAGEMENT S ATTENTION AND HARM OUR BU**

Our business exposes us to significant risks of product liability claims. The medical dev
litigious, and we face financial exposure to product liability claims if the use of our prod
There is also the possibility that defects in the design or manufacture of our products mi
weaknesses in training and services associated with our products may also be subject to
we maintain product liability insurance, the coverage limits of these policies may not be
Particularly as sales of our products increase, we may be unable to maintain product liab
satisfactory rates or in adequate amounts. A product liability claim, regardless of its mer
significant legal defense costs. Product liability claims have been made against our com
claim or any product recalls could also harm our reputation or result in a decline in reve

**WE MAY ENCOUNTER MANUFACTURING PROBLEMS OR DELAYS THAT
REVENUE.**

Manufacturing our products is a complex process. We may encounter difficulties in scal
including:

- problems involving production yields;
- quality control and assurance;
- component supply shortages;
- shortages of qualified personnel; and

compliance with state, federal and foreign regulations.

If demand for our products exceeds our manufacturing capacity, we could develop a sub
we are unable to maintain larger-scale manufacturing capabilities, our ability to generate
reputation in the marketplace could be damaged.

**OUR RELIANCE ON SOLE AND SINGLE SOURCE SUPPLIERS COULD HAR
DEMAND FOR OUR PRODUCTS IN A TIMELY MANNER OR WITHIN BUDG**

Some of the components necessary for the assembly of our products are currently provid
single-sourced suppliers. We purchase components through purchase orders rather than
generally do not maintain large volumes of inventory. While alternative suppliers exist a
sole-sourced components, the disruption or termination of the supply of components cou
costs of these components, which could affect our operating results. A disruption or term
could also result in our inability to

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meet demand for our products, which could harm our ability to generate revenues, lead t
damage our reputation. Furthermore, if we are required to change the manufacturer of a
may be required to verify that the new manufacturer maintains facilities and procedures
and with all applicable regulations and guidelines. The delays associated with the verific
delay our ability to manufacture our products in a timely manner or within budget.

**IF INSTITUTIONS OR SURGEONS ARE UNABLE TO OBTAIN COVERAGE A
THIRD-PARTY PAYORS FOR PROCEDURES USING OUR PRODUCTS, OR I
INSUFFICIENT TO COVER THE COSTS OF PURCHASING OUR PRODUCTS
GENERATE SUFFICIENT SALES TO SUPPORT OUR BUSINESS.**

In the United States, hospitals generally bill the services performed with our products to
Medicare, Medicaid and other government programs and private insurance plans. If hosp
reimbursement from third-party payors for procedures performed with our products, or i
policies do not cover surgical procedures performed using our products, we may not be
necessary to support our business. Our success in international markets also depends upo
coverage and reimbursement through government-sponsored health care payment systen
Reimbursement practices vary significantly by country. Many international markets hav
systems that control reimbursement for new products and procedures. Other foreign mar
systems and government-managed systems that control reimbursement for new products
of our products may depend on the availability and level of coverage and reimbursemen
time. In addition, health care cost containment efforts similar to those we face in the Un
the other countries in which we intend to sell our products and these efforts are expected
factor below titled Healthcare Policy Changes, Including Recently Enacted Legislation
System, May Have a Material Adverse Effect on Our Financial Condition and Results o
Changes in Healthcare Policies and Changes to Third-Party Reimbursements May Affec
additional risks related to the ability of institutions or surgeons to obtain reimbursements

**IF WE LOSE OUR KEY PERSONNEL OR ARE UNABLE TO ATTRACT AND
PERSONNEL, OUR ABILITY TO COMPETE WILL BE HARMED.**

We are highly dependent on the principal members of our management and scientific sta
depend, in part, on our ability to attract and retain engineers with experience in mechani
and retaining qualified personnel will be critical to our success, and competition for qua
not be able to attract and retain personnel on acceptable terms given the competition for
and healthcare companies and universities. The loss of any of these persons or our inabi
personnel could harm our business and our ability to compete.

**NATURAL OR OTHER DISASTERS COULD DISRUPT OUR BUSINESS AND
OR IN HIGHER EXPENSES.**

Natural disasters, terrorist activities and other business disruptions could seriously harm
and increase our costs and expenses. Our corporate headquarters and many of our operat
seismically active region. A natural disaster in any of our major markets in North Ameri
adverse impact on our operations, operating results and financial condition. Further, any
caused by Internet security threats, damage to global communication networks or otherw
impact on our operating results.

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CHANGES TO FINANCIAL ACCOUNTING STANDARDS MAY AFFECT OUR OPERATIONS.

A change in accounting standards or practices can have a significant effect on our report reporting of transactions completed before the change is effective. New accounting pron interpretations of accounting pronouncements have occurred and may occur in the future questioning of current practices may adversely affect our reported financial results or the

UNFAVORABLE RESULTS OF LEGAL PROCEEDINGS COULD MATERIAL

We are and may become subject to various legal proceedings and claims that arise in or business.

On August 6, 2010, a purported class action lawsuit was filed against us and several of c States District Court for the Northern District of California seeking unspecified damages persons who purchased or otherwise acquired our common stock between February 1, 2 complaint alleges that we violated federal securities laws by making allegedly false and certain material facts in our filings with the Securities and Exchange Commission. Two substantially similar allegations were filed in the Superior Court of California for the Co Those actions are described more fully under Part I, Item 3, Legal Proceedings.

The results of these lawsuits and other legal proceedings cannot be predicted with certai determine whether our insurance coverage would be sufficient to cover the costs or pote merit, litigation may be both time-consuming and disruptive to our operations and cause management attention. If we do not prevail in the purported class action lawsuit or other with significant monetary damages or injunctive relief against us that may adversely affe and results of operations, possibly materially.

WE ARE SUBJECT TO SIGNIFICANT, UNINSURED LIABILITIES.

For certain risks, we do not maintain insurance coverage because of cost and/or availabi directors and officers for third-party claims and do not insure for the underlying losses, a insurance, among others. In addition, in the future, we may not continue to maintain cert adequate levels of coverage. Premiums for many types of insurance have increased signi depending on market conditions and our circumstances, in the future, certain types of ins insurance or products liability insurance may not be available on acceptable terms or at a our insurable risks, and in some cases self-insure completely, unforeseen or catastrophic coverage could require us to pay substantial amounts, which would materially adversely operating results.

WE USE ESTIMATES, MAKE JUDGMENTS AND APPLY CERTAIN METHOD PROGRESS OF OUR BUSINESS. IN DETERMINING OUR FINANCIAL RESU ACCOUNTING POLICIES. AS THESE ESTIMATES, JUDGMENTS, AND MET ASSESSMENT OF THE PROGRESS OF OUR BUSINESS AND OUR RESULTS VARY.

The methods, estimates, and judgments we use in applying our accounting policies have operations. Such methods, estimates, and judgments are, by their nature, subject to subst assumptions, and factors may arise over time that lead us to change our methods, estima our assumptions may adversely affect our reported financial results.

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In addition, we utilize methods for determining surgical market sizes and *da Vinci* proce estimates and judgments, which are, by their nature, subject to substantial risks, uncertai of surgical market sizes or *da Vinci* procedures performed do not have an impact on our estimate the progress of our business. Estimates and judgments for determining surgical may vary over time with changes in treatment modalities, hospital reporting behavior, in employee and other factors. In addition, over time, we may change the method for deter procedures, causing variation in our reporting.

CHANGES IN OUR EFFECTIVE TAX RATE MAY HARM OUR RESULTS OF

A number of factors may harm our future effective tax rates including:

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities;
- changes in valuation of our deferred tax assets and liabilities;
- increases in expenses not deductible for tax purposes, including write-offs of a impairment of goodwill in connection with acquisitions;
- changes in available tax credits;
- changes in share-based compensation;
- changes in tax laws or the interpretation of such tax laws and changes in gener and
- the repatriation of non-U.S. earnings for which we have not previously provid

Any significant increase in our future effective tax rates could harm net income for futur

WE MAY REALIZE LOSSES ON OUR INVESTMENTS IN AUCTION RATE SE LIQUIDATE THESE INVESTMENTS AT DESIRED TIMES AND IN DESIRED

At December 31, 2010, we held $18.6 million in auction rate securities (ARS), whose un which are substantially backed by the federal government. Since the auctions for these s February 2008, these investments are not currently trading and therefore do not have a re Accordingly, the estimated fair value of the ARS no longer approximates par value. Acc market value during the year ended December 31, 2010 have been recorded through oth market conditions deteriorate further, we may be required to record additional unrealized income or impairment charges. We may not be able to liquidate these investments unles successful auction occurs, a buyer is found outside of the auction process, or the security

DISRUPTION OF CRITICAL INFORMATION SYSTEMS COULD HARM OUR CONDITION.

Information technology helps us operate efficiently, interface with customers, maintain accurately produce our financial statements. If we do not allocate and effectively manag sustain the proper technology infrastructure, we could be subject to transaction errors, p customers, business disruptions, or the loss of or damage to intellectual property through management systems do not effectively collect, store, process and report relevant data fo whether due to equipment malfunction or constraints, software deficiencies, or human e forecast and execute our

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business plan and comply with applicable laws and regulations will be impaired, perhap
could materially and adversely affect our financial condition, results of operations, cash
we report our internal and external operating results.

RISKS RELATING TO OUR REGULATORY ENVIRONMENT

**HEALTHCARE POLICY CHANGES, INCLUDING RECENTLY ENACTED LE
U.S. HEALTHCARE SYSTEM, MAY HAVE A MATERIAL ADVERSE EFFECT
CONDITION AND RESULTS OF OPERATIONS.**

In March 2010, the President signed the Patient Protection and Affordable Care Act, as a
Education Affordability Reconciliation Act (collectively, the PPACA), which makes
significantly impact the pharmaceutical and medical device industries. One of the princi
enacted is to expand health insurance coverage to approximately 32 million Americans
consequences of these significant coverage expansions on the sales of our products are u

The PPACA contains a number of provisions designed to generate the revenues necessa
among other things. This includes new fees or taxes on certain health-related industries,
manufacturers. Beginning in 2013, medical device manufacturer will have to pay an exc
certain U.S. medical device revenues. Though there are some exceptions to the excise ta
our products and product candidates sold within the U.S..

The PPACA provisions on comparative clinical effectiveness research extend the initiati
Reinvestment Act of 2009, also known as the stimulus package, which included $1.1 bil
comparative effectiveness of health care treatments and strategies. This stimulus funding
things, conducting, supporting or synthesizing research that compares and evaluates the
effectiveness and appropriateness of products. The PPACA appropriates additional fund
effectiveness research. Although Congress has indicated that this funding is intended to
remains unclear how the research will impact current Medicare coverage and reimburser
influence other third-party payor policies. We expect that the PPACA, as well as other f
measures that may be adopted in the future, could have a material adverse effect on our
successfully commercialize our products or could limit or eliminate our spending on cer
imposed by the new federal legislation and the expansion in the government s role in th
decreased profits to us, lower reimbursement by payors for our products, and/or reduced
which may adversely affect our business, financial condition and results of operations.

**HEALTHCARE REFORMS, CHANGES IN HEALTHCARE POLICIES AND CI
COVERAGE AND REIMBURSEMENTS MAY AFFECT DEMAND FOR OUR P**

The U. S. government has in the past considered, is currently considering and may in the
and proposals intended to curb rising healthcare costs, including those that could signifi
reimbursement for healthcare services. State and local governments, as well as a numbe
considering or have adopted similar types of policies. While we believe that minimally i
Surgical Systems reduces healthcare costs, future significant changes in the healthcare s
elsewhere, and current uncertainty about whether and how changes may be implemented
demand for our products. We are unable to predict whether other healthcare legislation
may be proposed or enacted in the future; what effect any legislation or regulation woul
ongoing uncertainty about these matters will have on the purchasing decisions of our cu

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**WE ARE SUBJECT TO FEDERAL, STATE AND FOREIGN LAWS GOVERNIN
WHICH, IF VIOLATED, COULD RESULT IN SUBSTANTIAL PENALTIES. AI
TO OR INVESTIGATION INTO OUR PRACTICES COULD CAUSE ADVERSE
TO RESPOND TO AND THUS COULD HARM OUR BUSINESS.**

The Medicare and Medicaid anti-kickback laws, and several similar state laws, prohi
is intended to induce hospitals, physicians or other potential purchasers of our products
lease or order, or arrange for or recommend the purchase, lease or order of healthcare pr
may be made under federal and state healthcare programs, such as Medicare and Medica
PPACA, among other things, amends the intent requirement of the federal anti-kickback
statutes. A person or entity no longer needs to have actual knowledge of this statute or s
the PPACA provides that the government may assert that a claim including items or serv
federal anti-kickback statute constitutes a false or fraudulent claim for purposes of the fa
states, such as California, Massachusetts and Vermont, mandate implementation of com
ensure compliance with these laws. These laws affect our sales, marketing and other pro
kinds of financial arrangements we may have with hospitals, physicians or other potenti
particularly impact how we structure our sales offerings, including discount practices, cu
training programs, physician consulting and other service arrangements. These laws are
difficult to determine precisely how these laws will be applied to specific circumstances
result in civil and criminal penalties, which can be substantial and include potential excl
noncompliance. Even an unsuccessful challenge or investigation into our practices coul
costly to defend, and thus could harm our business and results of operations.

The PPACA also imposes new reporting and disclosure requirements on device manufac
or distributed to prescribers and other healthcare providers, effective March 30, 2013. Su
publicly available in a searchable format beginning September 30, 2013. In addition, de
required to report and disclose any investment interests held by physicians and their imm
preceding calendar year. Failure to submit required information may result in civil mone
$150,000 per year (and up to an aggregate of $1 million per year for knowing failures
ownership or investment interests not reported in an annual submission.

In addition, there has been a recent trend of increased federal and state regulation of pay
the tracking and reporting of gifts, compensation, and other remuneration to physicians.
environment and the need to build and maintain robust and expandable systems to comp
different compliance and/or reporting requirements increases the possibility that a health
or more of the requirements.

Compliance with complex foreign and U.S. laws and regulations that apply to our intern
of doing business in international jurisdictions and could expose us or our employees to
abroad. These numerous and sometimes conflicting laws and regulations include US law
Practices Act, and local laws prohibiting corrupt payments to government officials. Viol
could result in fines, criminal sanctions against us, our officers, or our employees, prohi
and damage to our reputation. Although we have implemented policies and procedures d
these laws, there can be no assurance that our employees, contractors, or agents will not

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**OUR PRODUCTS ARE SUBJECT TO A LENGTHY AND UNCERTAIN DOMES
IF WE DO NOT OBTAIN AND MAINTAIN THE NECESSARY DOMESTIC RE
WILL NOT BE ABLE TO MARKET AND SELL OUR PRODUCTS IN THE UNI**

Our products and operations are subject to extensive regulation in the United States by t
research, testing, manufacturing, safety, labeling, storage, record keeping, promotion, di
devices in the United States to ensure that medical products distributed domestically are
uses. In order for us to market certain products for use in the United States, we generally
FDA pursuant to Section 510(k) of the Federal Food, Drug, and Cosmetic Act, or FFDC
requires demonstration that a new device is substantially equivalent to another device w
status. If we significantly modify our products after they receive FDA clearance, the FD
510(k) or premarket approval application, or PMA, for the modified product before we a
in the United States. In addition, if we develop products in the future that are not consid
device with 510(k) clearance or grandfather status, we will be required to obtain FDA ap

The FDA may not act favorably or quickly in its review of our 510(k) or PMA submissi
difficulties and costs in our efforts to obtain FDA clearance or approval, all of which co
products in the United States. Furthermore, the FDA may request additional data or requ
compile more data, including clinical data and clinical studies, in support of a 510(k) su
our products can change at any time. The changes and their impact on our business cann
in the FDA 510(k) process could make approval more difficult to obtain, increase delay,
significant adverse effects on our ability to obtain and maintain approval for our product
accepting a 510(k) submission, require us to submit a PMA, which is typically a much m
application than a 510(k). To support a PMA, the FDA would likely require that we con
demonstrate that the device is safe and effective. We may not be able to meet the require
PMA approval, or the FDA may not grant any necessary clearances or approvals. In add
limitations upon the intended use of our products as a condition to a 510(k) clearance or
can also be denied or withdrawn due to failure to comply with regulatory requirements o
problems following clearance or approval. Any delays or failure to obtain FDA clearanc
develop, any limitations imposed by the FDA on new product use, or the costs of obtain
have a material adverse effect on our business, financial condition and results of operati

In order to conduct a clinical investigation involving human subjects for the purpose of
effectiveness of a device, a company must, among other things, apply for and obtain Ins
approval of the proposed investigation. In addition, if the clinical study involves a sign
human health, the sponsor of the investigation must also submit and obtain FDA approv
exemption, or IDE, application. Most of our products to date have been considered signi
approval prior to investigational use. We may not be able to obtain FDA and/or IRB app
the United States for any new devices we intend to market in the United States in the fut
may not be able to comply with the IDE and other regulations governing clinical investi
trials may not support clearance or approval of the investigational device. Failure to obta
such regulations could have a material adverse effect on our business, financial conditio

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**COMPLYING WITH FDA REGULATIONS IS A COMPLEX PROCESS, AND C
FULLY COULD SUBJECT US TO SIGNIFICANT ENFORCEMENT ACTIONS.**

Because our products, including the *da Vinci* Surgical System, are commercially distribu
requirements apply, including the following:

- Quality System Regulation, or QSR, which requires manufacturers to follow e
documentation and other quality assurance procedures during the manufacturi
- labeling regulations;
- the FDA s general prohibition against false or misleading statements in the la
unapproved or off-label uses;
- the Reports of Corrections and Removals regulation, which requires that manu
and field corrective actions taken to reduce a risk to health or to remedy a viol
risk to health; and
- the Medical Device Reporting regulation, which requires that manufacturers r
have caused or contributed to a death or serious injury or malfunctioned in a w
contribute to a death or serious injury if it were to recur.

