

INTUITIVE SURGICAL INC  
Form 10-Q  
July 20, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

*(Mark One)*

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2011

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-30713

**Intuitive Surgical, Inc.**

(Exact name of Registrant as specified in its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation or Organization)  
1266 Kifer Road

77-0416458  
(I.R.S. Employer Identification Number)

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Sunnyvale, California 94086

(Address of Principal Executive Offices) (Zip Code)

(408) 523-2100

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

The Registrant had 39,083,127 shares of Common Stock, \$0.001 par value per share, outstanding as of July 14, 2011.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****INTUITIVE SURGICAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(IN MILLIONS, EXCEPT PAR VALUE)****(UNAUDITED)**

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 382.0	\$ 279.8
Short-term investments	611.9	630.6
Accounts receivable, net	250.3	246.8
Inventory	100.1	86.8
Prepays and other assets	17.0	23.3
Deferred tax assets	4.0	8.5
Total current assets	1,365.3	1,275.8
Property, plant and equipment, net	194.2	159.8
Long-term investments	828.1	698.5
Long-term deferred tax assets	77.3	73.3
Intangible and other assets, net	68.1	66.1
Goodwill	116.9	116.9
Total assets	\$ 2,649.9	\$ 2,390.4
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 37.5	\$ 35.6
Accrued compensation and employee benefits	54.6	63.4
Deferred revenue	134.3	126.1
Other accrued liabilities	47.6	48.7
Total current liabilities	274.0	273.8
Long-term liabilities	87.4	79.2
Total liabilities	361.4	353.0
Commitments and contingencies		
Stockholders equity:		
Preferred stock, 2.5 shares authorized, \$0.001 par value, issuable in series; no shares issued and outstanding as of June 30, 2011 and December 31, 2010		
Common stock, 100.0 shares authorized, \$0.001 par value, 39.1 and 38.9 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively		
Additional paid-in capital	1,487.4	1,316.9
Retained earnings	798.5	718.9

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Accumulated other comprehensive income	2.6	1.6
Total stockholders' equity	2,288.5	2,037.4
Total liabilities and stockholders' equity	\$ 2,649.9	\$ 2,390.4

See accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents****INTUITIVE SURGICAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)****(UNAUDITED)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenue:</b>				
Product	\$ 358.1	\$ 295.3	\$ 682.6	\$ 573.3
Service	67.6	55.4	131.2	106.0
<b>Total revenue</b>	<b>425.7</b>	<b>350.7</b>	<b>813.8</b>	<b>679.3</b>
<b>Cost of revenue:</b>				
Product	93.5	72.7	178.3	140.7
Service	25.6	21.2	50.1	41.3
<b>Total cost of revenue</b>	<b>119.1</b>	<b>93.9</b>	<b>228.4</b>	<b>182.0</b>
<b>Gross profit</b>	<b>306.6</b>	<b>256.8</b>	<b>585.4</b>	<b>497.3</b>
<b>Operating expenses:</b>				
Selling, general, and administrative	106.5	88.6	205.6	171.4
Research and development	32.0	28.5	63.4	56.5
<b>Total operating expenses</b>	<b>138.5</b>	<b>117.1</b>	<b>269.0</b>	<b>227.9</b>
<b>Income from operations</b>	<b>168.1</b>	<b>139.7</b>	<b>316.4</b>	<b>269.4</b>
Interest and other income, net	4.1	4.5	9.4	8.6
<b>Income before taxes</b>	<b>172.2</b>	<b>144.2</b>	<b>325.8</b>	<b>278.0</b>
Income tax expense	54.8	55.5	104.3	104.0
<b>Net income</b>	<b>\$ 117.4</b>	<b>\$ 88.7</b>	<b>\$ 221.5</b>	<b>\$ 174.0</b>
<b>Earnings per share:</b>				
Basic	\$ 2.99	\$ 2.26	\$ 5.65	\$ 4.45
Diluted	\$ 2.91	\$ 2.19	\$ 5.51	\$ 4.31
<b>Shares used in computing earnings per share:</b>				
Basic	39.2	39.3	39.2	39.1
Diluted	40.3	40.5	40.2	40.4

See accompanying Notes to Condensed Consolidated Financial Statements.



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

	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating Activities:</b>		
Net income	\$ 221.5	\$ 174.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13.8	11.4
Amortization of intangible assets	8.7	7.9
Deferred income taxes	0.8	0.4
Income tax benefits from employee stock option plans	21.1	40.7
Excess tax benefit from stock-based compensation	(24.4)	(46.9)
Share-based compensation expense	66.9	57.1
Changes in operating assets and liabilities:		
Accounts receivable	(3.5)	10.7
Inventory	(13.3)	(16.4)
Prepays and other assets	(3.1)	0.8
Accounts payable	1.8	14.3
Accrued compensation and employee benefits	(9.0)	(7.5)
Deferred revenue	8.5	8.3
Accrued liabilities	6.5	36.3
<b>Net cash provided by operating activities</b>	<b>296.3</b>	<b>291.1</b>
<b>Investing Activities:</b>		
Purchase of investments	(725.9)	(604.3)
Proceeds from sales and maturities of investments	619.3	386.6
Purchase of property and equipment and acquisition of intellectual property	(53.2)	(36.5)