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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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)

77-0416458

(I.R.S. Employer
Identification Number)

1266 Kifer Road

Sunnyvale, California 94086

(Address of principal executive offices) (Zip Code)

(408) 523-2100

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting company	<input type="checkbox"/>

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 38,064,183 shares of Common Stock, \$0.001 par value per share, outstanding as of October 8, 2013.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 586.8	\$ 553.7
Short-term investments	626.1	770.7
Accounts receivable, net	280.6	370.3
Inventories	200.1	121.5
Prepays and other current assets	30.0	67.3
Deferred tax assets	9.9	9.3
Total current assets	1,733.5	1,892.8
Property, plant and equipment, net	294.2	241.8
Long-term investments	1,319.4	1,596.1
Long-term deferred tax assets	121.6	87.0
Intangible and other assets, net	91.3	103.4
Goodwill	137.4	138.1
Total assets	\$ 3,697.4	\$ 4,059.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 62.0	\$ 57.6
Accrued compensation and employee benefits	54.9	104.0
Deferred revenue	192.6	185.7
Other accrued liabilities	57.8	54.3
Total current liabilities	367.3	401.6
Other long-term liabilities	65.8	77.5
Total liabilities	433.1	479.1
Contingencies (Note 5)		
Stockholders' equity		
Preferred stock, 2.5 shares authorized, \$0.001 par value, issuable in series; no shares issued and outstanding as of September 30, 2013 and December 31, 2012, respectively	—	—
Common stock, 100.0 shares authorized, \$0.001 par value, 38.1 shares and 40.2 shares outstanding as of September 30, 2013 and December 31, 2012, respectively	—	—
Additional paid-in capital	2,450.7	2,240.1
Retained earnings	813.2	1,333.4
Accumulated other comprehensive income	0.4	6.6
Total stockholders' equity	3,264.3	3,580.1
Total liabilities and stockholders' equity	\$ 3,697.4	\$ 4,059.2

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue:				
Product	\$ 397.6	\$ 450.0	\$ 1,395.0	\$ 1,317.5
Service	101.4	87.8	293.9	252.0
Total revenue	499.0	537.8	1,688.9	1,569.5
Cost of revenue:				
Product	112.0	119.3	399.2	353.9
Service	30.3	28.4	93.5	83.2
Total cost of revenue	142.3	147.7	492.7	437.1
Gross profit	356.7	390.1	1,196.2	1,132.4
Operating expenses:				
Selling, general and administrative	139.3	129.0	426.3	374.1
Research and development	43.2	49.7	126.0	128.3
Total operating expenses	182.5	178.7	552.3	502.4
Income from operations	174.2	211.4	643.9	630.0
Interest and other income, net	3.9	4.3	12.5	12.1
Income before taxes	178.1	215.7	656.4	642.1
Income tax expense	21.3	32.4	151.6	160.4
Net income	\$ 156.8	\$ 183.3	\$ 504.8	\$ 481.7
Net income per share:				
Basic	\$ 4.06	\$ 4.59	\$ 12.75	\$ 12.10
Diluted	\$ 3.99	\$ 4.46	\$ 12.46	\$ 11.72
Shares used in computing net income per share:				
Basic	38.6	39.9	39.6	39.8
Diluted	39.3	41.1	40.5	41.1
Total comprehensive income	\$ 159.3	\$ 185.5	\$ 498.5	\$ 486.6

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

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

	Nine Months Ended September 30,	
	2013	2012
Operating activities:		
Net income	\$ 504.8	\$ 481.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	32.6	25.2
Amortization of intangible assets	16.6	17.2
Accretion of discounts and amortization of premiums on investments, net	28.6	23.8
Deferred income taxes	(33.8)	(19.3)
Income tax benefits from employee stock option plans	29.7	54.8
Excess tax benefit from stock-based compensation	(31.1)	(54.7)
Share-based compensation expense	127.3	115.0
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	89.7	(34.8)
Inventories	(87.9)	(21.0)
Prepays and other assets	9.7	(5.5)
Accounts payable	4.4	6.9
Accrued compensation and employee benefits	(49.1)	(8.1)
Other liabilities	9.4	6.2
Net cash provided by operating activities	650.9	587.4
Investing activities:		
Purchase of investments	(1,130.0)	(1,448.8)
Proceeds from sales of investments	878.1	262.8
Proceeds from maturities of investments	649.8	569.1
Purchase of property, plant and equipment, intellectual property and business	(75.7)	(43.5)
Acquisition of business, net of cash acquired	—	(27.6)
Acquisition-related restricted cash	—	(15.0)
Net cash provided by (used in) investing activities	322.2	(703.0)
Financing activities:		
Proceeds from issuance of common stock, net	137.9	176.5
Excess tax benefit from stock-based compensation	31.1	54.7
Repurchase and retirement of common stock	(1,109.2)	(185.1)
Net cash provided by (used in) financing activities	(940.2)	46.1
Effect of exchange rate changes on cash and cash equivalents	0.2	(0.1)
Net increase (decrease) in cash and cash equivalents	33.1	(69.6)
Cash and cash equivalents, beginning of period	553.7	465.8
Cash and cash equivalents, end of period	\$ 586.8	\$ 396.2

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

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

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

NOTE 1. DESCRIPTION OF BUSINESS

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements (“financial statements”) of Intuitive Surgical, Inc. and its wholly-owned subsidiaries have been prepared on a consistent basis with the audited Consolidated Financial Statements for the fiscal year ended December 31, 2012 and include all adjustments, consisting of only normal recurring adjustments, necessary to fairly state the information set forth herein. The financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”), and, therefore, omit certain information and footnote disclosure necessary to present the financial statements in accordance with United States (“U.S.”) generally accepted accounting principles (“U.S. GAAP”). These financial statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which was filed on February 4, 2013. The results of operations for the first nine months of fiscal 2013 are not necessarily indicative of the results to be expected for the entire fiscal year or any future periods.

New Accounting Standards Recently Adopted

Effective January 1, 2013, the Company adopted the accounting guidance which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The Company elected to present the information in the notes to the Company’s financial statements.