We are subject to inspection and marketing surveillance by the FDA to determine our co
requirements. If the FDA finds that we have failed to comply, it can institute a wide vari
from a regulatory letter to a public warning letter to more severe civil and criminal sanct
applicable requirements could lead to an enforcement action that may have an adverse e
results of operations.

We have modified the labeling, advertising and user training for the *da Vinci* Surgical S
that we believe are within the scope of our existing 510(k) clearances. We cannot assure
such specific procedures are within the scope of the existing general clearance or that we
to support the safety and efficacy of using the *da Vinci* Surgical System for all such spec
modified the hardware and software in the *da Vinci* Surgical System since clearance in v
new 510(k) clearance. We cannot assure that the FDA would agree with our determinati
for any of these changes. Computer Motion, which we acquired in 2003, also modified t
products subsequent to 510(k) clearance without seeking new clearance. The FDA could
and/or require us to obtain 510(k) clearance for any modification to our products or Con
prohibited from marketing the modified device until such 510(k) clearance is granted.

Our last inspection occurred in July 2010 and the FDA issued a Form FDA 483 listing d
complaint handling and manufacturing/inspection handling. We later responded to each
actions. However, we cannot assure that, upon re-inspection, the FDA will find that our
that they have been adequately implemented. We also cannot assure that the FDA will n
compliance with the QSR and other postmarket regulations.

**OUR PRODUCTS ARE SUBJECT TO VARIOUS INTERNATIONAL REGULAT
APPROVAL REQUIREMENTS. IF WE DO NOT OBTAIN AND MAINTAIN TH
INTERNATIONAL REGULATORY APPROVALS, WE WILL NOT BE ABLE T
PRODUCTS IN FOREIGN COUNTRIES.**

To be able to market and sell our products in other countries, we must obtain regulatory
regulations of those countries. These regulations, including the requirements for approva
regulatory review, vary from country to country. Obtaining and maintaining foreign regu
we cannot be certain that we will receive regulatory approvals in any

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foreign country in which we plan to market our products. If we fail to obtain or maintain
country in which we plan to market our products, our ability to generate revenue will be

The EU requires that manufacturers of medical products obtain the right to affix the CE
them in member countries of the EU. The CE mark is an international symbol of adheren
compliance with applicable European medical device directives. In order to obtain the ri
a manufacturer must obtain certification that its processes meet certain European quality
received permission to affix the CE mark to our *da Vinci* Surgical System and *EndoWris*

As we modify existing products or develop new products in the future, including new in
for permission to affix the CE mark to such products. In addition, we will be subject to a
maintain the CE mark permissions we have already obtained. We do not know whether
to affix the CE mark for new or modified products or that we will continue to meet the q
to maintain the permissions we have already received. If we are unable to maintain perm
products, we will no longer be able to sell our products in member countries of the EU,
effect on our results of operations.

In November 2009, we received Shonin approval from the Japanese MHLW for our *da*
instruments and accessories for use in certain *da Vinci* surgical procedures. We may seek
products and/or procedures, however, there can be no assurance that such approvals will
only a subset of our instruments have been approved it is possible, depending on surgeon
procedures will be adopted slowly or not at all. We are currently focusing efforts on obta
approvals for *da Vinci* procedures in Japan. Sales of our products depend, in part, on the
products are reimbursed by governmental health administration authorities. If we are no
reimbursement approvals or obtaining approvals for future products and procedures, the
be limited. These limitations could eliminate a significant market opportunity for our pro

**IF OUR MANUFACTURING FACILITIES DO NOT CONTINUE TO MEET FE
MANUFACTURING STANDARDS, WE MAY BE REQUIRED TO TEMPORAR
OUR MANUFACTURING OPERATIONS, WHICH WOULD RESULT IN PROD
LOST REVENUE.**

Our manufacturing facilities are subject to periodic inspection by regulatory authorities
regulated by the FDA for compliance with Good Manufacturing Practice requirements o
required to comply with International Organization for Standardization, or ISO, quality
products for sale in Europe. If we fail to continue to comply with Good Manufacturing P
standards, we may be required to cease all or part of our operations until we comply with
inspection occurred in July 2010 and the FDA issued a Form FDA 483 listing deficienci
complaint handling and manufacturing/inspection handling. We later responded to each
actions. However, we cannot assure that, upon re-inspection, the FDA will find that our
that they have been adequately implemented. We continue to be subject to FDA inspecti
compliance is difficult and costly. We cannot be certain that our facilities will be found
Practice requirements or ISO standards in future inspections and audits by regulatory au

As required, we are licensed by the State of California to manufacture medical devices.
by the California Department of Health Services and, if we are unable to maintain this li
inspections, we will be unable to manufacture or ship any products, which would have a
of operations.

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RISKS RELATING TO OUR INTELLECTUAL PROPERTY

**IF WE ARE UNABLE TO REPLACE OUR EXPIRING PATENTS, OUR ABILIT
MARKET WILL BE HARMED.**

Some of our patents will begin to expire in 2012. While we will continue to work to add
intellectual property contained in our products, we believe new competitors will emerge
whether we will have the patent protection we need, or whether the protection we do hav
if challenged. We also do not know whether we will be able to develop additional patent
fail to obtain adequate protection of our intellectual property, or if any protection we ob
could use our intellectual property without compensating us, resulting in harm to our bu

**IF WE ARE UNABLE TO PROTECT THE INTELLECTUAL PROPERTY CON
FROM USE BY THIRD PARTIES, OUR ABILITY TO COMPETE IN THE MAR**

Our commercial success will depend in part on obtaining patent and other intellectual pr
contained in our products, and on successfully defending our patents and other intellectu
challenges. We will incur substantial costs in obtaining patents and, if necessary, defend
positions of medical device companies, including ours, can be highly uncertain and invo
factual questions. We do not know whether we will obtain the patent protection we seek
will be found valid and enforceable if challenged. We also do not know whether we will
patentable proprietary technologies. If we fail to obtain adequate protection of our intell
we obtain is reduced or eliminated, others could use our intellectual property without co
our business. We may also determine that it is in our best interests to voluntarily challen
in litigation or administrative proceedings, including patent interferences or reexaminati
foreign countries do not protect intellectual property rights to the same extent as do the

In addition to patents, we typically rely on a combination of trade secret, copyright and t
agreements and other contractual provisions and technical security measures to protect o
Nevertheless, these measures may not be adequate to safeguard the technology underlyi
not protect our rights adequately, third parties could use our technology, and our ability
reduced. In addition, employees, consultants and others who participate in developing ou
agreements with us regarding our intellectual property, and we may not have adequate re
not be able to effectively protect our intellectual property rights in some foreign countrie
decide not to file for patent, copyright or trademark protection outside the United States.
may become known through other means not currently foreseen by us. Notwithstanding
property, our competitors may independently develop similar or alternative technologies
to our technology and products without infringing any of our intellectual property rights
proprietary technologies, which would harm our ability to compete in the market.

**OTHERS MAY ASSERT THAT OUR PRODUCTS INFRINGE THEIR INTELL
WHICH MAY CAUSE US TO ENGAGE IN COSTLY DISPUTES AND, IF WE A
DEFENDING OURSELVES, COULD ALSO CAUSE US TO PAY SUBSTANTIA
FROM SELLING OUR PRODUCTS.**

There may be United States and foreign patents issued to third parties that relate to comp
surgery, and minimally invasive surgery. Some of these patents may be broad enough to

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one or more aspects of our present technology, and may cover aspects of our future tech
of these patents, if challenged, would be held valid, enforceable and infringed. From tim
continue to receive, letters from third parties inviting us to license their patents. We may
an administrative proceeding with, one or more of these third parties.

We cannot assure that a court or administrative body would agree with any arguments o
invalidity, unenforceability or non-infringement of any third-party patent. In addition to
aware, other parties may have filed, and in the future are likely to file, patent application
similar or identical to ours. We cannot assure that any patents issuing from applications
our products or will not have priority over our patent applications.

The medical device industry has been characterized by extensive litigation and administ
and other intellectual property rights, and companies have employed such actions to gai
parties assert infringement or other intellectual property claims against us, our technical
experience a significant diversion of time and effort and we will incur large expenses de
in any patent action are successful, our patent portfolio may be damaged, we may have t
treble damages, and we may be required to stop selling our products or obtain a license
us to pay substantial royalties. We cannot be certain that we will have the financial reso
defend our patents from infringement or claims of invalidity or unenforceability, or to d
infringement of third-party patents. In addition, any public announcements related to liti
initiated by us, or initiated or threatened against us, could cause our stock price to declin

**OUR PRODUCTS RELY ON LICENSES FROM THIRD PARTIES, AND IF WE
TECHNOLOGIES, OUR REVENUES COULD DECLINE.**

We rely on technology that we license from others, including technology that is integral
license agreements with several industry partners. Any of these agreements may be term
agreements are terminated, we may be unable to reacquire the necessary license on satis
failure to maintain these licenses could prevent or delay further development or commer
would have a material adverse effect on our results of operations.

RISKS RELATING TO OUR TRADING MARKETS

**OUR FUTURE OPERATING RESULTS MAY BE BELOW SECURITIES ANAL
EXPECTATIONS, WHICH COULD CAUSE OUR STOCK PRICE TO DECLIN**

Due to the nascent nature of our industry, we have limited insight into trends that may e
business. The revenue and income potential of our market are unproven, and we may be
significant revenues. Our products typically have a lengthy sales cycle. In addition, our
anticipated. If we fail to generate sufficient revenues or our costs are higher than we exp
suffer. Further, future revenue from sales of our products is difficult to forecast because
technologies is still evolving. Our results of operations will depend upon numerous facto

- the extent to which our products gain market acceptance;
- actions relating to regulatory matters;
- our timing and ability to develop our manufacturing and sales and marketing
- demand for our products;

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- the size and timing of particular sales and any collection delays related to thos
- product quality and supply problems;
- the progress of surgical training in the use of our products;
- our ability to develop, introduce and market new or enhanced versions of our
- third-party payor reimbursement policies;
- our ability to protect our proprietary rights and defend against third party chal
- our ability to license additional intellectual property rights; and
- the progress and results of clinical trials.

Our operating results in any particular period will not be a reliable indication of our futu some future quarters, our operating results will be below the expectations of securities a price of our common stock, and the value of your investment, will likely decline.

OUR STOCK PRICE HAS BEEN, AND WILL LIKELY CONTINUE TO BE, VO

The market price of our common stock has experienced fluctuations and is likely to fluc example, during fiscal 2009, the NASDAQ closing price of one share of our common st low of $85.33 and during fiscal 2010, it reached a high of $388.01 and a low of $247.50 number of reasons, including:

- announcements about us or our competitors;
- quarterly variations in operating results;
- introduction or abandonment of new technologies or products;
- regulatory approvals;
- changes in product pricing policies;
- changes in earnings estimates by analysts or changes in accounting policies;

economic changes and overall market volatility; and

political uncertainties.

In addition, stock markets have experienced significant price and volume volatility in th volatility has had a substantial effect on the market prices of securities of many public c unrelated or disproportionate to the operating performance of the specific companies. In medical device companies, including Intuitive Surgical, have historically been subject to fluctuations that may affect the market price of their common stock. If these broad mark adversely affect the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2010, we owned approximately 540,000 square feet of space on 33 California, where we house our headquarters, research and development, service, and su manufacturing operations. In addition, we entered into an agreement in August 2010

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to purchase 17.7 acres of land and buildings for $33.0 million in Sunnyvale, California b
feet of space in Sunnyvale, California for logistics and inventory, approximately 5,000 s
development in Milford, Connecticut, approximately 5,000 square feet of space for our i
Aubonne, Switzerland and a 34,000 square-foot building in Mexicali, Mexico where we
instruments. We also lease facilities for sales and operations in Tokyo, Japan and Shang

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may be involved in a variety of claims, lawsuits, investigations ar
laws, product liability, patent infringement, contract disputes and other matters relating t
normal course of our business. Certain of these lawsuits are described in further detail be
will prevail in these matters nor can we assure that any remedy could be reached on com
Based on currently available information, we believe that we have meritorious defenses
resolution of these cases is not likely to have a material adverse effect on our business, f
operations. In accordance with U.S. GAAP, we record a liability when it is both probabl
the amount of the loss can be reasonably estimated. These provisions are reviewed at lea
impacts of negotiations, settlements, rulings, advice of legal counsel, and other informat
particular case.

Purported Shareholder Class Action Lawsuit filed August 6, 2010

On August 6, 2010, a purported class action lawsuit entitled *Perlmutter v. Intuitive Surg*
against us and seven of our current and former officers and directors in the United States
District of California. The lawsuit seeks unspecified damages on behalf of a putative cla
otherwise acquired our common stock between February 1, 2008 and January 7, 2009. T
defendants violated federal securities laws by making allegedly false and misleading sta
facts in our filings with the Securities and Exchange Commission.

Purported Derivative Actions

On August 19, 2010, an alleged shareholder caused a purported shareholder s derivative
al., No. 1-10-CV-180416, to be filed in the Superior Court of California for the County
defendant, and naming 14 of our current and former officers and directors as defendants
company s benefit, unspecified damages purportedly sustained by us in connection with
and/or omissions made in connection with our financial reporting for the period between
2009. It also seeks a series of changes to our corporate governance policies and an award
2010, another purported shareholder filed an essentially identical lawsuit entitled *Applba*
No. 1-10-CV-182645, in the same court against 15 of our current and former officers an
court ordered that the two cases be consolidated for all purposes.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED ST
ISSUER PURCHASES OF EQUITY SECURITIES

PRICE RANGE OF COMMON STOCK

Our common stock is being traded on The NASDAQ Global Select Market under the sy
forth the high and low closing prices of our common stock for each period indicated and

	2010	
Fiscal	**High**	**Low**
First Quarter	$ 362.80	$ 304.39
Second Quarter	$ 388.01	$ 311.90
Third Quarter	$ 340.51	$ 265.03
Fourth Quarter	$ 292.89	$ 247.50

As of January 20, 2011, there were 480 stockholders of record of our common stock, alt
significantly larger number of beneficial owners of our common stock.

DIVIDEND POLICY

We have never declared or paid any cash dividends. We currently expect to retain earnin
expansion of our business, and therefore do not anticipate paying any cash dividends in

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSAT

The following table contains information as of December 31, 2010 for two categories of

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)**	**W a exe of o**
Equity compensation plans approved by security holders	4,588,376	$
Equity compensation plans not approved by security holders	224,694	$
Total	4,813,070	$

RECENT SALE OF UNREGISTERED SECURITIES

None.

ISSUER PURCHASES OF EQUITY SECURITIES

On March 4, 2009, we announced that our Board of Directors (the Board) had author
million of our common stock. In the first quarter ended March 31, 2009, we repurchased
stock, leaving $150.0 million remaining to be repurchased under the program. On July 2
authorized an additional $150.0 million for share repurchase, with no specific expiration
amount to be repurchased under the program to $300.0 million.

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The table below summarizes our share repurchase activity for the three months ended D

Fiscal Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Tot Share
October 1, 2010 to October 31, 2010	40,000	$ 265.28	
November 1, 2010 to November 30, 2010	290,000	$ 265.28	
December 1, 2010 to December 31, 2010	200,000	$ 261.29	
Total during quarter ended December 31, 2010	530,000	$ 263.77	

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STOCK PERFORMANCE GRAPH

The graph set forth below compares the cumulative total stockholder return on our comm
2005 and December 31, 2010, with the cumulative total return of (i) the S&P Healthcare
Index and (iii) the S&P 500 Index, over the same period. This graph assumes the investm
2005 in our common stock, the S&P Healthcare Index, the Nasdaq Composite Index, an
reinvestment of dividends, if any. We included the comparison with the S&P 500 Index
component of the S&P 500 Index on June 2, 2008.

The comparisons shown in the graph below are based upon historical data. We caution t
shown in the graph below is not necessarily indicative of, nor is it intended to forecast, t
common stock.

	12/31/05	12/31/06	12/31/07	12/31/
Intuitive Surgical, Inc.	100.00	81.78	275.43	108.2
NASDAQ Composite	100.00	109.52	120.27	71.3
S&P Healthcare Index	100.00	105.78	111.49	84.2
S&P 500 Index	100.00	113.62	117.63	72.3

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with ou
and the accompanying Notes and Management s Discussion and Analysis of Financia
included elsewhere in this report. The selected data in this section is not intended to repl
Statements.

	Year Ended		
	2010	2009	2
	(In millions, except per sha		
Revenue	$ 1,413.0	$ 1,052.2	$
Gross profit	$ 1,030.0	$ 751.1	$
Net income (1)	$ 381.8	$ 232.6	$
Net income per common share:			
Basic	$ 9.74	$ 6.07	$
Diluted	$ 9.47	$ 5.93	$
Shares used in computing basic and diluted net income per share:			
Basic	39.2	38.3	
Diluted	40.3	39.2	
Cash, cash equivalents and investments	$ 1,608.9	$ 1,172.0	$
Total assets	$ 2,390.4	$ 1,809.7	$ 1
Long-term liabilities	$ 79.2	$ 69.6	$
Shareholders equity	$ 2,037.4	$ 1,537.3	$ 1
Total headcount	1,660	1,263	

(1) Net income for the years ended December 31, 2010, 2009, 2008, 2007 and 2006 in
compensation expense under U.S. GAAP of $78.4 million, $70.5 million, $53.4 mi
million, respectively, net of tax, related to employee stock options and employee st
the years ended December 31, 2010, 2009, 2008, 2007, and 2006 included amortiza
property of $16.3 million, $15.1 million, $9.8 million, $1.3 million and $0.8 millio

**ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL C
RESULTS OF OPERATIONS**

Overview

2010 Business Events and Trends

Products. We design, manufacture and market *da Vinci* Surgical Systems, which are ad
believe represent a new generation of surgery. We believe that this new generation of su
surgery, is a significant advancement similar in scope to previous generations of surgery
surgery, or conventional MIS. The *da Vinci* Surgical System consists of a surgeon s co
and a high performance vision system. The *da Vinci* Surgical System translates the surg
are performed on instrument controls at a console, into corresponding micro-movements
patient through small incisions, or ports. We believe that the *da Vinci* Surgical System p
control, range of motion, fine tissue manipulation capability and high definition 3-D visi
the surgeons to work through the small ports of MIS.

By placing computer-enhanced technology between the surgeon and the patient, we beli
enables surgeons to deliver higher value minimally invasive surgical procedures to their
equal to: *procedure efficacy / invasiveness*. Here *procedure efficacy* is a

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measure of the success of the surgery in resolving the underlying disease and *invasivene* treatment is itself. When the patient value of robotic surgery is significantly higher than seen that patients will seek out surgeons and hospitals that offer *da Vinci* procedures, po in the marketplace and can lead to the broad adoption of robotic surgery. These adoption are driven by the relative patient value of *da Vinci* procedures against alternatives for th

Business Model. In our business model, we generate revenue from both the initial capit as well as recurring revenue, derived from sales of instruments, accessories and service. generally sells for between $1.0 million and $2.3 million, depending on configuration ar significant capital equipment investment for our customers. We then generate recurring our *EndoWrist* instruments and accessory products for use in performing procedures wit *EndoWrist* instruments and accessories have a limited life and will either expire or wear which point they are replaced. We also generate recurring revenue from ongoing system service contracts at the time the system is sold. These service contracts have been genera service period, typically at an annual rate of approximately $100,000 to $170,000 per ye the underlying system.

Recurring revenue has generally grown at a faster rate than system revenue. Recurring r million, or 48% of total revenue in 2008, to $561.7 million, or 53% of total revenue in 2 revenue in 2010. The increase in recurring revenue relative to system revenue reflects co growing base of installed *da Vinci* Surgical Systems. We expect recurring revenue to be revenue in the future. The installed base of *da Vinci* Surgical Systems has grown to 1,75 with 1,395 at December 31, 2009 and 1,111 at December 31, 2008.

Regulatory Activities

We believe that we have obtained the necessary clearances to market our products to ou the United States. As we make additions to target procedures, we will continue to seek t following table lists chronologically our FDA clearances to date:

July 2000	General laparoscopic procedures
March 2001	Non-cardiac thoracoscopic procedures
May 2001	Prostatectomy procedures
November 2002	Cardiotomy procedures
July 2004	Cardiac revascularization procedures
March 2005	Urologic surgical procedures
April 2005	Gynecologic surgical procedures
June 2005	Pediatric surgical procedures

December 2009 Transoral Otolaryngologic surgical procedures

During first quarter of 2009, we received clearances to market our *da Vinci Si* Surgical S
Europe.

In November 2009, we received regulatory (Shonin) approval from the Japanese Ministr
(MHLW) for our *da Vinci S* System in Japan. During the year ended December 31, 2010
Japan. These sales were primarily made to early adopters. We are currently focusing our

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efforts with Johnson & Johnson K.K. Medical Company (Japan) on obtaining specific re
procedures in Japan. If we are not successful in obtaining system wide single procedure
approvals for future products and procedures, then the demand of our products could be
experienced regulatory team from Johnson & Johnson K.K. Medical Company (Japan) i
are continuing to work with them to meet government requirements. We have partnered
separate independent distribution partner in Japan who is responsible for marketing, sell
Japan.

2010 Business Events and Trends

Economic Environment. During the first half of 2009, the world-wide economic recess
da Vinci Surgical Systems. The 441 total *da Vinci* Surgical Systems sold in the year end
those sold during the same period of 2009 by 103 systems.

***da Vinci Si* Surgical System Product Launch.** During the second quarter of 2009 we la
the *da Vinci Si*. The *da Vinci Si* brings to market three significant innovations. First, our
substantially redesigned for increased visual acuity and improved ease-of-use. The HD i
performance is similar to the move from 720p to 1080i in commercial television. We be
performance will continue to enhance surgeon precision and confidence and may contrib
and shorter procedure times. Secondly, the *da Vinci Si* surgeon console s user interface
integrated control of *da Vinci* products and other operating room devices, such as electro
interface also includes a set of ergonomic controls for surgeon comfort. We believe the s
easier surgeon training. The third significant improvement is the introduction of a dual s
surgery, which will allow new methods of training *da Vinci* surgeons and enable collabo
Vinci Si, a surgeon sitting at a second console can view the same surgery as the primary
some or all of the *da Vinci* arms during a case. We believe this will both shorten the lear
allow collaborative surgery in complex cases.

The *da Vinci Si* Surgical System was FDA approved and CE marked upon launch and is
other than Japan. *da Vinci Si* Systems are available with an option to purchase a second
instruments and most *da Vinci S* accessories, excluding endoscopes and drapes, are com
We will continue to sell, service and support the *da Vinci S* Surgical System. Our sales o
System have substantially ended; however, we continue to service and support this prod

Most customers who purchased *da Vinci S* Surgical Systems in the first quarter of 2009
upgrade their recently purchased *da Vinci S* Surgical Systems to *da Vinci Si* Surgical Sy
our upgrade. The upgrade program also provided our customers the opportunity to retur
camera accessories and receive a credit towards the purchase of *da Vinci Si* camera or ot
were given until June 30, 2009 to accept our offer. Total revenue in an amount equal to
million, was deferred in the first quarter of 2009. During the second quarter of 2009, we
from offers declined, upgrades completed or accessories delivered. In the third quarter o
Vinci Si system upgrade offers and recognized the remaining $6.3 million of deferred re
recognition did not impact the comparability of the results for the year ended 2010 to an

Market acceptance of the *da Vinci Si* Surgical System has been positive since its market
2009. In the year ended December 31, 2010, 372 out of 441 systems sold were *da Vinci*
approximately 84% of system sales.

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In the third quarter of 2010, we introduced the new *Si-e* model of the *da Vinci* Surgical S designed to deliver core *da Vinci* functionality, providing a flexible, capable and econon robotic-assisted procedures. The *da Vinci Si-e* system is fully upgradeable to the *da Vinc* (third instrument arm), and other enhancements. During the year ended December 31, 20

In the fourth quarter of 2010, we introduced the *da Vinci* Skills Simulator. The simulato shipping in early 2011 for the *da Vinci* Si Surgical System that gives a user the opportun the surgeon console controls. The simulator incorporates three-dimensional, physics-bas immerse the user within a virtual environment. The user navigates through the environm controlling virtual instruments from the surgeon console. The suite of exercises includes levels. Upon completion of a skills exercise, the simulator provides a quantitative assess variety of task-specific metrics. The Skills Simulator is intended to augment, not replace *da Vinci* Si Surgical System.

2010 Financial Highlights

Total revenue increased to $1,413.0 million, or 34%, during the year ended De million during the year ended December 31, 2009.

Approximately 278,000 *da Vinci* procedures were performed during the year e approximately 35% from last year.

Instruments and accessories revenue increased to $528.8 million or 36% durin from $389.4 million during the year ended December 31, 2009.

Recurring revenue increased to $752.7 million, or 34% during the year ended 53% of total revenue from $561.7 million during the year ended December 31 revenue.

We sold 441 *da Vinci* Surgical Systems during the year ended December 31, 2 ended December 31, 2009.

System revenue increased to $660.3 million, or 35% during the year ended De during the year ended December 31, 2009.

As of December 31, 2010, we had a *da Vinci* Surgical System installed base o States, 316 in Europe, and 151 in the rest of the world.

Operating income increased to $555.2 million, or 47% during the year ended D $377.4 million during the year ended December 31, 2009. Operating income i million during the years ended December 31, 2010 and 2009, respectively, of related to employee stock programs.

We ended fiscal 2010 with $1,608.9 million in cash, cash equivalents and inve
investments increased by $436.9 million during 2010 driven by cash flow fro
generated from employee stock programs, partially offset by $198.6 million u
0.7 million shares of common stock, and $96.0 million used for capital expend
property.

Procedure adoption

We believe the adoption of *da Vinci* surgery occurs surgical procedure by surgical proce
procedures which offer greater patient value than non *da Vinci* alternatives . We believe
patient is higher if it offers superior clinical outcomes, less surgical trauma, or both.

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An increasing body of peer review literature has indicated that dVP offers improved fun
traditional open prostatectomy with less surgical and post-surgical morbidity. Favorable
reported in hysterectomies for cancerous pathology, which include increased lymph nod
reduction in blood transfusion. For most patients, a minimally invasive approach using t
reduced pain, less blood loss, shorter hospital stays, reduced post-operative complicatio
activities when compared to open surgery.

In 2010, approximately 278,000 surgical procedures were performed with the *da Vinci* S
35% compared to 2009. The growth in our overall procedure volume was driven primari
in the U.S., *da Vinci* Prostatectomy (dVP) outside the U.S. and pull-through procedures
categories (Nephrectomy (partial and full), Sacralcolpopexy, Myomectomy, Cystectomy

During 2010, dVH became our highest volume procedure, surpassing dVP. dVH proced
69,000 cases in 2009 to approximately 110,000 cases in 2010, of which approximately 3
cancer and the remaining 78,000 related to benign conditions. The very large majority o
the US market, where we estimate the total annual addressable robotic market to be appr
of which about 50,000 are for cancer.

dVP procedure volume grew from approximately 90,000 cases in 2009 to approximately
The large majority of the approximately 85,000 prostatectomies performed each year in
da Vinci. 2010 US dVP volume was essentially flat, with the majority of our 2010 worldw
European markets.

Other procedures (non-dVH/dVP) grew over 50% in 2010 to approximately 70,000 case
procedures is comprised of pull-through procedures such as *da Vinci* Partial Nephrecton
Sacralcopopexy in Gynecology as well as other procedures, which we term emerging pr
earlier in their development, such as *da Vinci* Transoral Robotic Surgery (TORS) in hea
results in emerging procedures are encouraging and may point to significant patient valu
absolute base and their future growth rates are uncertain.

Technology Acquisitions

We continue to make several strategic acquisitions of intellectual property and related te
intellectual property and related technologies during the year ended December 31, 2010
$25.7 during the year ended December 31, 2009. Amortization expense related to purcha
ended December 31, 2010 and 2009 were $16.3 million and $15.1 million, respectively.

Building Acquisition

During the third quarter of 2010, we entered into an agreement to purchase 17.7 acres of
in Sunnyvale, California by June 2011. This property is in close proximity to our existin
into the agreement to support the potential growth of our business there is no guarantee
expansion will take place in the timeframe we expected, or at all.

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Results of Operations

The following table sets forth, for the years indicated, certain Consolidated Statements o

			Year Ended Dec
	2010	% of total revenue	2009
Revenue:			
Product	$ 1,189.1	84%	$ 879.9
Service	223.9	16%	172.3
Total revenue	1,413.0	100%	1,052.2
Cost of revenue:			
Product	297.3	21%	237.6
Service	85.7	6%	63.5
Total cost of revenue	383.0	27%	301.1
Product gross profit	891.8	63%	642.3
Service gross profit	138.2	10%	108.8
Gross profit	1,030.0	73%	751.1
Operating expenses:			
Selling, general and administrative	358.8	25%	278.6
Research and development	116.0	8%	95.1
Total operating expenses	474.8	33%	373.7
Income from operations	555.2	40%	377.4
Interest and other income, net	17.1	1%	18.7
Income before income taxes	572.3	41%	396.1
Income tax expense	190.5	14%	163.5
Net income	$ 381.8	27%	$ 232.6

Total Revenue

Total revenue increased by 34% and 20% during the years ended December 31, 2010 an
increased to $1,413.0 million during the year ended December 31, 2010 from $1,052.2 r
December 31, 2009 from $874.9 million during the year ended December 31, 2008. Tot
continued adoption of *da Vinci* surgery. We believe that robotic surgery will be adopted
procedure, driving higher system and recurring revenue. Our revenue growth during the
in our target procedures. dVH and dVP are our two largest procedures, representing mor
over the past several years.

Revenue within the United States accounted for 80%, 79%, and 78% of total revenue du
2010, 2009, and 2008, respectively. We believe domestic revenue has accounted for the
primarily due to the ability of patients to choose their provider and method of treatment

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The following table summarizes our revenue and *da Vinci* Surgical System unit sales for
except unit sales and percentages):

	Year End
Revenue	**2010**
Instruments and accessories	$ 528.8
Systems	660.3
Total product revenue	1,189.1
Services	223.9
Total revenue	$ 1,413.0
Recurring revenue	$ 752.7
% of total revenue	53%
Revenue Domestic	$ 1,126.0
Revenue International	287.0
Total revenue	$ 1,413.0
Domestic Unit Sales	335
International Unit Sales	106
Total Unit Sales	441

Product Revenue

Product revenue increased to $1,189.1 million during the year ended December 31, 2010
ended December 31, 2009.

Instruments and accessories revenue increased to $528.8 million for the year ended Dec
with $389.4 million for the year ended December 31, 2009. The increase in revenue was
performed and, to a lesser extent, higher initial instrument and accessory stocking orders
unit sales.