In June 2013, the Financial Accounting Standards Board determined that an unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss (“NOL”) carryforward or other tax credit carryforward when settlement in this manner is available under applicable tax law. This guidance is effective for the Company’s interim and annual periods beginning January 1, 2014. The Company does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

NOTE 3. FINANCIAL INSTRUMENTS
Cash, Cash Equivalents and Investments

The following tables summarize the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of the Company's cash and available-for-sale securities by investment category that are recorded as cash and cash equivalents, or short-term or long-term investments as of September 30, 2013 and December 31, 2012 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments
September 30, 2013							
Cash	\$ 183.1	\$ —	\$ —	\$ 183.1	\$ 183.1	\$ —	\$ —
Level 1:							
Money market funds	368.5	—	—	368.5	368.5	—	—
U.S. Treasuries	84.0	—	(0.4)	83.6	—	33.7	49.9
Subtotal	452.5	—	(0.4)	452.1	368.5	33.7	49.9
Level 2:							
Commercial paper	121.9	—	—	121.9	33.2	88.7	—
Corporate securities	758.7	2.8	(1.7)	759.8	—	235.8	524.0
U.S. government agencies	425.0	1.0	(0.8)	425.2	2.0	103.3	319.9
Non-U.S. government securities	68.0	0.3	(0.2)	68.1	—	41.4	26.7
Municipal securities	513.8	1.2	(0.3)	514.7	—	123.2	391.5
Subtotal	1,887.4	5.3	(3.0)	1,889.7	35.2	592.4	1,262.1
Level 3:							
Municipal securities	8.0	—	(0.6)	7.4	—	—	7.4
Subtotal	8.0	—	(0.6)	7.4	—	—	7.4
Total assets measured at fair value	\$ 2,531.0	\$ 5.3	\$ (4.0)	\$ 2,532.3	\$ 586.8	\$ 626.1	\$ 1,319.4

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments
December 31, 2012							
Cash	\$ 89.7	\$ —	\$ —	\$ 89.7	\$ 89.7	\$ —	\$ —
Level 1:							
Money market funds	388.1	—	—	388.1	388.1	—	—
U.S. Treasuries & corporate equity securities	179.2	0.2	—	179.4	—	155.4	24.0
Subtotal	567.3	0.2	—	567.5	388.1	155.4	24.0
Level 2:							
Commercial paper	157.4	—	—	157.4	75.9	81.5	—
Corporate securities	952.1	5.8	(0.4)	957.5	—	274.6	682.9
U.S. government agencies	636.9	2.6	—	639.5	—	133.6	505.9
Non-U.S. government securities	90.8	0.5	—	91.3	—	21.8	69.5
Municipal securities	409.3	1.1	(0.2)	410.2	—	103.8	306.4
Subtotal	2,246.5	10.0	(0.6)	2,255.9	75.9	615.3	1,564.7
Level 3:							
Municipal securities	8.0	—	(0.6)	7.4	—	—	7.4
Subtotal	8.0	—	(0.6)	7.4	—	—	7.4
Total assets measured at fair value	\$ 2,911.5	\$ 10.2	\$ (1.2)	\$ 2,920.5	\$ 553.7	\$ 770.7	\$ 1,596.1

The following table summarizes the contractual maturities of the Company's cash equivalents and available-for-sale securities, excluding corporate equity securities, at September 30, 2013 (in millions):

	Amortized Cost	Fair Value
Mature in less than one year	\$ 1,028.6	\$ 1,029.8
Mature in one to five years	1,311.3	1,312.0
Mature in after five years	8.0	7.4
Total	<u>\$ 2,347.9</u>	<u>\$ 2,349.2</u>

During the three and nine months ended September 30, 2013, net realized gains recognized on the sale of investments were approximately \$0.6 million and \$0.7 million, respectively. Net realized losses recognized on the sale of investments during the three and nine months ended September 30, 2012 were approximately \$0.2 million and \$1.7 million, respectively. As of September 30, 2013 and December 31, 2012, net unrealized gains of \$1.7 million and \$6.2 million, respectively, were included in accumulated other comprehensive income in the accompanying unaudited Condensed Consolidated Balance Sheets.

There have been no transfers between Level 1 and Level 2 measurements during the nine months ended September 30, 2013, and there were no changes in the Company's valuation technique. Level 3 assets consist of municipal bonds with auction rate securities ("ARS") whose underlying assets are student loans which are generally backed by the federal government. Since the auctions for these securities have continued to fail since February 2008, these investments are not currently trading and therefore do not have a readily determinable fair value. The Company has valued its ARS using a discounted cash flow model utilizing unobservable inputs including estimates of interest rates, timing and amount of cash flows, credit and liquidity premiums and expected holding periods of the ARS.

Foreign currency derivatives

The objective of the Company's hedging program is to mitigate the impact of changes in currency exchange rates on net cash flow from foreign currency denominated sales and intercompany balances and other monetary assets or liabilities denominated in currencies other than the U.S. dollar. The Company has \$3.0 million of derivative liabilities recorded as other accrued liabilities in the unaudited Condensed Consolidated Balance Sheets at September 30, 2013, compared to \$2.7 million of derivative liabilities recorded as other accrued liabilities in the Condensed Consolidated Balance Sheets at December 31, 2012. The derivative liabilities are measured using Level 2 fair value inputs.

Cash Flow Hedges

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

As of September 30, 2013, the Company had notional amounts of EUR 36.9 million and KRW 1.8 billion of outstanding currency forward contracts entered into to hedge EUR and KRW denominated sales, compared to EUR 20.0 million and KRW 4.4 billion of outstanding currency forward contracts at December 31, 2012. The net gains (losses) reclassified to revenue related to the hedged revenue transactions for the three and nine months ended September 30, 2013 and 2012 were not significant. Other impacts of derivative instruments designated as cash flow hedges were not significant for the three and nine months ended September 30, 2013 and 2012.