Procedure growth occurred in all of our targeted procedures with dVH and dVP being th
Utilization per installed system for the year ended December 31, 2010 also increased as
December 31, 2009. Instrument and accessory list pricing remained unchanged from 20

Systems revenue increased to $660.3 million during the year ended December 31, 2010,
the year ended December 31, 2009 primarily due to 103 more systems sold in 2010. We
during the year ended December 31, 2010, compared with 338 in the year ended Decem
sold during the year ended December 31, 2010 were the *da Vinci Si* Surgical Systems, o
configurations. We had 75 *da Vinci* standard and 9 *da Vinci* S Surgical Systems traded i
2010, compared with 54 standard systems traded in during the year ended December 31,
trade ins occurred during the fourth quarter. Prior to the fourth quarter 2010, transaction
from *da Vinci S* to a *da Vinci Si* system were included in upgrade revenue and excluded
quarter 2010 treatment reflects the current nature of the higher-priced transactions where
completely new *da Vinci Si* systems in exchange for their used *da Vinci S*s, rather than r
upgrades of their *da Vinci* S units. The 2010 average selling price (ASP) of $1.44 millio
$1.39 million, resulting from a higher percentage of the higher-priced single and dual co
the systems product mix. System upgrade revenue was $25.1 million for the year ended
$19.1 million for the year ended 2009.

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Product revenue increased to $879.9 million during the year ended December 31, 2009 f
ended December 31, 2008.

Instruments and accessories revenue increased to $389.4 million for the year ended Dec
with $293.0 million for the year ended December 31, 2008. The increase in revenue was
performed. Procedure growth occurred in all of our targeted procedures with dVH and d
growth. Utilization per installed system for the year ended December 31, 2009 also incre
ended December 31, 2008. Instrument and accessory list pricing remained unchanged fr

Instrument and accessory revenue per procedure declined approximately 12% during 20
initial stocking orders. The amount of revenue related to stocking orders is less impactfu
grows. In addition, we believe our customers are becoming more efficient in their use of
procedure volumes increase. We expect these factors to continue to cause a decrease in
revenue per procedure in the future.

Systems revenue increased to $490.5 million during the year ended December 31, 2009,
the year ended December 31, 2008 primarily due to more 2009 system upgrade revenue
systems sold. System upgrade revenue for the year ended December 31, 2009 increased
million for the year ended December 31, 2008, driven by the impact of 2009 *da Vinci Si*
$1.39 million was higher than the 2008 ASP of $1.34 million, primarily associated with
systems. We sold 338 *da Vinci* Surgical Systems during 2009, compared with 335 syste
systems sold during 2009 were *da Vinci Si* Systems.

Service Revenue

Service revenue, comprised primarily of system service and customer training, increased
ended December 31, 2010 from $172.3 million for the year ended December 31, 2009.
contracts at the time systems are sold. These service contracts have been generally renev
Higher service revenue for 2010 was driven by a larger base of *da Vinci* Surgical Systen

Service revenue increased to $172.3 million for the year ended December 31, 2009, up
ended December 31, 2008. Higher service revenue for 2009 was driven by a larger base
higher priced *da Vinci Si* service contract billings. The average service revenue per syste
during the year ended December 31, 2009 compared with $139,000 during the year ende
primarily due to the slightly higher *da Vinci Si* contract rates.

Gross Profit

Product gross profit during the year ended December 31, 2010 increased 39% to $891.8
compared to $642.3 million, or 73.0% of product revenue, during the year ended Decem
gross profit was driven by higher 2010 product revenue, as described above. The higher
driven by higher 2010 system ASPs, system and instrument material cost reductions, lov
obsolete inventory, and leveraging manufacturing overhead across higher revenue. Prod
December 31, 2010 and 2009 reflected stock-based compensation expense of $9.6 millio

Product gross profit during the year ended December 31, 2009 was $642.3 million, or 7
$548.3 million, or 73.3% of product revenue, during the year ended December 31, 2008
was driven by the higher 2009 product revenue, as described above. The slightly lower
was driven by lower margins associated with the launch of *da Vinci Si*. Product gross pr
2009 and 2008 reflected stock-based compensation expense of $7.7 million and $6.3 mi

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Service gross profit during the year ended December 31, 2010 increased to $138.2 millio
compared to $108.8 million, or 63.1% of service revenue during the year ended Decemb
gross profit was driven by a larger installed base. The lower 2010 gross service profit pe
higher 2010 field upgrade costs. Service gross profit during the years ended December 3
stock-based compensation expense of $8.4 million and $6.6 million, respectively.

Service gross profit during the year ended December 31, 2009 was $108.8 million, or 63
$72.5 million, or 57.3% of service revenue during the year ended December 31, 2008. T
was driven by a larger installed base. The higher 2009 gross service profit percentage wa
across a larger base of installed systems and lower service parts consumption and repair
quality and productivity gains. Service gross profit during the years ended December 31
compensation expense of $6.6 million and $5.1 million, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include costs for sales, marketing and admi
marketing activities, tradeshow expenses, legal expenses, regulatory fees and general co

Selling, general and administrative expenses for the year ended December 31, 2010 incr
compared to $278.6 million for the year ended December 31, 2009. The increases were
support our expanding business, particularly in the expansion of our clinical sales force,
at December 31, 2009 to 467 at December 31, 2010, higher commissions related to high
stock-based compensation. Stock-based compensation expense charged to sales, general
the years ended December 31, 2010 and 2009 were $77.0 million and $61.3 million, resp

Selling, general and administrative expenses for the year ended December 31, 2009 incr
compared to $230.6 million for the year ended December 31, 2008. The increase is due
our expanding business, particularly in U.S. field sales, higher commissions and other va
revenue levels, and increased stock-based compensation. Stock-based compensation exp
administrative expenses during the years ended December 31, 2009 and 2008 were $61.
respectively.

Research and Development Expenses

Research and development costs are expensed as incurred. Research and development e
the design, development, testing and significant enhancement of our products. These enh
improvements to our products.

Research and development expenses during the year ended December 31, 2010 increase
$95.1 million during the year ended December 31, 2009. The increase is due to the grow
organization, and higher product prototype expenses. Amortization expense related to pu
the years ended December 31, 2010 and 2009 was $14.4 million. Stock-based compensa
development expense during the years ended December 31, 2010 and 2009 were $22.6 m
respectively. We expect to continue to make substantial investments in research and dev
and development expenses, including the co-development arrangement with industry pa
future.

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Research and development expenses during the year ended December 31, 2009 increase
$79.4 million during the year ended December 31, 2008. The increase is due to the grow
organization, higher product prototype expenses, higher amortization expenses of purch
stock-based compensation expense. Amortization expenses related to purchased intellec
December 31, 2009 was $14.4 million, compared to $9.1 million during the year ended
compensation expense charged to research and development expense during the years en
were $21.4 million and $17.1 million, respectively.

Interest and Other Income, Net

Interest and other income, net, was $17.1 million during the year ended December 31, 2
the year ended December 31, 2009. Lower interest and other income, net for the year en
by lower interest rates earned on cash and investment balances in 2010, partially offset b
gains and losses.

Interest and other income, net, was $18.7 million during the year ended December 31, 2
the year ended December 31, 2008. The decline of $5.7 million during the year ended D
to lower interest rates earned on cash and investment balances in 2009.

Income Tax Expense

Our income tax expense was $190.5 million, $163.5 million, and $130.9 million during
2009, and 2008, respectively. The effective tax rate for 2010 was approximately 33.3%,
statutory rate of 35% due primarily to state income taxes net of federal benefit and non-
offset by 2010 research and development (R&D) credit, and by the effect of income e
subsidiaries being taxed at rates lower than the federal statutory rate. We intend these fo
reinvested outside the United States. The effective tax rate for 2009 was approximately
federal statutory rate of 35% due primarily to state income taxes net of federal benefit ar
compensation, partially offset by R&D credit and domestic production deductions gener
for 2008 was approximately 39.0%, which differed from the U.S. federal statutory rate d
taxes net of federal benefit and non-deductible stock option compensation, partially offs
production deductions generated in 2008. The lower effective tax rate in 2010 as compa
to an increase in foreign earnings on which U.S. income taxes have not been provided as
indefinitely reinvested outside the U.S.

In December 2010, a retroactive two-year extension of federal R&D credit through the e
The federal R&D credit has previously expired at the end of year 2009. As a result of th
recorded a federal R&D credit benefit of $4.6 million for the full year 2010 discretely in

A California tax law change enacted in February 2009 allows an elective single sales fac
taxable years beginning on or after January 1, 2011. We expect to benefit from the Calif
apportioning income for years 2011 and beyond. As a result of our anticipated election
accordance with ASC 740, Income Taxes, we have re-measured our deferred tax asse
account the reversal pattern and the expected California tax rate under the elective singl

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Liquidity And Capital Resources

Sources and Uses of Cash

Cash generation is one of the fundamental strengths of our business model and provides flexibility in meeting our operating, investing and financing needs. Our principal source operations and the exercise of stock options. Cash and cash equivalents plus short and lo $901.9 million at December 31, 2008, to $1,172.0 million at December 31, 2009, to $1,6

See Item 7A. Quantitative and Qualitative Disclosures About Market Risk for discussion market risk on our investment portfolio.

Consolidated Cash Flow Data

	Y 2010
Net cash provided by (used in)	
Operating activities	$ 528.0
Investing activities	(476.5)
Financing activities	7.7
Effect of exchange rates on cash and cash equivalents	(0.8)
Net increase in cash and cash equivalents	$ 58.4

Operating Activities

During the year ended December 31, 2010, cash flow from operations of $528.0 million million for two primary reasons:

1) Our net income included substantial non-cash charges in the form of stock-bas intangible assets, taxes and depreciation. These non-cash charges totaled $129 December 31, 2010.

2) Cash provided by working capital during the year ended December 31, 2010 v Working capital is comprised primarily of accounts receivable, inventory, deferred rever increased by $29.2 million or 51% in 2010. The growth in inventory reflects increased r supply of key components as December 31st quantities were below optimal levels and in introductions. Deferred revenue, which includes deferred service contract revenue that is contract period, increased $26.5 million or 26% in 2010 related to the increase in the nu service contracts exist. Other liabilities including accounts payable, accrued compensati accrued liabilities increased $60.1 million or 35% in 2010, primarily due to timing of ve compensation during 2010.

During the year ended December 31, 2009, cash flow from operations of $385.1 million million for two primary reasons:

1) Our net income included substantial non-cash charges in the form of stock-bas
intangible assets, taxes and depreciation. These non-cash charges totaled $114
December 31, 2009.

2) Cash provided by working capital and other assets during the year ended Dece
$38.0 million.

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Working capital is comprised primarily of accounts receivable, deferred revenue and oth
increased $35.3 million or 21% in 2009, primarily reflecting increased revenue. Deferre
service contract revenue that is being amortized over the service contract period, increas
which is primarily related to the increase in the number of installed systems for which se
including accounts payable, accrued compensation and employee benefits, and accrued
41% in 2009, reflecting changes in the volume of our business and timing of vendor pay
tax benefits.

During the year ended December 31, 2008, cash flow from operations of $278.2 million
million for two primary reasons:

1) Our net income included substantial non-cash charges in the form of stock-bas
intangible assets, taxes and depreciation. These non-cash charges totaled $83.
December 31, 2008.

2) We experienced rapid growth in our business with revenues increasing 46% d
2008. Our net investment in working capital and other operating assets totaled

Working capital is comprised primarily of accounts receivable, inventory, deferred rever
Accounts receivable increased $39.7 million or 30% in 2008, primarily reflecting increa
$31.1 million or 96% in 2008 primarily due to lower than expected system revenue in th
Deferred revenue, which includes deferred service contract revenue that is being amortiz
increased $24.6 million or 45% in 2008, which is primarily related to the increase in the
which service contracts exist. Other liabilities including accounts payable, accrued comp
accrued liabilities increased $32.4 million or 34% in 2008, reflecting changes in the volu
payments and increase in unrecognized tax benefits.

Investing Activities

Net cash used in investing activities during the years ended December 31, 2010, 2009, a
purchases of investments (net of proceeds from sales and maturities of investments) of $
$198.5 million, respectively, and purchases of property and equipment and licensing of
$53.4 million and $106.0 million, respectively. We invest predominantly in high quality
investment portfolio may at any time contain investments in U.S Treasury and U.S. gov
and/or tax exempt municipal notes (some of which may have an auction reset feature), c
paper, cash deposits and money market funds. We are not a capital-intensive business.

Financing Activities

Net cash provided by financing activities in 2010 consisted primarily of proceeds from s
stock purchases of $141.1 million and excess tax benefits from stock-based compensatio
million for the repurchase of approximately 0.7 million shares of our common stock thro
cash used in financing activities in 2009 consisted primarily of $150.0 million used for t
our common stock through an accelerated repurchase program, offset by proceeds from
stock purchases of $58.7 million, and excess tax benefits from stock-based compensatio
by financing activities in 2008 consisted primarily of proceeds from stock option exercis
$44.7 million and excess tax benefits from stock-based compensation of $53.3 million.

Our cash requirements depend on numerous factors, including market acceptance of our
developing and supporting our products and other factors. We expect to continue to

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devote substantial resources to expand procedure adoption and acceptance of our produc
substantial investments in our sales force, product development activities, facilities and
business model, we anticipate that we will continue to be able to fund future growth thro
We believe that our current cash, cash equivalents and investment balances, together wi
of our products, will be sufficient to meet our liquidity requirements for the foreseeable

Contractual Obligations and Commercial Commitments

The following table summarizes our contractual obligations as of December 31, 2010 (i

	Total	Less than 1 year	Payments 1 to
Operating leases	$ 4.8	$ 2.1	$
Purchase commitments and obligations	212.2	210.8	
Total contractual obligations	$ 217.0	$ 212.9	$

Operating leases. We lease office spaces in the United States, Switzerland, Mexico, Japa
automobiles for certain sales and field service employees. Operating lease amounts inclu
under all our non-cancelable operating leases with an initial term in excess of one year.

Purchase commitments and obligations. These amounts include an estimate of all open p
obligations in the ordinary course of business, including commitments with contract ma
we have not received the goods or services, acquisition and licensing of intellectual prop
land and buildings in Sunnyvale, California. A majority of these purchase obligations ar
purchase orders are considered enforceable and legally binding, the terms generally allo
and adjust our requirements based on our business needs prior to the delivery of goods c
to the above, we have committed to make potential future milestone payments to third p
collaboration and development arrangements. Payments under these agreements general
achievement of certain developmental, regulatory and/or commercial milestones. Becau
milestones is neither probable nor reasonably estimable, such contingencies have not be
Balance Sheets and have not been included in the table above.

Other commitments. We are unable to make a reasonably reliable estimate as to when pa
unrecognized tax benefits. Therefore, our liability for unrecognized tax benefits is not in

Off-Balance-Sheet Arrangements

As of December 31, 2010, we did not have any significant off-balance-sheet arrangemen
SEC Regulation S-K promulgated under the Exchange Act.

Critical Accounting Estimates

Our Consolidated Financial Statements are prepared in conformity with generally accep
United States, or U.S. GAAP, which requires us to make judgments, estimates and assu
Significant Accounting Policies, in Notes to the Consolidated Financial Statements, wh
Statements and Supplementary Data, describes our significant accounting policies and m
Consolidated Financial Statements. The methods, estimates and judgments that we use i
require us to make difficult and subjective judgments, often as a result of the need to ma
are inherently uncertain. Our most critical accounting estimates include:

the valuation and recognition of investments, which impacts our investment p
value, and interest and other income, net, when we record impairments;

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- the valuation of revenue and allowance for sales returns and doubtful accounts
- the estimation of transactions to hedge, which impacts revenue and other expe
- the valuation of inventory, which impacts gross margins;
- the assessment of recoverability of intangibles and the estimated useful lives, gross margin or operating expenses when we record asset impairments or acce
- the valuation and recognition of share-based compensation, which impacts gro and
- the recognition and measurement of current and deferred income taxes (includ positions), which impact our provision for taxes.