Other Derivatives Not Designated as Hedging Instruments:

Other derivatives not designated as hedging instruments consist primarily of forward contracts that the Company uses to hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the U.S. dollar, primarily the EUR, the British Pound ("GBP"), the Swiss Franc ("CHF"), Japanese Yen ("JPY") and the KRW. Accordingly, any gains or losses from changes in the fair value of the forward contracts are recorded in interest and other income, net. The gains and losses on these forward contracts generally offset the gains and losses associated with the underlying assets and liabilities, which are also recorded in interest and other income, net. The duration of the forward contracts for hedging the Company's balance sheet exposure is approximately one month.

Derivative instruments used to hedge against balance sheet foreign currency exposures at the end of each period were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Recognized gains (losses) in interest and other income, net	\$ (2.6)	\$ —	\$ (1.8)	\$ 0.6
Foreign exchange gains (losses) related to re-measurement	\$ 2.4	\$ 0.2	\$ 1.0	\$ (0.4)

The notional amounts for derivative instruments provide one measure of the transaction volume. Total gross notional amounts (in local currency) for derivatives (recorded at fair value) outstanding at the end of each period were as follows (in millions):

	September 30, 2013	December 31, 2012
European Euro	31.6	37.6
Korean Won	12,204.2	4,600.0
British Pound	7.0	5.4
Swiss Franc	—	1.0
Japanese Yen	70.0	—

NOTE 4. BALANCE SHEET DETAILS**Inventories**

The following table summarizes the Company's inventories as of September 30, 2013 and December 31, 2012 (in millions):

	September 30, 2013	December 31, 2012
<u>Inventories:</u>		
Raw materials	\$ 59.1	\$ 41.2
Work-in-process	6.8	4.4
Finished goods	134.2	75.9
Total inventories	<u>\$ 200.1</u>	<u>\$ 121.5</u>

NOTE 5. CONTINGENCIES

On August 6, 2010, a purported class action lawsuit entitled *Perlmutter v. Intuitive Surgical et al.*, No. CV10-3451, was filed against seven of the Company's current and former officers and directors in the United States District Court for the Northern District of California. The lawsuit seeks unspecified damages on behalf of a putative class of persons who purchased or otherwise acquired the Company's common stock between February 1, 2008 and January 7, 2009. The complaint alleges that the defendants violated federal securities laws by making allegedly false and misleading statements and omitting certain material facts in the Company's filings with the Securities and Exchange Commission. On February 15, 2011, the Police Retirement System of St. Louis was appointed lead plaintiff in the case pursuant to the Private Securities Litigation Reform Act of 1995. An amended complaint was filed on April 15, 2011, making allegations substantially similar to the allegations described above. On May 23, 2011, the Company filed a motion to dismiss the amended complaint. On August 10, 2011, that motion was granted and the action was dismissed; the plaintiffs were given 30 days to file an amended complaint. On September 12, 2011, plaintiffs filed their amended complaint. The allegations contained therein are substantially similar to the allegations in the prior complaint. The Company filed a motion to dismiss the amended complaint. A hearing occurred on February 16, 2012, and on May 22, 2012 the Company's motion was granted. The complaint was dismissed with prejudice, and a final judgment was entered in the Company's favor on June 1, 2012. On June 20, 2012, plaintiffs filed a notice of appeal with the United States Court of Appeals for the Ninth Circuit. The appeal is styled *Police Retirement System of St. Louis v. Intuitive Surgical, Inc. et al.*, No. 12-16430. Plaintiffs filed their opening brief on September 28, 2012. The Company filed an answering brief on November 13, 2012, and plaintiffs filed a reply brief on December 17, 2012. No oral argument date has been set, and the appeal remains pending.

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

On April 26, 2013, a purported class action lawsuit entitled *Abrams v. Intuitive Surgical et al.*, No. 5-13-cv-1920, was filed against nine of the Company's current and former officers and directors in the United States District Court for the Northern District of California. A substantially identical complaint, entitled *Adel v. Intuitive Surgical, et al.*, No. 5:13-cv-02365, was filed in the same court against the same defendants on May 24, 2013. The *Adel* case was voluntarily dismissed without prejudice on August 20, 2013. The *Abrams* lawsuit seeks unspecified damages on behalf of a putative class of persons who purchased or otherwise acquired the Company's common stock between October 19, 2011 and April 18, 2013. The complaint alleges that the defendants violated federal securities laws by making allegedly false and misleading statements and omitting certain material facts in the Company's filings with the Securities and Exchange Commission. Motions seeking appointment as lead plaintiff in the *Abrams* case were filed by two parties on June 25, 2013. One of those motions was subsequently withdrawn. The remaining motion is scheduled to be heard on November 22, 2013. By agreement with the plaintiff in the *Abrams* action, no response to the complaint is required until after a lead plaintiff is appointed by the Court and that duly appointed lead plaintiff files a consolidated complaint or informs us that it has chosen to proceed with the complaint already on file. Also by agreement with plaintiff, the lead plaintiff filed a consolidated complaint on October 15, 2013, and the Company must respond by December 16, 2013.

The Company is currently named as a defendant in about 50 individual product liability lawsuits filed in various state and federal courts by plaintiffs who allege that they underwent surgical procedures that utilized the *da Vinci* Surgical System and sustained a variety of personal injuries and, in some cases, death as a result of such surgery. In addition, the Company has been named as a defendant in a purported class action filed in Louisiana state court seeking damages on behalf of all patients who were allegedly injured by the *da Vinci* Surgical System at a single hospital in Louisiana. The cases raise a variety of allegations including, to varying degrees, that the plaintiffs' injuries resulted from purported defects in the *da Vinci* Surgical System and/or failure on the Company's part to provide adequate training resources to the healthcare professionals who performed plaintiffs' surgeries. The cases further allege that the Company failed to adequately disclose and/or misrepresented the potential risks and/or benefits of the *da Vinci* Surgical System. Plaintiffs also assert a variety of causes of action, including for example, strict liability based on purported design defects, negligence, fraud, breach of express and implied warranties, unjust enrichment, and loss of consortium. Plaintiffs seek recovery for alleged personal injuries and, in many cases, punitive damages. Except for a few cases, including the *Taylor* case described below, these cases generally are in the early stages of pretrial activity.

Plaintiffs' attorneys are engaged in well-funded national advertising campaigns soliciting clients who have undergone *da Vinci* surgery and claim to have suffered an injury. The plaintiffs' attorneys are now alleging that Intuitive Surgical is liable for those injuries under products liability theories. The Company has seen a substantial increase in these claims; however, the Company has not received detailed information regarding many of these claims. In an effort to provide an orderly process for evaluating claims before they result in costly litigation, the Company has entered into tolling agreements with certain plaintiffs' counsel acting on behalf of such claimants. The tolling agreements provide that the statute of limitations for each individual will be tolled for a period of three to six months in exchange for the individual's agreement that, if he or she ultimately files a lawsuit, it will be filed in certain agreed upon venues. The tolling agreements provide the parties and their legal counsel with additional time to evaluate the claims, and to explore whether the claims have merit and whether they can be resolved without litigation. The Company does not currently know how many individuals will ultimately file lawsuits or decide not to pursue their claims, nor is the Company able at this time to estimate the financial impact of their claims or predict the final disposition of such claims. Based on currently available information, the Company believes that it has meritorious defenses in the above matters and intends to assert them vigorously.

In February 2011, the Company was named as a defendant in a product liability action that had originally been filed in Washington State Superior Court for Kitsap County against the healthcare providers and hospital involved in the plaintiff's decedent's surgery (*Josette Taylor, as Personal Representative of the Estate of Fred E. Taylor, deceased; and on behalf of the Estate of Fred E. Taylor v. Intuitive Surgical, Inc.*, No. 09-2-03136-5). In *Taylor*, plaintiff asserted wrongful death and product liability claims against the Company, generally alleging that the decedent died four years after surgery as a result of injuries purportedly suffered during the surgery, which was conducted with the use of the *da Vinci* Surgical System. The plaintiff in *Taylor* asserted that such injuries were caused, in whole or in part, by the Company's purported failure to properly train, warn, and instruct the surgeon. The lawsuit sought unspecified damages for past medical expenses, pain and suffering, loss of consortium as well as punitive damages. A trial commenced in the action on April 15, 2013. On May 23, 2013, the jury returned a defense verdict, finding that the Company was not negligent. Judgment was entered in favor of Intuitive Surgical on June 7, 2013. Plaintiff has filed a notice of appeal.

Due to the uncertainty surrounding the litigation process, the Company is unable, at this time, to reasonably predict the ultimate outcome of the above matters or estimate the possible loss or range of losses which may be incurred. Based on currently available information, the Company believes that it has meritorious defenses in the above matters and intends to assert them vigorously.

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

NOTE 6. STOCKHOLDERS' EQUITY

Share Repurchase Program

The following table provides the share repurchase activities during the three and nine months ended September 30, 2013 and 2012 (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Shares repurchased	1.8	0.3	2.6	0.4
Average price per share	\$ 398.87	\$ 495.09	\$ 429.09	\$ 497.28
Value of shares repurchased	\$ 693.8	\$ 169.8	\$ 1,109.2	\$ 185.1

On July 25, 2013 and March 20, 2013, the Company's Board of Directors (the "Board") authorized additional stock repurchases of \$779 million and \$1.0 billion, respectively. As of September 30, 2013, the remaining amount of share repurchases authorized by the Board was approximately \$1.0 billion.

On July 29, 2013, in connection with the stock repurchase authorization, the Company entered into an accelerated share repurchase program (the "ASR Program") with Goldman, Sachs & Co. ("Goldman") to repurchase \$500 million of the Company's common stock. Under the ASR Program, the Company paid an initial purchase price of \$500 million to Goldman and received an initial delivery of approximately 1.2 million shares of its common stock. On September 11, 2013, Goldman exercised its early termination option under the ASR Program and the pricing period was closed. The settlement price was \$385.16 per share. Based on this settlement price, the final number of shares repurchased by the Company and delivered by Goldman under the ASR Program was 1.3 million shares. The Company received the additional 0.1 million shares from Goldman on September 16, 2013 to settle the difference between the initial share delivery and the total number of shares repurchased.

In addition to the ASR Program, the Company repurchased an additional 0.5 million shares of the Company's common stock during the three months ended September 30, 2013. All of these shares were repurchased in the open market.

All common stock repurchased has been retired as of September 30, 2013. As a result of the stock repurchases made during the three months ended September 30, 2013, the Company reduced common stock and APIC by an aggregate of \$57.4 million and charged \$636.4 million to retained earnings.

Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, net of tax, for the three and nine months ended September 30, 2013 and 2012 are as follows (in millions):

	Three Months Ended September 30, 2013			
	Gains (Losses) on Hedge Instruments	Unrealized Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation Gains (Losses)	Total
Beginning balance	\$ 0.6	\$ (2.8)	\$ 0.1	\$ (2.1)
Other comprehensive income before reclassifications	(3.0)	3.9	0.5	1.4
Reclassified from accumulated other comprehensive income	0.5	0.6	—	1.1
Net current-period other comprehensive income	(2.5)	4.5	0.5	2.5
Ending balance	\$ (1.9)	\$ 1.7	\$ 0.6	\$ 0.4

	Three Months Ended September 30, 2012			
	Gains (Losses) on Hedge Instruments	Unrealized Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation Gains (Losses)	Total
Beginning balance	\$ 0.3	\$ 3.3	\$ —	\$ 3.6
Other comprehensive income before reclassifications	(1.7)	3.5	0.1	1.9
Reclassified from accumulated other comprehensive income	0.2	0.1	—	0.3
Net current-period other comprehensive income	(1.5)	3.6	0.1	2.2
Ending balance	\$ (1.2)	\$ 6.9	\$ 0.1	\$ 5.8

	Nine Months Ended September 30, 2013			
	Gains (Losses) on Hedge Instruments	Unrealized Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation Gains (Losses)	Total
Beginning balance	\$ —	\$ 6.2	\$ 0.4	\$ 6.6
Other comprehensive income before reclassifications	(1.4)	(5.4)	0.2	(6.6)
Reclassified from accumulated other comprehensive income	(0.5)	0.9	—	0.4
Net current-period other comprehensive income	(1.9)	(4.5)	0.2	(6.2)
Ending balance	\$ (1.9)	\$ 1.7	\$ 0.6	\$ 0.4