Investments in Debt Securities

Fair Value

Our investment portfolio may at any time contain investments in U.S. Treasury and U.S taxable and/or tax exempt municipal notes (some of which may have an auction reset fe commercial paper, cash deposits and money market funds. In the current market environ of the debt securities can be difficult and subjective. U.S. GAAP establishes three levels measure fair value (see Note 4. Fair Value Measurements in the Notes to the Consoli 10-K). Each level of input has different levels of subjectivity and difficulty involved in d Level 1 and 2 instruments generally do not require significant management judgment an 3 instruments include unobservable inputs that are supported by little or no market activ value of the assets or liabilities. The determination of fair value for Level 3 instruments judgment and subjectivity.

All of the securities classified as Level 3 instruments are municipal bonds with an auctio or ARS) whose underlying assets are student loans which are substantially backed by securities represent approximately 1% of our total investment portfolio as of December securities have continued to fail since February 2008, these investments are not currentl readily determinable market value. Accordingly, the estimated fair value of the ARS no June 30, 2010, pursuant to the terms of the UBS rights offering, we exercised our right t offering to UBS at the par value of $34.4 million. As a result on July 1, 2010, we receiv UBS. The remainder of the ARS investment portfolio (approximately $22.6 million, par available-for-sales securities. Accordingly, the change in associated market value has be comprehensive income during the year ended December 31, 2010. If market conditions required to record additional unrealized losses in other comprehensive income or impair liquidate these investments unless the issuer calls the security, a successful auction occu auction process, or the security matures.

Other-than-temporary impairment

After determining the fair value of our available-for-sales debt instruments, gains or loss other comprehensive income, until either the security is sold or we determine that the de other-than-temporary. The primary differentiating factors considered by us to classify its other-than-temporary impairments are our intent and ability to retain our investment in t sufficient to allow for any anticipated recovery in market value, the length of the time an

value of the investment has been less than cost, the financial condition and near-term pr
current market conditions, these judgments could prove to be wrong, and companies wit
solid financial conditions may not be able to fulfill their obligations.

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No impairment charges were recorded during the years ended December 31, 2010, 2009 and 2009, our cumulative unrealized gains related to our investments classified as availa million and $0.9 million, respectively.

Allowance for sales returns and doubtful accounts. We record estimated reductions in products by customers and other allowances. As a result, management must make estima and other allowances related to current period product revenue. In making such estimate returns, current economic trends and changes in customer demand and acceptance of our make different judgments or utilize different estimates, material differences in the amou

Similarly, management makes estimates of the uncollectibility of accounts receivables, c receivable and historical bad debts, customer concentrations, customer credit-worthiness changes in customer payment terms, when evaluating the adequacy of the allowance for are undertaken for all major sale transactions before shipment is authorized. On a quarte the accounts receivable aging report and provide allowance in an amount we deem adeq management were to make different judgments or utilize different estimates, material di reported operating expenses could result.

Inventory valuation. Inventory is stated at the lower of cost or market, with cost determ carrying value of inventory is reduced for estimated obsolescence by the difference betw value based upon assumptions about future demand. We evaluate the inventory carrying obsolete inventory exposures by analyzing historical and anticipated demand. If actual f are less favorable than those projected by management, additional inventory write-down which could have a material adverse effect on our results of operations.

Intangible Assets. Our intangible assets include identifiable intangibles and goodwill. Id developed technology, patents, and licenses. All of our identifiable intangibles have fini

Goodwill and intangible assets with indefinite lives are subject to an annual impairment impairment indicators arise) by applying a fair-value based test. There have been no imp by U.S. GAAP.

Identifiable intangible assets with finite lives are subject to impairment testing and are re or circumstances indicate that such assets may not be recoverable at their carrying value carrying value of these identifiable intangibles based on estimated undiscounted cash flo If the cash flow estimates or the significant operating assumptions upon which they are b required to record additional impairment charges. When events or changes in circumstan of long-lived assets may not be recoverable, we recognize such impairment in the event exceeds the future undiscounted cash flows attributable to such assets.

We have intangible assets and goodwill on our balance sheet. The valuation and classifi assignment of useful amortization lives involves judgments and the use of estimates. Th goodwill for impairment under established accounting guidelines is required on a recurr conditions could potentially require future adjustments to asset valuations. When we det are shorter than we had originally estimated, we accelerate the rate of

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amortization over the assets new, shorter useful lives. We conducted the required intan
the fourth quarter of 2010. No impairment charge or material accelerated amortization w
December 31, 2010, 2009 and 2008. A considerable amount of judgment is required in a
financial forecasts. Should conditions be different from management s current estimate
assets may be required, which would adversely affect our operating results.

Revenue recognition. We frequently enter into revenue arrangements that contain multi
system and services. Judgments as to the allocation of the proceeds received from an arr
the arrangement, the determination of whether any undelivered elements are essential to
elements and the appropriate timing of revenue recognition are critical in respect to thes
with U.S. GAAP. Changes to the elements in an arrangement and the ability to establish
fair value for those elements could affect the timing of revenue recognition. Revenue rec
of shipment and is subject to customer acceptance. If shipments are not made on schedu
accepted by the customer in a timely manner, our reported revenues may differ materiall

In September 2009, the FASB amended the accounting standards related to revenue reco
multiple deliverables and arrangements that include software elements (new accountin
principles permit prospective or retrospective adoption, and we elected prospective adop
quarter of 2010.

These new accounting principles do not generally change the units of accounting for our
continue to have system and service as the different elements in our multiple element arr
arrangements entered into on or after January 1, 2010, we allocate revenue to all deliver
prices. Because we have neither vendor-specific objective evidence (VSOE) nor third-pa
for our systems, the allocation of revenue has been based on estimated selling prices (ES
determine the price at which we would transact a sale if the product was sold on a stand-
our systems by considering multiple factors including, but not limited to, features and fu
geographies, type of customer and market conditions. We expect to review ESP regularl
the establishment and updates of these estimates. We do not expect material changes to
2010 in future periods. However, since we apply significant judgment in arriving at the
significantly affect the allocation of the total consideration to the different elements of a

Hedge Accounting for Derivatives. We utilize foreign currency forward exchange contr
foreign currency sales transactions. When specific criteria required by relevant accounti
in fair values of hedge contracts relating to anticipated transactions are recorded in other
than net income until the underlying hedged transaction affects net income. By their ver
transactions may fluctuate over time and may ultimately vary from actual transactions. W
transactions are no longer probable within a certain time frame, we are required to reclas
fair values of the related hedge contracts from other comprehensive income to net incom

Accounting for stock options. We account for stock-based compensation in accordance
provisions of U.S. GAAP. We use the Black-Scholes-Merton option-pricing model whic
subjective assumptions. These assumptions include estimating the length of time employ
options before exercising them, the estimated volatility of our common stock price over
options that will ultimately not complete their vesting requirements. The assumptions fo
term are the two assumptions that significantly affect the grant date fair value. Changes
not significantly impact the calculation of fair value, and determining this input is not hi

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We use implied volatility based on freely traded options in the open market, as we belie
of market conditions and a better indicator of expected volatility than historical volatilit
of implied volatility, we considered the following:

the volume of market activity of freely traded options, and determined that the

the ability to reasonably match the input variables of freely traded options to t
of the grant and the exercise price, and determined that the input assumptions

the term of freely traded options used to derive implied volatility, which is ge
determined that the length of term was sufficient.

The expected term represents the weighted-average period that our stock options are exp
term is based on the observed and expected time to post-vesting exercise of options by e
patterns of previously granted options in relation to stock price movements to derive an
forecast expected exercise patterns.

U.S. GAAP requires us to develop an estimate of the number of share-based awards that
turnover. Adjustments in the estimated forfeiture rates can have a significant effect on o
compensation, as we recognize the cumulative effect of the rate adjustments for all expe
estimated forfeiture rates were adjusted. We estimate and adjust forfeiture rates based on
activity and expected future employee turnover. If a revised forfeiture rate is higher than
we may make an adjustment that will result in a decrease to the expense recognized in th
period when the rate was changed. Adjustments in the estimated forfeiture rates could al
expense that we recognize in future periods.

Changes in the subjective assumptions can materially affect the estimate of fair value of
consequently, the related amount recognized on the Consolidated Statements of Income.

Accounting for income taxes. Significant management judgment is required in determin
deferred tax assets and liabilities and any valuation allowance recorded against net defer
GAAP. These estimates and judgments occur in the calculation of tax credits, benefits, a
of certain tax assets and liabilities, which arise from differences in the timing of recogni
and financial statement purposes, as well as the interest and penalties related to uncertain
these estimates may result in an increase or decrease to our tax provision in the current c

We must assess the likelihood that we will be able to recover our deferred tax assets. If r
we must increase our provision for taxes by recording a valuation allowance to reduce o
that is more likely than not to be recoverable. We believe that we will ultimately recover
assets recorded on our Consolidated Balance Sheets as of December 31, 2010. However
ability to recover our deferred tax assets, our tax provision would increase in the period

The calculation of our tax liabilities involves dealing with uncertainties in the applicatio
recognize liabilities for uncertain tax positions based on a two-step process. The first ste
recognition by determining if the weight of available evidence indicates that it is more li
sustained on audit, including resolution of related appeals or litigation processes, if any.
will more likely than not be sustained on audit, then the second step requires us to estim
largest amount that is more than 50% likely to be realized upon ultimate settlement. It is
estimate such amounts, as we have to determine the probability of various possible outc

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tax positions on a quarterly basis. This evaluation is based on factors including, but not l
circumstances, changes in tax law, effective settlement of audit issues, and new audit ac
measurement would result in the recognition of a tax benefit or an additional charge to t

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 under *Summary of Significant Accounting Policies* of the Notes to Consol
Financial Statements and Supplementary Data for a full description of recent accounting
respective expected dates of adoption and effects on Consolidated Balance Sheets and C

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MA

Interest Rate and Market Risk

The primary objective of our investment activities is to preserve principal while at the sa
receive from our investments without significantly increasing risk. To achieve this objec
cash equivalents and short-term and long-term investments in a variety of high quality s
and government agencies, corporate debt, money market funds, commercial paper and ta
(some of which may have an auction reset feature). The securities are classified as availa
recorded on the balance sheet at fair value with unrealized gains or losses reported as a s
other comprehensive income (loss). The weighted-average maturity of our investments e
December 31, 2010 was approximately 1.1 years. If interest rates rise, the market value
which could result in a realized loss if we are forced to sell an investment before its sche
increase in interest rate by 25 basis points would have resulted in a decrease in the fair v
approximately $3.8 million as of December 31, 2010. We do not utilize derivative finan
interest rate risks.

The recent financial crisis affecting the banking system and financial markets has result
markets, a reduced level of liquidity in many financial markets, and extreme volatility in
The credit ratings of the securities we have invested in could further deteriorate and may
carrying value of these investments.

At December 31, 2010, we held approximately $18.6 million of municipal bonds with a
securities or ARS) whose underlying assets are student loans which are substantially
ARS securities represent approximately 1% of our total investment portfolio. Since Febr
and therefore continue to be illiquid and we will not be able to access these funds until a
successful or a buyer is found outside of the auction process. As a result, our ability to li
recover the carrying value of our investment in the near term may be limited or not exist
successfully close future auctions and their credit ratings deteriorate, we may in the futu
impairment charge on these investments.

Foreign Exchange Risk

The majority of our revenue, expense, and capital purchasing activities are transacted in
portion of our operations consists of sales activities outside of the United States, we hav
non-U.S.dollar revenues, operating expenses, accounts receivable, accounts payable and
exposure is with the Euro.

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For the year ended December 31, 2010, sales denominated in foreign currencies were ap
The objective of our hedging program to mitigate the impact of changes in currency exc
foreign currency denominated sales. For the year ended December 31, 2010, our revenu
approximately $2.5 million if the U.S. dollar exchange rate would have strengthened by
recognized non-functional currency balance sheet exposures with foreign exchange forw
our earnings and cash flows will be adversely affected by changes in exchange rates. A
exchange rate against all currencies with which we have exposure, after taking into acco
December 31, 2010 would have resulted in a $0.6 million decrease in the carrying amou
and losses in the future may differ materially from the hypothetical gains and losses disc
timing and amount of foreign currency exchange rate movements and our actual exposu
counterparties to foreign exchange forward contracts expose us to credit-related losses i
To mitigate that risk, we only contract with counterparties that meet certain minimum re
risk assessment process. We monitor ratings and potential downgrades on at least a quar
assessment of counterparty risk, we will adjust its exposure to various counterparties.

Our international operations are subject to risks typical of international operations, inclu
economic conditions, changes in political climate, differing tax structures, other regulati
exchange rate volatility.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial Statements

Index To Consolidated Financial Statements

All other schedules have been omitted because they are not applicable or the required in Consolidated Financial Statements or the Notes thereto.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCO

The Board of Directors and Stockholders of Intuitive Surgical, Inc.

We have audited the accompanying consolidated balance sheets of Intuitive Surgical, In and the related consolidated statements of income, stockholders equity, and cash flows period ended December 31, 2010. Our audits also included the financial statement sched These financial statements and schedule are the responsibility of the Company s manag an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Acco States). Those standards require that we plan and perform the audit to obtain reasonable statements are free of material misstatement. An audit includes examining, on a test basi and disclosures in the financial statements. An audit also includes assessing the accounti estimates made by management, as well as evaluating the overall financial statement pre provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material re position of Intuitive Surgical, Inc. at December 31, 2010 and 2009, and the consolidated flows for each of the three years in the period ended December 31, 2010, in conformity accounting principles. Also, in our opinion, the related financial statement schedule, wh financial statements taken as a whole, presents fairly in all material respects, the informa

We also have audited, in accordance with the standards of the Public Company Account Intuitive Surgical, Inc. s internal control over financial reporting as of December 31, 20 *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organi and our report dated February 1, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Palo Alto, California

February 1, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCO

The Board of Directors and Stockholders of Intuitive Surgical, Inc.

We have audited Intuitive Surgical, Inc. s internal control over financial reporting as of
established in *Internal Control Integrated Framework* issued by the Committee of Spor
Commission (the COSO criteria). Intuitive Surgical, Inc. s management is responsible f
control over financial reporting and for its assessment of the effectiveness of internal co
in the accompanying Management s Report on Internal Control over Financial Reportin
opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accou
States). Those standards require that we plan and perform the audit to obtain reasonable
internal control over financial reporting was maintained in all material respects. Our aud
understanding of internal control over financial reporting, assessing the risk that a mater
evaluating the design and operating effectiveness of internal control based on the assess
procedures as we considered necessary in the circumstances. We believe that our audit p
opinion.

A company s internal control over financial reporting is a process designed to provide r
reliability of financial reporting and the preparation of financial statements for external p
accepted accounting principles. A company s internal control over financial reporting in
that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fa
dispositions of the assets of the company; (2) provide reasonable assurance that transact
permit preparation of financial statements in accordance with generally accepted accoun
expenditures of the company are being made only in accordance with authorizations of m
company; and (3) provide reasonable assurance regarding prevention or timely detection
disposition of the company s assets that could have a material effect on the financial sta

Because of its inherent limitations, internal control over financial reporting may not prev
projections of any evaluation of effectiveness to future periods are subject to the risk tha
because of changes in conditions, or that the degree of compliance with the policies or p

In our opinion, Intuitive Surgical, Inc. maintained, in all material respects, effective inte
as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Account
the consolidated balance sheets of Intuitive Surgical, Inc. as of December 31, 2010 and 2
statements of income, stockholders equity, and cash flows for each of the three years in
and the financial statement schedule listed in the index at Item 15(a) and our report date
unqualified opinion thereon.

/s/ Ernst & Young LLP

Palo Alto, California

February 1, 2011

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INTUITIVE SURGICAL, INC.

CONSOLIDATED BALANCE SHEETS

(IN MILLIONS, EXCEPT PAR VALUE AMOUN

ASSETS	
Current assets:	
Cash and cash equivalents	
Short-term investments	
Accounts receivable, net of allowances of $4.8 and $4.3 at December 31, 2010 and 2009 respectively	
Inventory	
Prepaids and other assets	
Deferred tax assets	
Total current assets	
Property, plant and equipment, net	
Long-term investments	
Long-term deferred tax asset	
Intangible assets, net	
Goodwill	
Total assets	
LIABILITIES AND STOCKHOLDERS EQUITY	
Current liabilities:	
Accounts payable	
Accrued compensation and employee benefits	
Deferred revenue	
Other accrued liabilities	
Total currrent liabilities	
Other long-term liabilities	
Total liabilities	
Commitments and contingencies (Note 7)	
Stockholders equity:	
Preferred stock, 2.5 shares authorized, $0.001 par value, issuable in series; no shares iss outstanding as of December 31, 2010 and 2009, respectively	
Common stock, 100.0 shares authorized, $0.001 par value, 38.9 and 38.5 shares issued a outstanding as of December 31, 2010 and 2009, respectively	
Additional paid-in capital	
Retained earnings	
Accumulated other comprehensive income	
Total stockholders equity	
Total liabilities and stockholders equity	

See accompanying Notes to Consolidated Financial State

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INTUITIVE SURGICAL, INC.