	Nine Months Ended September 30, 2012			
	Gains (Losses) on Hedge Instruments	Unrealized Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation Gains (Losses)	Total
Beginning balance	\$ —	\$ 1.1	\$ (0.2)	\$ 0.9
Other comprehensive income before reclassifications	(1.0)	5.5	0.3	4.8
Reclassified from accumulated other comprehensive income	(0.2)	0.3	—	0.1
Net current-period other comprehensive income	(1.2)	5.8	0.3	4.9
Ending balance	\$ (1.2)	\$ 6.9	\$ 0.1	\$ 5.8

NOTE 7. SHARE-BASED COMPENSATION
Stock Option Plans
2009 Employment Commencement Incentive Plan

In January 2013, the Board amended and restated the 2009 Employment Commencement Incentive Plan (“2009 Plan”) to provide for an increase in the number of shares of common stock authorized for issuance pursuant to awards granted under the 2009 Plan from 730,000 to 855,000. In May 2013, the Board amended and restated the 2009 Plan to provide for an additional increase in the number of shares of common stock authorized for issuance pursuant to awards granted under the 2009 Plan from 855,000 to 1,155,000.

2010 Incentive Award Plan

On April 25, 2013, the Shareholders approved an amended and restated 2010 Incentive Award Plan (“2010 Plan”) to provide for an increase in the number of shares of common stock reserved for issuance from 3,650,000 to 4,850,000.

A summary of stock option activity under all stock plans for the nine months ended September 30, 2013 is presented as follows (in millions, except per share amounts):

	Shares Available for Grant	Stock Options Outstanding	
		Number Outstanding	Weighted Average Exercise Price Per Share
Balance at December 31, 2012	1.7	4.8	\$ 340.83
Options authorized	1.6	—	—
Options granted	(1.5)	1.5	473.68
Options exercised	—	(0.4)	253.53
Options forfeited/expired	0.1	(0.2)	456.31
Balance at September 30, 2013	1.9	5.7	\$ 379.15

As of September 30, 2013, options to purchase an aggregate of 3.1 million shares of common stock were exercisable at a weighted-average price of \$312.11 per share.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan (“ESPP”), employees purchased approximately 37.7 thousand shares for \$12.4 million and 47.6 thousand shares for \$13.9 million during the three months ended September 30, 2013 and 2012, respectively. Employees purchased approximately 92.2 thousand shares for \$28.8 million and 96.8 thousand shares for \$27.8 million during the nine months ended September 30, 2013 and 2012, respectively.

Share-based Compensation

The following table summarizes share-based compensation expense for the three and nine months ended September 30, 2013 and 2012 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Cost of sales - products	\$ 5.2	\$ 4.3	\$ 13.2	\$ 10.6
Cost of sales - services	3.6	4.1	9.5	9.6
Total cost of sales	8.8	8.4	22.7	20.2
Selling, general and administrative	30.6	28.2	76.6	69.7
Research and development	11.0	10.7	28.0	25.1
Share-based compensation expense before income taxes	50.4	47.3	127.3	115.0
Income tax benefit	16.5	14.9	41.1	36.0
Share-based compensation expense after income taxes	\$ 33.9	\$ 32.4	\$ 86.2	\$ 79.0

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Stock Options				
Average risk free interest rate	1.5%	0.8%	1.2%	0.8%
Average expected term (in years)	4.5	4.1	4.5	4.3
Average expected volatility	31%	35%	30%	33%
Weighted average fair value at grant date	\$ 110.81	\$ 148.05	\$ 126.87	\$ 145.60
ESPP				
Average risk free interest rate	0.2%	0.2%	0.2%	0.2%
Average expected term (in years)	1.3	1.3	1.3	1.3
Average expected volatility	35%	32%	34%	32%
Weighted average fair value at grant date	\$ 115.84	\$ 143.36	\$ 153.33	\$ 138.61

NOTE 8. INCOME TAXES

Income tax expense for the three month period ended September 30, 2013 was \$21.3 million, or 12.0% of pre-tax income, compared with \$32.4 million, or 15.0% of pre-tax income for the three month period ended September 30, 2012. Income tax expense for the nine month period ended September 30, 2013 was \$151.6 million, or 23.1% of pre-tax income, compared with \$160.4 million, or 25.0% of pre-tax income for the nine month period ended September 30, 2012. The Company's effective tax rates for these periods differ from the U.S. federal statutory rate of 35% due primarily to the effect of the reversal of unrecognized tax benefits, and associated interest, in connection with the expiration of certain statutes of limitations, and income earned by certain of the Company's overseas entities being taxed at rates lower than the federal statutory rate, partially offset by state income taxes and non-deductible stock option expenses. The Company intends to indefinitely reinvest outside the U.S. all of its undistributed foreign earnings that were not previously subject to U.S. tax.

The income tax provision for the three month periods ended September 30, 2013 and 2012 included discrete benefits of \$26.2 million and \$35.1 million, respectively, primarily related to the reversal of unrecognized tax benefits, and associated interest, in connection with the expiration of certain statutes of limitations in multiple jurisdictions. The income tax provision for the nine month period ended September 30, 2013 reflected a net tax benefit of \$7.5 million related to 2012 federal research and development ("R&D") credit which was retroactively reinstated during the three month period ended March 31, 2013. No federal R&D credit benefit was recorded in the income tax provision for the nine month period ended September 30, 2012. The income tax provision for the nine month period ended September 30, 2012 included a discrete recognition of certain previously unrecognized tax benefits as a result of new IRS guidance issued in the first quarter of 2012.