CONSOLIDATED STATEMENTS OF INCOM

(IN MILLIONS, EXCEPT PER SHARE AMOUN

Revenue:
Product
Service
Total revenue
Cost of revenue:
Product
Service
Total cost of revenue
Gross profit
Operating expenses:
Selling, general and administrative
Research and development
Total operating expenses
Income from operations
Interest and other income, net
Income before income taxes
Income tax expense
Net income
Net income per common share:
Basic
Diluted
Shares used in computing basic and diluted net income per common share:
Basic
Diluted

See accompanying Notes to Consolidated Financial State

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INTUITIVE SURGICAL, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS

(IN MILLIONS)

	Common Stock	Stock Amount	Additional Paid-In Capital	Re Ea (Accu D
Balances at December 31, 2007	38.5	$	$ 694.6	$
Issuance of common stock upon exercise of options and under stock purchase plan	0.7		44.7	
Income tax benefit from stock option exercises			55.9	
Stock-based compensation expense related to employee stock plans			76.6	
Components of comprehensive income, net of tax:				
Net income				
Other comprehensive income (loss)				
Total comprehensive income				
Balances at December 31, 2008	39.2		871.8	
Issuance of common stock upon exercise of options and under stock purchase plan	0.7		63.2	
Income tax benefit from stock option exercises			23.6	
Stock-based compensation expense related to employee stock plans			97.0	
Repurchase and retirement of common stock	(1.4)		(31.3)	
Components of comprehensive income, net of tax:				
Net income				
Other comprehensive income (loss)				
Total comprehensive income				
Balances at December 31, 2009	38.5		1,024.3	
Issuance of common stock upon exercise of options and under stock purchase plan	1.1		141.1	
Income tax benefit from stock option exercises			57.9	
Stock-based compensation expense related to employee stock plans			117.6	
Repurchase and retirement of common stock	(0.7)		(24.0)	
Components of comprehensive income, net of tax:				
Net income				
Other comprehensive income (loss)				
Total comprehensive income				

Balances at December 31, 2010	38.9	$	$ 1,316.9	$

See accompanying Notes to Consolidated Financial State

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INTUITIVE SURGICAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLO

(IN MILLIONS)

Operating activities:	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	
Amortization of intangible assets	
Deferred income taxes	
Share-based compensation expense of stock options and employee stock purchases	
Excess tax benefit from stock-based compensation	
Income tax benefits related to stock option exercises	
Changes in operating assets and liabilities:	
Accounts receivable	
Inventory	
Prepaids and other assets	
Accounts payable	
Accrued compensation and employee benefits	
Deferred revenue	
Other accrued liabilities	
Net cash provided by operating activities	
Investing activities:	
Purchase of investments	(
Proceeds from sales and maturities of investments	
Purchase of property and equipment and acquisition of intellectual property	
Net cash used in investing activities	
Financing activities:	
Proceeds from issuance of common stock, net	
Excess tax benefit from stock-based compensation	
Repurchase and retirement of common stock	
Net cash (used in) provided by financing activities	
Effect of exchange rate changes on cash and cash equivalents	
Net increase in cash and cash equivalents	
Cash and cash equivalents, beginning of year	
Cash and cash equivalents, end of year	$
Supplemental cash flow information:	
Income taxes paid	$

See accompanying Notes to Consolidated Financial State

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INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STAT

NOTE 1. DESCRIPTION OF THE BUSINESS

Intuitive Surgical, Inc. designs, manufactures, and markets the *da Vinci* Surgical System system that the Company believes represents a new generation of surgery. The *da Vinci* surgeon s console or consoles, a patient-side cart, a high performance vision system and *da Vinci* Surgical System seamlessly translates the surgeon s natural hand movements into corresponding micro-movements of instruments positioned inside the patient throug By placing computer-enhanced technology between the surgeon and the patient, the *da* value surgical procedures to patients through increased effectiveness and reduced invasi

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Consolidated Financial Statements have been prepared in accordance with U.S. gen (U.S. GAAP) and include the accounts of the Company and its wholly-owned subsidiari balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires manage assumptions that affect the amounts reported in the Consolidated Financial Statements a Consolidated Financial Statements. The accounting estimates that require management subjective judgments include the valuation and recognition of investments, the valuation sales returns and doubtful accounts; the estimation of hedging transactions; the valuation recoverability of intangible assets and their estimated useful lives, the valuation and reco and the recognition and measurement of current and deferred income tax assets and liabi materially from these estimates.

Concentrations of Credit Risk and Other Risks and Uncertainties

The carrying amounts for financial instruments consisting of cash and cash equivalents, and accrued liabilities approximate fair value due to their short maturities. Marketable se are stated at their estimated fair values, based on quoted market prices for the same or si to the agreements relating to the Company s investment securities and derivative instru corporations, financial institutions, municipalities and government agencies of high cred

The Company s accounts receivable are derived from net revenue to customers and dist and other countries. The Company performs credit evaluations of its customers financi collateral from its customers. The Company provides reserves for potential credit losses losses to date. As of December 31, 2010 and 2009, 76% and 75%, respectively, of accou customers. No single customer represented more than 10% of net accounts receivable as

During the years ended December 31, 2010, 2009 and 2008, domestic revenue accounte respectively, of total revenue, while international revenue accounted for 20%, 21% and for each of the years. No single customer represented more than 10% of total revenue fo 2009 and 2008.

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Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity from dat
cash equivalents.

Investments

Available-for-sale investments. The Company s investments consist of U.S. treasury an
taxable and tax exempt municipal notes, some of which may have an auction reset featu
corporate notes and bonds, commercial paper, cash deposits and money market funds. T
investments as available-for-sale and therefore, such investments are reported at fair val
recorded in accumulated other comprehensive income. For securities sold prior to matur
on the specific identification method. Realized gains and losses on the sale of investmen
income, net. Investments with original maturities greater than approximately three mont
one year are classified as short-term investments. Investments with remaining maturities
as long-term investments.

Other-than-temporary impairment. All of the Company s investments are subject to a p
Company recognizes an impairment charge when a decline in the fair value of its invest
to be other-than-temporary. Factors considered in determining whether a loss is tempora
extent to which the investments fair value has been less than the cost basis, the financial
the investee, extent of the loss related to credit of the issuer, the expected cash flows fro
to sell the security and whether or not the Company will be required to sell the security b
cost. During the years ended December 31, 2010, 2009 and 2008, the Company did not r
impairment charges on its available-for-sale securities, because the Company does not in
more likely than not that the Company will be required to sell these securities before the
basis.

Allowance for Sales Returns and Doubtful Accounts

The allowance for sales returns is based on the Company s estimates of potential future
related to current period product revenue. The Company analyzes historical returns, curr
customer demand and acceptance of our products.

The allowance for doubtful accounts is based on the Company s assessment of the colle
Company regularly reviews the allowance by considering factors such as historical expe
accounts receivable balances, and current economic conditions that may affect a custom

Inventory

Inventory is stated at the lower of cost or market value on a first-in, first-out basis. Inven
direct labor, direct subcontractor costs, and manufacturing overhead. The Company prov
excess and obsolete inventories determined primarily by future demand forecasts.

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Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation. Prope
depreciated on a straight-line basis over the estimated useful lives of the assets generally

	U
Building	up
Building improvements	up
Leasehold improvements	Lesser of usef
Equipment and furniture	
Computer equipment	
Enterprise-wide software	
Purchased software	Lesser of 3 y

Depreciation expense for years ended December 31, 2010, 2009 and 2008 was $23.7 mi
respectively.

Capitalized Software Costs for Internal Use

Internally developed software primarily includes enterprise-level business software that
specific operational needs. The Company capitalized costs for enhancement of the enter
system and other internal use software of approximately $4.1 million and $4.4 million d
2010 and 2009, respectively. Upon being placed in service, these costs are depreciated o
years.

Goodwill and Intangible Assets

Goodwill, which represents the excess of the purchase price over the fair value of net ta
assets, is not subject to amortization, but is subject to at least an annual assessment for i
based test.

The Company s intangible assets are comprised of purchased intellectual property. The
net of accumulated amortization. Amortization is recorded using the straight-line metho
which range from approximately 3 to 9 years.

Impairment of Long-lived assets

Goodwill and intangible assets with indefinite useful lives are not amortized, but are tes
as circumstances indicate their value may no longer be recoverable. The Company does
indefinite useful lives other than goodwill. Goodwill impairment test is generally perfor
quarter (or earlier if impairment indicators arise). The Company continues to operate in
be the sole reporting unit and therefore, goodwill was tested for impairment at the enter
there has been no impairment of goodwill.

The Company evaluates the recoverability of its long-lived assets, which include amorti
Acquired intangible assets with definite useful lives are amortized over their useful lives
assets for impairment whenever events or changes in circumstances indicate that the car
not be recoverable. The Company recognizes such impairment in the event the net book
future undiscounted cash flows attributable to such assets. No impairment losses were i

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Revenue Recognition

The Company s revenue consists of product revenue resulting from the sales of systems service revenue. The Company recognizes revenue when all four revenue recognition cr evidence of an arrangement exists; delivery has occurred or service has been rendered; t collectibility is reasonably assured. The Company s revenue recognition policy general following points:

System sales. For system sales directly to end customers, revenue is recognize deemed to have occurred upon the receipt by the Company of a form executed delivery and/or installation. For system sales through distributors, revenue is r risk of loss, which is generally at the time of shipment. Distributors do not hav Company s system contracts do not allow rights of return. The Company s s component. Since the *da Vinci* System s software and non-software elements System s essential functionality, they are considered to be one deliverable tha revenue recognition guidance.

Instruments and accessories. Revenue from sales of instruments and accessori been shipped. The Company records an allowance on instruments and accesso returns experience.

Service. Service contract revenue is recognized ratably over the term of the se services performed on a time-and-materials basis is recognized when it is earn

The Company determined that its multiple-element arrangements are generally comprise would qualify as separate units of accounting: system sales, service contracts and instru

In September 2009, the Financial Accounting Standards Board (FASB) amended the recognition for arrangements with multiple deliverables and arrangements that include s principles). The new accounting principles permit prospective or retrospective adoptio adoption at the beginning of the first quarter of 2010.

For multiple-element arrangements (which are generally comprised of system sales and January 1, 2010, revenue was allocated to each element based on the relative fair value o generally determined by vendor specific objective evidence (VSOE) which is based on t is sold separately. The Company s systems sales generally include a first year service o not sell the systems on a stand-alone basis and therefore does not have VSOE for its sys VSOE for services. When the fair value of a delivered element had not been established undelivered elements, prior to January 1, 2010, the Company used the residual method t residual method, the fair value of the undelivered elements was deferred and the remaini was allocated to the delivered elements.

Subsequent to the adoption of the new revenue accounting principles, for multiple-elem after January 1, 2010, revenue is allocated to each element based on their relative selling based first on VSOE, then on third-party evidence of selling price (TPE) when VSOE do selling price (ESP) when VSOE and TPE do not exist.

Because the Company has neither VSOE nor TPE for its systems, the allocation of rever ESPs. The objective of ESP is to determine the price at which the Company would trans stand-alone basis. The Company determines ESP for its systems by considering

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multiple factors including, but not limited to, features and functionality of the system, ge market conditions. The Company regularly reviews ESP and maintains internal controls these estimates.

Had the new accounting guidance been applied to revenue at the beginning of 2009, the December 31, 2009 would have been substantially the same.

Stock-Based Compensation

The Company accounts for stock-based employee compensation plans under the fair val provisions under U.S. GAAP. It requires the recognition of compensation expense, using related to all share-based payments including stock options. Stock-based compensation e based on the fair value of the award, and is recognized as expense over the requisite serv cash flows resulting from the tax benefits due to tax deductions in excess of the compen options (excess tax benefits) to be classified as financing cash flows.

Expected Term: The Company s expected term represents the weighted-average perio expected to be outstanding. The expected term is based on the observed and expected tim by employees. The Company uses historical exercise patterns of previously granted opti movements to derive an employee behavioral pattern used to forecast expected exercise

Expected Volatility: The Company uses market-based implied volatility. Market-based at least one-year traded options on the Company s common stock. The selection of the depends, among other things, on the availability of traded options on the Company s sto sufficient volume of the traded options, the Company used 100% market-based implied implied volatility approach was based upon the availability of traded options on the Com assessment that implied volatility is more representative of future stock price trends than

Risk-Free Interest Rate: The risk-free interest rate is based on the U.S. Treasury yield the expected term of the option.

See Note 9 for a detailed discussion of stock-compensation expense.

Computation of Net Income per Share

Basic net income per share is computed using the weighted-average number of common Diluted net income per share is computed using the weighted-average number of comm common shares outstanding during the period. Dilutive potential common shares primar

U.S. GAAP requires that employee equity share options, non-vested shares and similar e Company be treated as potential common shares outstanding in computing diluted earni outstanding include the dilutive effect of in-the-money options, which is calculated base fiscal period using the treasury stock method. Under the treasury stock method, the amo exercising stock options, the amount of compensation cost for future service that the Co amount of tax benefits that would be recorded in additional-paid-in-capital (APIC) when assumed to be used to repurchase shares.

Shipping and Handling Costs

Costs incurred for shipping and handling are included in cost of revenue at the time the Amounts billed to customers for shipping and handling are reported as revenue.

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Research and Development Expenses

Research and development (or R&D) expenses include amortization of purchased int
co-development R&D licensing arrangements, costs of prototypes, salaries, benefits and
contract and other outside service fees, and facilities and overhead costs.

Foreign Currency and Other Hedging Instruments

For subsidiaries whose local currency is their functional currency, their assets and liabili
exchange rates at the balance sheet date and revenues and expenses are translated using
during the quarter. Gains and losses from foreign currency translation are included in ac
income (loss) within stockholders equity in the Consolidated Balance Sheets. For all n
balances, the re-measurement of such balances to the functional currency will result in e
which is recorded to interest and other income, net in the same accounting period that th

The Company uses derivatives to partially offset its business exposure to foreign currenc
enters into foreign currency forward contracts with one to seven month terms. The Com
forecasted foreign currency exposure associated with revenue. The Company may also e
contracts to offset the foreign currency exchange gains and losses generated by re-measu
liabilities denominated in non-functional currencies. The hedging program is not design
purposes.

The Company s accounting policies for these instruments are based on whether the inst
non-hedge instruments. The Company records all derivatives on the Condensed Consoli
The effective portions of cash flow hedges are recorded in other comprehensive income
recognized in earnings. Derivative instruments designated as cash flow hedges are de-de
probable the forecasted hedged transaction will not occur in the initially identified time
month time period. Deferred gains and losses in OCI associated with such derivative ins
into earnings through interest and other income, net. Any subsequent changes in fair val
are reflected in current earnings.

Derivatives that are not designated as hedging instruments and the ineffective portions o
value through earnings in interest and other income, net.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attribut
financial statement carrying amounts of existing assets and liabilities and their respectiv
liabilities are measured using enacted tax rates expected to apply to taxable income in th
differences are expected to be recovered or settled. The effect on deferred tax assets and
recognized in income in the period that includes the enactment date. Valuation allowanc
reduce deferred tax assets to the amounts that are expected more likely than not to be rea

Segments

The Company operates in one segment. Management uses one measurement of profitabi
business for internal reporting. As of December 31, 2010 and 2009, over 98% of all long
United States. For the years ended December 31, 2010, 2009 and 2008, 80%, 79% and 7
generated in the United States.

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Recent Accounting Pronouncements

Adopted Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board (FASB) amended the recognition for arrangements with multiple deliverables and arrangements that include s principles). The new accounting principles permit prospective or retrospective adoptio adoption at the beginning of the first quarter of 2010. See Revenue Recognition secti accounting.