As of September 30, 2013, the Company had total gross unrecognized tax benefits of approximately \$77.6 million compared with approximately \$88.0 million as of December 31, 2012, representing a net decrease of approximately \$10.4 million for the nine months ended September 30, 2013. The net decrease is primarily related to the above mentioned reversal of previously unrecognized tax benefits as a result of the expiration of certain statutes of limitations in multiple jurisdictions, partially offset by increases during the first nine months of 2013 related to other uncertain tax positions. Of the total gross unrecognized tax benefits, \$76.0 million as of September 30, 2013, if recognized, would reduce the effective tax rate in the period of recognition. Gross interest related to unrecognized tax benefit accrued was approximately \$1.9 million and \$3.2 million as of September 30, 2013 and December 31, 2012, respectively, representing a decrease of \$1.3 million as a result of the expiration of statutes of limitations, partially offset by increases related to other unrecognized tax positions.

The Company files federal, state and foreign income tax returns in many jurisdictions in the U.S. and internationally. Generally, years before 2010 are closed for most significant jurisdictions except for California, for which all years since inception remain open due to utilization in open years of net operating losses and R&D credit carryovers or longer statutes of limitations. Certain of the Company's unrecognized tax benefits could reverse based on the normal expiration of various statutes of limitations, which could affect the Company's effective tax rate in the period in which they reverse.

The Company is subject to the examination of its income tax returns by the Internal Revenue Service and other tax authorities. The outcome of these audits cannot be predicted with certainty. Management regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of the Company's provision for income taxes. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

NOTE 9. NET INCOME PER SHARE

The following table presents the computation of basic and diluted net income per share for the three and nine months ended September 30, 2013 and 2012 (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator:				
Net income	\$ 156.8	\$ 183.3	\$ 504.8	\$ 481.7
Denominator:				
Weighted-average shares outstanding used in basic calculation	38.6	39.9	39.6	39.8
Add: Dilutive effect of potential common shares	0.7	1.2	0.9	1.3
Weighted-average shares used in computing diluted net income per share	39.3	41.1	40.5	41.1
Net income per share:				
Basic	\$ 4.06	\$ 4.59	\$ 12.75	\$ 12.10
Diluted	\$ 3.99	\$ 4.46	\$ 12.46	\$ 11.72

Employee stock options to purchase approximately 2.6 million and 1.1 million weighted-average shares for the three months ended September 30, 2013 and 2012, respectively, and approximately 2.1 million and 0.8 million weighted-average shares for the nine months ended September 30, 2013 and 2012, respectively, were outstanding, but were not included in the computation of diluted net income per share because the effect of including such shares would have been anti-dilutive.

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

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

This management’s discussion and analysis of financial condition as of September 30, 2013 and results of operations for the three and nine months ended September 30, 2013 and 2012 should be read in conjunction with management’s discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2012.

This report contains forward-looking statements. Forward-looking statements relate to expectations concerning matters that are not historical facts. Words such as “estimates,” “projects,” “believes,” “anticipates,” “plans,” “expects,” “intends,” “may,” “will,” “could,” “should,” “would,” “targeted” and similar words and expressions are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements related to our expected business, new product introductions, procedures and procedure adoption, results of operations, future financial position, our ability to increase our revenues, the mix of our revenues between product and service revenues, our financing plans and capital requirements, our costs of revenue, our expenses, our potential tax assets or liabilities, the effect of recent accounting pronouncements, our investments, cash flows and our ability to finance operations from cash flows and similar matters and include statements based on current expectations, estimates, forecasts and projections about the economies and markets in which we operate and our beliefs and assumptions regarding these economies and markets. These forward-looking statements should be considered in light of various important factors, including the following: the impact of global and regional economic and credit market conditions on health care spending; the potential impact of the recent shutdown of the U.S. federal government and the ongoing debates related to the U.S. budget and debt ceiling; health care reform legislation in the United States and its impact on hospital spending, reimbursement and fees which will be levied on certain medical device revenues; decreases in hospital admissions and actions by payers to limit or manage surgical procedures; timing and success of product development and market acceptance of developed products; procedure counts; regulatory approvals, clearances and restrictions; guidelines and recommendations in the health care and patient communities; intellectual property positions and litigation; competition in the medical device industry and in the specific markets of surgery in which we operate; unanticipated manufacturing disruptions; the inability to meet demand for products; the results of legal proceedings to which we are or may become a party; product liability and other litigation claims; adverse publicity regarding the Company and the safety of our products and adequacy of training; our ability to expand into foreign markets; and other risk factors. Readers are cautioned not to place undue reliance on these forward-looking statements, which are based on current expectations and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those risk factors described throughout this filing and detailed in the Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and other periodic filings with the Securities and Exchange Commission, particularly in Part I, “Item 1A: Risk Factors” of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013. Our actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to publicly update or release any revisions to these forward-looking statements, except as required by law.

Intuitive[®], Intuitive Surgical[®], *da Vinci*[®], *da Vinci*[®] S[®], *da Vinci*[®] Si HD Surgical System[™], *da Vinci*[®] S HD Surgical System[®], *da Vinci*[®] Si[™], *da Vinci*[®] Si^e[™], *EndoWrist*[®], *EndoWrist*[®] One[™], *EndoWrist*[®] Stapler 45, Single-Site[™], *Firefly*[™], *InSite*[®], and *da Vinci*[®] Connect[™] are trademarks of Intuitive Surgical, Inc.

Overview

Intuitive designs, manufactures and markets *da Vinci* Surgical Systems and related instruments and accessories, which taken together, are advanced surgical systems that represent a new generation of surgery. This new generation of surgery, which we call *da Vinci* surgery, combines the benefits of minimally invasive surgery (“MIS”) for patients with the ease of use, precision and dexterity of open surgery. A *da Vinci* Surgical System consists of a surgeon’s console, a patient-side cart and a high performance vision system. The *da Vinci* Surgical System translates a surgeon’s natural hand movements, which are performed on instrument controls at a console, into corresponding micro-movements of instruments positioned inside the patient through small incisions, or ports.