Effective January 1, 2010, the Company adopted revised guidance intended to improve measurements, issued by FASB. This guidance requires the Company to separate inform and out of Level 1 and Level 2 and the reason for such transfers, and also requires infor issuances, and settlements information of Level 3 financial assets to be included in the r also requires the Company to provide certain disaggregated information on the fair valu disclosure on valuation techniques and inputs used for both recurring and nonrecurring f and Level 3 financial assets. The Company s policy is to recognize transfers into or out event or change in circumstances that caused the transfer.

NOTE 3. CASH, CASH EQUIVALENTS & INVESTMENTS

The following tables summarize the Company s cash, cash equivalents and investments millions):

	Amortized Cost	Gr Unrea Ga
December 31, 2010		
Cash and cash equivalents:		
Cash	$ 20.1	$
Cash equivalents	259.7	
Total cash and cash equivalents	$ 279.8	$
Available-for-sale investments:		
Short-term		
Commercial paper	$ 79.0	$
Municipal notes	111.8	
U.S. corporate debt	174.1	
U.S. treasuries	76.3	
U.S. government agencies	187.4	
Total short-term	$ 628.6	$
Long-term		
Municipal notes	$ 143.4	$
U.S. corporate debt	300.4	
U.S. treasuries	39.9	
U.S. government agencies	196.7	
Non-U.S. government securities	21.2	
Total long-term	$ 701.6	$

Total cash, cash equivalents and available-for-sale investments	$ 1,610.0	$

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	Amortized Cost	Gr Unrea Ga
December 31, 2009		
Cash and cash equivalents:		
Cash	$ 28.6	$
Cash equivalents	192.8	
Total cash and cash equivalents	$ 221.4	$
Available-for-sale investments:		
Short-term		
Commercial paper	$ 13.1	$
Municipal notes	21.3	
U.S. corporate debt	150.5	
U.S. treasuries	31.6	
U.S. government agencies	45.5	
Total short-term	$ 262.0	$
Long-term		
Municipal notes	$ 161.0	$
U.S. corporate debt	222.5	
U.S. treasuries	29.5	
U.S. government agencies	204.6	
Total long-term	$ 617.6	$
Total cash, cash equivalents and available-for-sale investments	$ 1,101.0	$
Other securities (included in short-term investments):		
Trading securities, auction rate securities	$ 62.2	$
Put option	7.6	
Total cash, cash equivalents and investments	$ 1,170.8	$

The following table summarizes the maturities of the Company s cash equivalents and a December 31, 2010 (in millions):

	A
Mature in less than one year	$
Mature in one to five years	
Mature in more than five years	
Total	$

During the years ended December 31, 2010, 2009 and 2008, realized gains or losses rec were not significant. As of December 31, 2010 and 2009, unrealized gain on investment million, respectively, were included in accumulated other comprehensive income in the Sheets.

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The following tables present the breakdown of the available-for-sale investments with u
2010 and 2009 (in millions):

	Unrealized losses less than 12 months		Unreali 12 month
	Fair Value	Unrealized Losses	Fair Value
December 31, 2010			
Municipal notes	$ 57.5	$ (0.3)	$
Auction rate securities			18.6
U.S. corporate debt	135.7	(0.9)	
Government agencies	180.9	(0.5)	
	$ 374.1	$ (1.7)	$ 18.6
December 31, 2009			
Municipal notes	$ 16.6	$	$
Auction rate securities.			19.0
U.S. corporate debt	56.7	(0.1)	
U.S. treasuries	29.8	(0.2)	
U.S. government agencies	109.0	(0.4)	
	$ 212.1	$ (0.7)	$ 19.0

The unrealized losses on the available-for-sale investments in ARS. The Company deter
temporary and recorded no other-than-temporary impairments. Factors considered in det
included the length of time and extent to which the investments fair value has been less
condition and near-term prospects of the investee; extent of the loss related to credit of t
from the security; the Company s intent to sell the security and whether or not the Com
security before the recovery of its amortized cost.

NOTE 4. FAIR VALUE MEASUREMENTS

ASC 820 defines fair value, establishes a framework for measuring fair value under gen
and enhances disclosures about fair value measurements. Fair value is defined under AS
would be received for an asset or paid to transfer a liability (an exit price) in the principa
the asset or liability in an orderly transaction between market participants on the measur
used to measure fair value must maximize the use of observable inputs and minimize the
standard describes a fair value hierarchy based on three levels of inputs, of which the fir
the last unobservable, that may be used to measure fair value which are the following:

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

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such
liabilities; quoted prices in markets that are not active; or other inputs that are observabl
observable market data for substantially the full term of the assets or liabilities or discou

Level 3 Unobservable inputs that are supported by little or no market activity and that a
assets or liabilities.

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In accordance with ASC 820, the following table represents the Company s fair value h
equivalents and investments) measured at fair value on a recurring basis as of December

	Fair Value Measurer	
Assets	**Level 1**	**Level 2**
Available-for-sale securities		
Money Market funds	$ 211.2	$
U.S. treasuries	116.3	
Commercial paper		122
Corporate debt		476
U.S. government agencies		389
Non-U.S. government securities		21
Municipal notes		233
Total available-for-sale securities	$ 327.5	$ 1,242
Foreign currency derivatives	$	$ 0
Total assets measured at fair value	$ 327.5	$ 1,242
Liabilities		
Foreign Currency Derivatives	$	$ 2
Total liabilities measured at fair value	$	$ 2

	Fair Value Measure	
Assets	**Level 1**	**Level 2**
Municipal notes trading security	$	$
Put option		
Available-for-sale securities		
Money Market funds	175.7	
U.S. treasuries	61.1	
Commercial paper		27
Corporate debt		379
U.S. government agencies		250
Municipal notes		160
Total available-for-sale securities	$ 236.8	$ 817
Total assets measured at fair value	$ 236.8	$ 817
Liabilities		
Foreign Currency Derivatives	$	$ 0
Total liabilities measured at fair value	$	$ 0

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The following table provides reconciliation for all assets measured at fair value using sig
3) for the year ended December 31, 2010 (in millions):

	Pu
Balance at January 1, 2010	
Purchases	
Sales/Maturities	
Total gains or (losses):	
Included in other comprehensive income (loss)	
Included in earnings	
Balance at December 31, 2010	

The Company s derivative instruments are primarily classified as Level 2 as they are no
pricing models that use observable market inputs. There have been no transfers between
during the year ended December 31, 2010, and there were no changes in the Company
recognizes transfers into or out of Level 3 classification as of the actual date of the even
caused the transfer. Level 3 assets consist of municipal bonds with an auction reset featu
student loans which are substantially backed by the federal government. Since the auctio
to fail since February 2008, these investments are not currently trading and therefore do
market value. On June 30, 2010, pursuant to the terms of the UBS rights offering, the Co
ARS subject to the rights offering to UBS at the par value of $34.4 million. As a result o
the full par value in cash from UBS.

The remainder of the Company s ARS investment portfolio of $18.6 million, is reflecte
investments on the Company s Consolidated Balance Sheet as of December 31, 2010. T
a discounted cash flow model based on Level 3 assumptions, including estimates of, bas
December 31, 2010, interest rates, timing and amount of cash flows, credit and liquidity
periods of the ARS.

Foreign currency derivative

Cash Flow Hedges

The Company enters into currency forward contracts as cash flow hedges to hedge certa
denominated in currencies other than the U.S. dollar, primarily the Euro and GBP.

As of December 31, 2010, the Company had the notional amount of 21.0 million outsta
were entered into to hedge Euro denominated sales, compared to 19.5 million and £3.9
amounts reclassified to revenue as the related hedged revenue transactions were recogni
2010 and 2009 were not significant. Other impacts of derivative instruments designated
significant for the years ended December 31, 2010 and 2009.

Other Derivatives Not Designated as Hedging Instruments

Other derivatives not designated as hedging instruments consist primarily of forward co
hedge intercompany balances and other monetary assets or liabilities denominated in cu
primarily the Euro or GBP.

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As of December 31, 2010, the Company had the notional amount of 26.0 million and £
forward contracts that were entered into to hedge non-functional currency denominated
22.0 million and £4.5 million at December 31, 2009. For the year ended December 31,
gains of approximately $3.1 million, in interest and other income, net related to derivati
balance sheet foreign currency exposures. This was offset by approximately $2.6 millio
the year ended December 31, 2010, respectively, primarily related to the re-measuremen
denominated net monetary assets. Impacts of derivative instruments not designated as he
ended December 31, 2009.

NOTE 5. BALANCE SHEET DETAILS

The following table provides details of selected balance sheet items (in millions):

Inventory:	
Raw materials	
Work-in-process	
Finished goods	
Total	
Property, plant and equipment, net:	
Land	
Building and building/leasehold improvements	
Machinery and equipment	
Computer and Office equipment	
Capitalized software	
Construction-in-process	
Less accumulated depreciation	
Total property, plant and equipment, net	
Other accrued liabilities short term:	
Taxes payable	
Other	
Total other accrued liabilities short-term	
Other long-term liabilities:	
Income taxes long term	
Other long-term liabilities	
Total other liabilities	

NOTE 6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company s gross carrying amount of goodwill was $116.9 million and $110.7 mill
respectively.

Intangibles

The Company s gross carrying amount of total intangible assets, primarily representing
$119.3 million and $92.8 million as of December 31, 2010 and 2009, respectively.

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Additions made to intellectual property during the years ended December 31, 2010 and
million, respectively. The weighted average useful life was six years for each of the yea
2009. Amortization expense related to intangible assets was $16.7 million, $15.6 millio
ended December 31, 2010, 2009 and 2008, respectively. Accumulated amortization of i
$36.3 million as of December 31, 2010 and 2009, respectively.

The estimated future amortization expense of intangible assets as of December 31, 2010

Fiscal Year
2011
2012
2013
2014
2015
2016 and thereafter
Total

NOTE 7. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company leases office space in China, Japan, Mexico, Switzerland and United Stat
for certain sales and field service employees. These leases have varying terms, predomi

Future minimum lease commitments under the Company s operating leases as of Decer
millions):

2011
2012
2013
2014
2015 and beyond

Other commitments include an estimated amount of approximately $212.2 million of all
contractual obligations that occur in the ordinary course of business, including commitm
suppliers, for which we have not received the goods or services, acquisition and licensi
commitment to purchase land and buildings in Sunnyvale, California.

CONTINGENCIES

On August 6, 2010, a purported class action lawsuit entitled *Perlmutter v. Intuitive Surg*
against the Company and seven of the Company s current and former officers and direc
for the Northern District of California. The lawsuit seeks unspecified damages on behal
purchased or otherwise acquired the Company s common stock between February 1, 20
alleges that the defendants violated federal securities laws by making allegedly false an
certain material facts in the Company s filings with the Securities and Exchange Comm

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On August 19, 2010, an alleged shareholder caused a purported shareholder s derivativ
al., No. 1-10-CV-180416, to be filed in the Superior Court of California for the County
as a nominal defendant, and naming 14 of the Company s current and former officers a
seeks to recover, for the Company s benefit, unspecified damages purportedly sustaine
allegedly misleading statements and/or omissions made in connection with the Compan
between February 1, 2008 and January 7, 2009. It also seeks a series of changes to the C
policies and an award of attorneys fees. On September 15, 2010, another purported sha
lawsuit entitled *Applbaum v. Guthart et al.*, No. 1-10-CV-182645, in the same court aga
former officers and directors. On October 5, 2010 the court ordered that the two cases b

Due to the uncertainty surrounding the litigation process, the Company is unable to reas
of the above cases at this time, and therefore no amounts have been accrued related to th
on currently available information, the Company believes that it has meritorious defense
resolution of these cases is not likely to have a material adverse effect on the Company
results of operations. The Company is also a party to various other legal actions that aro
business. The Company does not believe that any of these other legal actions will have a
business, financial position or results of operations.

NOTE 8. STOCKHOLDERS EQUITY

STOCK REPURCHASE PROGRAM

In March 2009, the Company s Board of Directors authorized the repurchase of up to $
stock through open market and private block transactions pursuant to Rule 10b5-1 plans
other means, including accelerated stock repurchase transactions or similar arrangement
repurchase authorization, the Company entered into a collared accelerated share repurch
Goldman, Sachs & Co. (Goldman) to repurchase $150 million of the Company s co
2009, the Company had received and retired approximately 1.4 million shares of the Co
Program purchases were completed during the second quarter of 2009 and the Company

In July 2010, the Board authorized an additional $150 million for share repurchase unde
During the year ended December 31, 2010, the Company repurchased and retired approx
common stock at an average purchase price of $267.81 per share, for an aggregate purch
open market transactions. As of December 31, 2010, the remaining authorized amount o
under the Board-authorized share repurchase program was approximately $101.3 millio

The Company uses the par value method of accounting for its stock repurchases. As a re
the year ended December 31, 2010, the Company reduced common stock and additional
$24.0 million and charged $174.6 million to retained earnings. During the year ended D
reduced common stock and APIC by an aggregate of $31.3 million and charged $118.7

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COMPREHENSIVE INCOME

The components of accumulated other comprehensive income, net of tax, are as follows

Foreign currency translation gains	
Accumulated net unrealized gains on derivatives, net of tax	
Accumulated net unrealized gains on available-for-sale securities, net of tax	
Total accumulated other comprehensive income	

The components of comprehensive income and related tax effects are as follows (in mill

Net income	
Foreign currency translation gains (losses)	
Unrealized gains (losses) on derivative instruments, net of tax:	
Unrealized gains (losses) on derivative instruments	
Reclassification adjustment for (gains) losses on derivative instruments recognized during the period	
Unrealized gains (losses) on available-for-sale securities, net of tax:	
Unrealized gains (losses) arising during period	
Reclassification adjustment for gains (losses) realized in net income	
Total other comprehensive income	

NOTE 9. STOCK-BASED COMPENSATION

STOCK OPTION PLANS

2010 Incentive Award Plan

In April 2010, the Company s stockholders approved the 2010 Incentive Award Plan (approximately 1.3 million shares of common stock for issuance. Under this plan, the Co options (NSOs) to employees and certain consultants. The 2010 Plan generally permi fair market value of the common stock on the date of grant, with terms of 10 years from vest 12.5% upon completion of 6 months service and 1/48th per month thereafter; howev vesting terms as determined by the Board of Directors. The plan expires in 2020.

2009 Employment Commencement Incentive Plan

In October 2009, the Board of Directors adopted the 2009 Employment Commencement reserved 300,000 shares for issuance under the plan. The New Hire Plan provides for the grant of NSOs to new employees, who were not previously an employee or non-employ are granted at an exercise price not less than the fair market value of the stock on the dat exceed ten years.

2000 Equity Incentive Plan

In March 2000, the Board of Directors adopted the 2000 Equity Incentive Plan, which to
Company s initial public offering. Under this plan, certain employees, consultants and

non-employee directors may be granted Incentive Stock Options (ISOs) and Nonstatu
shares of the Company s common stock. The 2000 Plan permitted ISOs to be granted a
value on the date of the grant and NSOs at an exercise price not less than 85% of the fai
granted under the 2000 Plan generally expire 10 years from the date of grant and becom
repurchase rights in favor of the Company until vested. Options generally vest 12.5% up
and 1/48th per month thereafter; however, options may have been granted with different
Board of Directors. The plan expired in March 2010. However, options granted prior to
or remain outstanding until their original expiration date.

2000 Non-Employee Directors Stock Option Plan

In March 2000, the Board of Directors adopted the 2000 Non-Employee Directors Stoc
October 2009, the automatic evergreen increase provisions were eliminated so that no fu
made to the number of shares reserved for issuance under the Directors Plan. In additio
issuance under the Directors Plan was reduced to 150,000. Options are granted at an ex
market value of the stock on the date of grant and have a term not to exceed 10 years. In
three-year period with 33.3% of the shares vesting after 1 year from the date of grant an
thereafter. Annual grants are vested one year from the date of the grant. This plan expire

2000 Employee Stock Purchase Plan

In March 2000, the Board of Directors adopted the 2000 Employee Stock Purchase Plan
evergreen provision whereby the authorized shares are automatically increased concurre
of shareholders. Employees are generally eligible to participate in the ESPP if they are c
Company for more than 20 hours per week and more than 5 months in a calendar year a
Company. Under the ESPP, eligible employees may select a rate of payroll deduction up
compensation subject to certain maximum purchase limitations. The duration for each o
long and is divided into four shorter purchase periods approximately six months in lengt
purchase price of the shares under the offering is the lesser of 85% of the fair market val
or 85% of the fair market value of the shares on the purchase date. A two-year look-bac
offering period to reset if the fair value of the Company s common stock on the purchas
offering date. ESPP purchases by employees are settled with newly-issued common stoc
authorized and available pool of shares.