The *da Vinci* Surgical System enables surgeons to extend the benefits of MIS to many patients who would otherwise undergo a more invasive surgery by using computational, robotic and imaging technologies to overcome many of the limitations of conventional MIS. Surgeons using the *da Vinci* system operate while seated comfortably at a console viewing a Three Dimensional (“3-D”), High Definition (“HD”) image of the surgical field. This immersive visualization connects surgeons to the surgical field and their instruments. While seated at the console, the surgeon manipulates instrument controls in a natural manner, similar to the more intuitive open surgery technique. Our multi-port technology is designed to provide surgeons with a range of motion in the surgical field analogous to the motions of a human wrist, while filtering out the tremor inherent in a surgeon’s hand. In designing our products, we focus on making our technology easy to use.

Our products fall into four broad categories – *da Vinci* Surgical Systems, *InSite* and *Firefly* Fluorescence imaging systems (“*Firefly*”), instruments and accessories (e.g., *EndoWrist*, *EndoWrist One Vessel Sealer*, *da Vinci Single-Site* and *EndoWrist Stapler 45*) and training technologies. We have commercialized three generations of *da Vinci* Surgical Systems; the first is our *da Vinci standard* Surgical System, first commercialized in 1999, the second is our *da Vinci S* Surgical System, commercialized in 2006, and the third and most current is our *da Vinci Si* Surgical System, commercialized in 2009. Systems include a surgeon’s console (or consoles), imaging electronics, a patient-side cart and computational hardware and software.

In the first quarter of 2011, we launched our *Firefly* product for use with the *da Vinci Si* Surgical System. This imaging capability combines a fluorescent dye with a specialized *da Vinci* camera head, endoscope and laser-based illuminator to allow surgeons to identify vasculature in three dimensions beneath tissue surfaces to visualize critical anatomy. Adoption of *Firefly* is progressing with use across the categories of urology, gynecology and general surgery. In September 2013, we received FDA 510(k) clearance to market our *Firefly* fluorescence imaging product for real-time imaging of bile ducts (cystic duct, common bile duct and common hepatic duct).

Instruments and accessories are used with systems to allow surgeons the flexibility in choosing the types of tools needed in a particular surgery. In the fourth quarter of 2011, we introduced our Single-Site instruments in the U.S. for use in cholecystectomy procedures utilizing the *da Vinci Si* Surgical System. During the first quarter of 2013, Single-Site instruments were FDA cleared in the U.S. for use in benign hysterectomies and salpingo oophorectomies. Single-Site instruments enable surgeons to perform surgery through a single port via the patient’s belly button, resulting in virtually scarless patient outcomes. Single-Site instruments were Conformité Européenne (“CE”) marked and introduced in Europe in the first quarter of 2011. Training technologies include our recently developed *da Vinci* Connect remote case observation and mentoring tool, our *da Vinci* Skills Simulator and our dual console for use in surgeon proctoring and collaborative surgery.

Procedures - Historical Summary

We model patient value as equal to procedure efficacy / invasiveness. In this equation procedure efficacy is defined as a measure of the success of the surgery in resolving the underlying disease and invasiveness is defined as a measure of patient pain and disruption of regular activities. When the patient value of a *da Vinci* procedure is greater than that of alternative treatment options, patients may benefit from seeking out surgeons and hospitals that offer *da Vinci* surgery, which potentially could result in a local market share shift. Adoption occurs procedure by procedure, and is driven by the relative patient value of *da Vinci* procedures compared to alternative treatment options for the same disease state.

Worldwide Procedures

The adoption of *da Vinci* surgery has the potential to grow for those procedures that offer greater patient value than non *da Vinci* alternatives. We focus our organization and investments on developing, marketing and training for those products and procedures where *da Vinci* can bring significant patient value relative to alternative treatment options. In 2012, *da Vinci* was used primarily in gynecology, urology, general surgery, cardiothoracic surgery and head and neck surgery. Target procedures in gynecology include *da Vinci* Hysterectomy (“dVH”), sacrocolpopexy, myomectomy, and endometriosis resection. Target procedures in urology include *da Vinci* Prostatectomy (“dVP”), partial nephrectomy and pyeloplasty. Target procedures in general surgery include Single-Site Cholecystectomy and colorectal procedures. In cardiothoracic surgery, target procedures include *da Vinci* Lobectomy and *da Vinci* Mitral Valve Repair. In head and neck surgery, target procedures include *da Vinci* Trans-oral Robotic-Assisted Surgery (“TORS”) for throat and base of tongue cancers.

In 2012, approximately 450,000 surgical procedures were performed with the *da Vinci* Surgical System, compared to approximately 360,000 and 278,000 procedures performed in 2011 and 2010, respectively. The growth in our overall procedure volume in 2012 was driven by the growth in U.S. gynecologic procedures, U.S. general surgery procedures, and dVP procedures outside of the U.S., partially offset by a decline of approximately 15% in U.S. dVP procedures compared to 2011.

U.S. Procedures

Overall U.S. procedure volume grew to approximately 367,000 in 2012, compared to approximately 292,000 in 2011 and 228,000 in 2010.

Gynecology is our largest U.S. surgical specialty. Overall U.S. gynecology procedure volume grew from approximately 123,000 cases in 2010 to approximately 170,000 in 2011 and to approximately 222,000 in 2012. The growth was driven by adoption of dVH, our highest volume procedure, and other gynecologic procedures, including sacrocolpopexy, endometriosis resection, and myomectomy. U.S. dVH procedure volume grew from approximately 140,000 cases in 2011 to approximately 176,000 cases in 2012, of which approximately 38,000 were for the treatment of cancer and approximately 138,000 were related to benign conditions. We estimate the total annual U.S. addressable robotic hysterectomy market to consist of approximately 300,000 to 350,000 procedures previously performed in open surgery, of which approximately 50,000 are for cancer.

Urology is our second largest surgical specialty. U.S. urology procedure volume was approximately 88,000 in 2012, compared to approximately 93,000 in 2011 and 85,000 in 2010. We consider dVP to be the standard of care for the surgical treatment of prostate cancer in the U.S. About 62,000 dVPs were performed in 2012, compared to 73,000 in 2011 and 68,000 in 2010. The approximately 15% reduction in 2012 dVP procedures in the U.S. were caused by the U.S. Preventive Services Task Force recommendation against prostate-specific antigen (“PSA”) screening, as well as changes in treatment pattern for low risk prostate cancer away from definitive treatment. Other (non-dVP) urology procedures, including partial and full nephrectomy, increased approximately 27% in 2012 to 26,000 cases.