The Company issued 144,906, 92,433 and 85,850 shares under the ESPP, representing a
million and $8.9 million in employee contributions for the years ended December 31, 20
of December 31, 2010, there were approximately 690,156 shares reserved for grant unde

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STOCK OPTION PLAN INFORMATION

Option activity during fiscal 2010 under all the stock plans were as follows (in millions,

	Shares Available for Grant
Balance at December 31, 2009 (with 2.3 options exercisable at a weighted-average exercise price of $137.75 per share and with 4.4 options vested and expected to vest at a weighted-average exercise price of $156.04 per share)	8.6
Options authorized	1.3
Options granted	(1.4)
Options exercised	
Options canceled/expired	(7.1)
Balance at December 31, 2010 (with 2.5 options exercisable at a weighted-average exercise price of $173.49 per share and with 4.7 options vested and expected to vest at a weighted-average exercise price of $207.79 per share)	1.4

The aggregate intrinsic value of options exercised under our stock option plans determin was $192.9 million, $94.9 million, and $140.9 million during the years ended December respectively. Cash received from option exercises and employee stock purchase plans fo 2009 and 2008 was $141.1 million, $63.2 million and $44.7 million, respectively.

The following table summarizes significant ranges of outstanding and exercisable optio

	Options Outstanding						
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value (1)	Number of Shares	Co
$0.00 107.27	1.7	6.49	$ 88.59		1.0	
$107.65 $288.55	1.0	7.24	183.13		0.7	
$288.79 333.37	1.0	7.51	307.54		0.5	
$334.30 365.98	1.1	8.97	336.22		0.3	
TOTAL	**4.8**	**7.42**	**$ 209.03**	**$ 372.3**	**2.5**	

(1) The aggregate intrinsic value represents the total pre-tax intrinsic value, based on t price of $257.75 as of December 31, 2010, which would have been received by the in-the-money option holders exercised their options as of that date.

As of December 31, 2010, the shares vested and expected to vest had a weighted averag years and aggregate intrinsic value of $367.5 million.

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STOCK-BASED COMPENSATION

The following table summarizes stock-based compensation charges:

Cost of sales products	
Cost of sales services	
Total cost of sales	
Selling, general and administrative	
Research and development	
Stock-based compensation expense before income taxes	
Income tax effect	
Stock-based compensation expense after income taxes	

The Black-Scholes option pricing model is used to estimate the fair value of stock optio
stock-based compensation plans and rights to acquire stock granted under the Company
weighted average estimated fair values of the stock options and rights to acquire stock g
purchase plan as well as the weighted average assumptions used in calculating these val
December 31, 2010, 2009 and 2008, were based on estimates at the date of grant as follo

	Ye
STOCK OPTION PLANS	**2010**
Average risk free interest rate	2.24%
Average expected term (years)	4.80
Average volatility	36%
Weighted average fair value at grant date	$ 111.84
Total stock-based compensation expense (in millions)	$ 109.1
EMPLOYEE STOCK PURCHASE PLAN	
Average risk free interest rate	0.43%
Average expected term (years)	1.30
Average volatility	39%
Weighted average fair value at grant date	$ 106.72
Total stock-based compensation expense (in millions)	$ 8.5

As stock-based compensation expense recognized in the Consolidated Statements of Inc
December 31, 2010, 2009 and 2008 is based on awards ultimately expected to vest, it ha
forfeitures. Stock compensation accounting requires forfeitures to be estimated at the tin
in subsequent periods if actual forfeitures differ from those estimated.

As of December 31, 2010, there was $216.3 million and $4.1 million, of total unrecogni
non-vested stock options and employee stock purchases, respectively. The unrecognized
to be recognized over a weighted average period of 2.5 years for non-vested stock optio
purchases.

Excess tax benefits are realized tax benefits from tax deductions for exercised options in
attributable to stock compensation costs for such options. Excess tax benefits of $65.2 m
million for the years ended December 31, 2010, 2009 and 2008 have been classified as a
income tax benefit recognized in the income statement for stock-based compensation co

and $23.2 million for the years ended December 31, 2010, 2009 and 2008, respectively.

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NOTE 10. INCOME TAXES

Income before provision for income taxes for the years ended December 31, 2010, 2009
(in millions):

	Y 2010
U.S	$ 438.7
Foreign	133.6
Total income before provision for income taxes	$ 572.3

The provision for income taxes for the years ended December 31, 2010, 2009 and 2008
millions):

	Y 2010
Current	
Federal	$ 189.9
State	20.0
Foreign	2.1
	$ 212.0
Deferred	
Federal	$ (22.2
State	0.5
Foreign	0.2
	$ (21.5
Total income tax expense	$ 190.5

Income tax expense differs from amounts computed by applying the statutory rate of 35
2010, 2009 and 2008 as a result of the following (in millions):

	Yea 2010
Federal tax at statutory rate	$ 200.3
Increase (reduction) in tax resulting from:	
State taxes, net of federal benefits	20.5
Foreign rate differential	(31.3)
Research and development credit	(4.6)
Stock compensation not benefitted	4.8
Other	0.8
	$ 190.5

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Deferred income taxes reflect tax carry forwards and the net tax effects of temporary dif
amounts of assets and liabilities for financial reporting and the amounts used for income
of the Company s deferred tax assets are as follows (in millions):

Deferred tax assets:	
Stock-based compensation expense	
Expenses deducted in later years for tax purposes	
Other	
Deferred tax assets	
Deferred tax liablilities:	
Identified intangible assets related to acquisitions	
Other	
Deferred tax liabilities	
Net deferred tax assets	

The Company has not provided U.S. income taxes and foreign withholding taxes on the
subsidiaries as of December 31, 2010 because the Company intends to permanently rein
these foreign earnings were to be repatriated in the future, the related U.S. tax liability m
taxes previously paid on these earnings. As of December 31, 2010, the cumulative amou
income taxes have not been provided is approximately $88.0 million. Determination of t
tax liability related to these earnings is not practicable. The Company has a tax holiday i
Switzerland which will last till approximately year 2017. This tax holiday provides for a
based on various thresholds of investment and employment in such jurisdiction. The Co
the terms of the holiday.

As of December 31, 2010, the Company had state net operating loss carry forwards of ap
utilized, the state loss carry forwards will begin to expire in 2017.

In December 2010, a retroactive two-year extension of federal R&D credit through the e
The federal R&D credit has previously expired at the end year 2009. As a result of this c
Company recorded a net federal R&D credit of $4.6 million for the full year 2010 discre

The Company recorded a net increase of its gross unrecognized tax benefits of approxim
ended December 31, 2010. The Company had gross unrecognized tax benefits of approx
and $42.0 million as of December 31, 2010, 2009 and 2008, respectively, of which $74.
million, if recognized would result in a reduction of the Company s effective tax rate du
2010, 2009 and 2008, respectively. The Company included interest expense and penaltie
benefits as a component of its income tax expense. As of December 31, 2010, 2009 and
unrecognized tax benefits accrued was approximately $5.5 million, $3.3 million and $0.
increase of $2.2 million was included in our income tax expense for the year ended Dec
classified its net unrecognized tax benefits and related interest in Other accrued liabilit

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A reconciliation of the beginning and ending amounts of gross unrecognized income tax
December 31, 2010, 2009 and 2008 are as follows (in millions):

	Y 2010
Beginning balance	$ 70.0
Additions for tax positions related to current year	9.1
Increase (decrease) for tax positions related to prior year	(0.2
Ending balance	$ 78.9

The Company files federal, state and foreign income tax returns in many jurisdictions in
U.S. federal and California income tax purposes, the statute of limitation currently rema
due to utilization of net operating losses and research and development credits generated

NOTE 11. NET INCOME PER SHARE

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

Net income	$
Basic:	
Weighted-average shares outstanding	
Basic net income per share	$
Diluted:	
Weighted-average shares outstanding used in basic calculation	
Add dilutive potential common shares	
Weighted-average shares used in computing diluted net income per share	
Diluted net income per share	$

Employee stock options to purchase approximately 1.3 million, 1.5 million and 1.2 milli
December 31, 2010, 2009 and 2008, respectively, were outstanding, but were not includ
income per share because the effect of including such shares would have been antidiluti

NOTE 12. EMPLOYEE BENEFIT PLANS

The Company sponsors various retirement plans for its eligible U.S. and non-U.S. emplo
Company maintains the Intuitive Surgical, Inc. 401(k) Plan (the Plan). As allowed un
Revenue Code, the Plan provides tax-deferred salary contributions for eligible U.S. emp
contribute up to 75% of their annual compensation to the Plan on a pretax and after-tax
limited to a maximum annual amount as set periodically by the Internal Revenue Code.
made solely at the Company s discretion. No employer matching contributions were ma
December 31, 2010, 2009 and 2008.

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SELECTED QUARTERLY DATA

(UNAUDITED, IN MILLIONS, EXCEPT PER SHARE A

	Q1	
Revenue	$ 328.6	$
Gross profit	$ 240.5	$
Net income	$ 85.3	$
Net income per common share		
Basic	$ 2.20	$
Diluted	$ 2.12	$

	Q1	
Revenue	$ 188.4	$
Gross profit	$ 128.7	$
Net income	$ 28.1	$
Net income per common share		
Basic	$ 0.72	$
Diluted	$ 0.72	$

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INTUITIVE SURGICAL, INC.

VALUATION AND QUALIFYING ACCOUNT

(IN MILLIONS)

	Balance at Beginning of Year	Additions
Allowance for doubtful accounts and sales returns		
Year ended December 31, 2010	$ 4.3	11.3
Year ended December 31, 2009	$ 4.1	10.2
Year ended December 31, 2008	$ 3.8	12.0

(1) Primarily represents amounts returned.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON A DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that informa Exchange Act reports is recorded, processed, summarized and reported within the time p Exchange Commission s rules and forms and that such information is accumulated and including our principal executive officer and principal financial officer, as appropriate, t required disclosure. In designing and evaluating the disclosure controls and procedures, controls and procedures, no matter how well designed and operated, can provide only re desired control objectives, and management is required to apply its judgment in evaluati possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision management, including our principal executive officer and principal financial officer, of operation of our disclosure controls and procedures as of the end of the period covered b Based on the foregoing, our principal executive officer and principal financial officer co and procedures were effective at the reasonable assurance level.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal contr term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the pa including our principal executive officer and principal financial officer, we conducted an our internal control over financial reporting based on the framework in *Internal Control* Committee of Sponsoring Organizations of the Treadway Commission. Based on our ev *Internal Control Integrated Framework*, our management concluded that our internal c effective as of December 31, 2010.

The effectiveness of our internal control over financial reporting as of December 31, 20 registered public accounting firm, as stated in their report, which is included herein.

Changes in Internal Control Over Financial Reporting

None.

ITEM 9B. OTHER INFORMATION

None.

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PART III

Certain information required by Part III is omitted from this Report on Form 10-K and is
our definitive Proxy Statement for our next Annual Meeting of Stockholders (the Proxy
pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVER

The information required by this item concerning our directors is incorporated by refere
section titled Directors and Corporate Governance in our Proxy Statement. Informatio
executive officers is incorporated by reference to the information set forth in the section
Company in our Proxy Statement. Information regarding Section 16 reporting compliа
information set forth in the section entitled Section 16(a) Beneficial Ownership Report
Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item regarding executive compensation is incorporated
forth in the sections titled Executive Compensation in our Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AN RELATED STOCKHOLDER MATTERS

The information required by this item regarding security ownership of certain beneficial
incorporated by reference to the information set forth in the section titled Security Own
and Management and Related Stockholder Matters and Equity Compensation Plan In

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item regarding certain relationships and related transac
the information set forth in the section titled Certain Relationships and Related Transa

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item regarding principal accountant fees and services is
information set forth in the section titled Principal Accountant Fees and Services in o

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(a) The following documents are filed as part of this Annual Report on Form 10-K

1) Financial Statements See Index to Consolidated Financial Statements a

2) The following financial statement schedule of Intuitive Surgical, Inc. is be read in conjunction with the financial statements of Intuitive Surgica

Schedule II: Valuation and Qualifying Accounts.

All other schedules have been omitted because they are not applicable, not required und requested is set forth in the consolidated financial statements or related notes thereto.

3) Exhibits

The exhibits filed as part of this report are listed under Exhibits at subsection (b) of th

(b) Exhibits

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EXHIBIT INDEX

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of the Company.
3.2(1)	Certificate of Amendment to Amended and Restated Certificate of Inc
3.3(2)	Amended and Restated Bylaws of the Company.
4.1(3)	Specimen Stock Certificate.
10.1(3)	Form of Indemnity Agreement.
10.2(3)	2000 Equity Incentive Plan.
10.3(3)	2000 Non-Employee Directors Stock Option Plan.
10.4(3)	2000 Employee Stock Purchase Plan.
10.5(4)	2009 Employment Commencement Incentive Plan adopted October 2
10.6(5)	2010 Incentive Award Plan.
10.7(3)	Amended and Restated Investor Rights Agreement dated March 31, 1
10.8(6)	Severance Plan.
10.9(7)	Third Amendment effective as of July 1, 2010, to Employment Agree Lonnie M. Smith, dated February 28, 1997.
10.10(8)	Form of Intuitive Surgical, Inc. 2010 Equity Incentive Plan Stock Opt Nonstatutory Stock Options).
21.1(9)	Intuitive Surgical, Inc. subsidiaries.
23.1(9)	Consent of Independent Registered Public Accounting Firm.
31.1(9)	Certification of Principal Executive Officer.
31.2(9)	Certification of Principal Financial Officer.
32.1(9)	Certification of Chief Executive Officer and Principal Financial Offic 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act
101(10)	The following materials from Intuitive Surgical, Inc. s Annual Repor December 31, 2010, formatted in XBRL (Extensible Business Reporti Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolic Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to tagged at Level I through IV.

(1) Incorporated by reference to exhibits filed with the Company s 2008 Annual Repo February 6, 2009 (File No. 000-30713).

(2) Incorporated by reference to Exhibit 3.1 filed with the Company s Current Report (File No. 000-30713).

(3) Incorporated by reference to exhibits filed with the Company s Registration Stater No. 333-33016).

(4) Incorporated by reference to Exhibit 10.10 filed with the Company s 2009 Annual January 29, 2010 (File No. 000-30713).

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(5) Incorporated by reference to Exhibit 10.1 filed with the Company s Current Repor
2010 (File No. 000-30713).

(6) Incorporated by reference to Exhibit 10.1 filed with the Company s Current Repor
December 2, 2008 (File No. 000-30713).

(7) Incorporated by reference to Exhibit 10.1 filed with the Company s Current Repor
2010 (File No. 000-30713).

(8) Incorporated by reference to Exhibit 10.2 filed with the Company s Quarterly Rep
2009 (File No. 000-30713).

(9) Filed herewith.

(10) Users of the XBRL data are advised pursuant to Rule 406T of Regulation S-T that
filed or part of a registration statement or prospectus for purposes of sections 11 or
deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934
liability under these sections.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act
caused this report to be signed on its behalf by the undersigned thereunto duly auth

INTUITIVE

(Registran

By:

Pr

February 1, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report ha
following persons on behalf of the Registrant and in the capacities and on the dates

Signature	Title
/s/ Gary S. Guthart **Gary S. Guthart**	President, Chief Executive Of Director (Principal Executive
/s/ Marshall L. Mohr **Marshall L. Mohr**	Senior Vice President and Chi Officer (Principal Financial an Accounting Officer)
/s/ Lonnie M. Smith **Lonnie M. Smith**	Chairman of the Board of Dire
/s/ Robert W. Duggan **Robert W. Duggan**	Director
/s/ Amal M. Johnson **Amal M. Johnson**	Director
/s/ Eric H. Halvorson **Eric H. Halvorson**	Director
/s/ Alan J. Levy, Ph.D. **Alan J. Levy, Ph.D.**	Director
/s/ Floyd D. Loop, M.D.	Director

Floyd D. Loop, M.D.

/s/ Mark J. Rubash Director

Mark J. Rubash

/s/ George Stalk Jr. Director

George Stalk Jr.