General surgery is our third largest and fastest growing specialty. Overall U.S. general surgery procedure volume grew from approximately 10,000 cases in 2010 to approximately 15,000 in 2011 and to approximately 42,000 in 2012. General surgery growth was led by an increase in cholecystectomy and colorectal procedures. *da Vinci* Single-Site instrumentation was FDA cleared for U.S. cholecystectomies in December 2011.

International Procedures

Overall international procedure volume grew to approximately 83,000 in 2012, compared to approximately 68,000 in 2011 and 50,000 in 2010. dVP accounted for the majority of international procedures, having grown from about 30,000 in 2010 to 40,000 in 2011 and to 47,000 in 2012. The overall international procedure growth rate of approximately 22% in 2012 was lower than the 36% growth rate in 2011, primarily due to lower European growth rates resulting from the implementation of austerity measures by European governments, reduced levels of PSA testing, increased use of non-surgical disease management and other Company specific matters.

Business Model

We generate revenue from both the initial capital sales of *da Vinci* Surgical Systems as well as recurring revenue, derived from sales of instruments, accessories and service. The *da Vinci* Surgical System generally sells for between \$1.0 million and \$2.3 million, depending upon configuration and geography, and represents a significant capital equipment investment for our customers. We generate recurring revenue as our customers consume our *EndoWrist* instruments and accessory products used in performing procedures with the *da Vinci* Surgical System. *EndoWrist* instruments and accessories have a limited life and will either expire or wear out as they are used in surgery, at which point they are replaced. Also, we generate recurring revenue from ongoing system service. Typically, we enter into service contracts at the time systems are sold at an annual rate of approximately \$100,000 to \$170,000 per year, depending upon the configuration of the underlying system. These service contracts have generally been renewed at the end of the initial contractual service periods.

Recurring revenue has grown at a rate equal to or faster than the rate of growth of system revenue. Recurring revenue increased from \$979.5 million, or 56% of total revenue in 2011, to \$1,245.9 million, or 57% of total revenue, in 2012. Recurring revenue increased from \$901.5 million, or 57% of total revenue, for the nine months ended September 30, 2012 to \$1,058.6 million, or 63% of total revenue, for the nine months ended September 30, 2013. The increase in recurring revenue relative to system revenue reflects continuing adoption of procedures on a growing base of installed *da Vinci* Surgical Systems and slower systems sales in the second and third quarters of 2013. We expect recurring revenue to become a larger percentage of total revenue in the future. The installed base of *da Vinci* Surgical Systems has grown to 2,871 at September 30, 2013, compared with 2,585 at December 31, 2012 and 2,462 at September 30, 2012.

We provide our products through a direct sales organization in the U.S. and in Europe, excluding Spain, Italy, Greece and Eastern European countries. In January 2012, we acquired our Korean distributor and began selling directly to Korean customers. In January 2013, we began to provide our products through a direct sales organization in the Czech Republic, Slovakia, and Hungary, whereas prior to 2013, these markets were served by a distributor. In the remainder of our world markets, we provide our products through distributors.

Regulatory Activities

We believe that we have obtained the clearances required to market our multiport products to our targeted surgical specialties within the U.S. and most of Europe. As we make additions to target procedures and introduce new products, we will continue to seek necessary clearances. In February 2013, we received FDA clearance to market our Single-Site instruments for benign hysterectomy and salpingo oophorectomy procedures. FDA clearance for Single-Site Cholecystectomy was received in December 2011. However, as we are in the early stages of introducing this instrumentation to the U.S. market, we are not able to predict the extent to which *da Vinci* Single-Site may be adopted.

In September 2013, we received FDA clearance to expand the indication for use for *Firefly* to include visual assessment of at least one of the major extra-hepatic bile ducts (cystic duct, common bile duct and common hepatic duct), using near infrared imaging. Fluorescence imaging of biliary ducts with the *da Vinci* Fluorescence Imaging Vision System is intended for use with standard of care white light and, when indicated, intraoperative cholangiography. The device is not intended for standalone use for biliary duct visualization. We believe that the use of *Firefly* during cholecystectomy procedures will enhance the ability of surgeons to identify key anatomical structures during the surgery.

In November 2009, we received Shonin approval from the Japanese Ministry of Health, Labor, and Welfare (“MHLW”) for our *da Vinci S* Surgical System in Japan. Until April 2012, we had partnered with the experienced regulatory team from Johnson & Johnson K.K. Medical Company (“JJKK”) to assist in navigating the Japanese regulatory process. In April 2012, the Marketing Authorization Application for *da Vinci* products was transferred to Intuitive Surgical Japan from JJKK, and Intuitive Surgical Japan now has primary responsibility for regulatory support of our products in Japan. We continue to partner with Adachi Co., Ltd as our separate independent distribution partner for marketing, selling, and servicing our products in Japan. Effective April 2012, we obtained national reimbursement for the dVP procedures in Japan, our only reimbursed procedure to date. In Japan additional procedures are considered for reimbursed status in April of even numbered years as the MHLW considers recommendations and data brought forth from Japanese surgical societies. We do not expect any additional procedures to be granted reimbursement status in the April 2014 cycle. We are supporting the Japanese surgical societies to gather the necessary data for MHLW consideration in the April 2016 cycle. In October 2012, we obtained MHLW approval for *da Vinci Si* Surgical Systems in Japan. If we are not successful in obtaining additional regulatory clearances, importation licenses, and adequate procedure reimbursements for future products and procedures, then the demand for our products in Japan could be limited.

FDA Inspection

A FDA inspection of the Company’s facilities occurred in April-May 2013 and the FDA issued a Form FDA 483 listing four observations relating to the reporting of field corrections, information which is to be included on reports of field corrections, written procedures for changes to certain product labeling, and design input documentation. We responded to each observation with corrective actions during the course of the inspection and provided additional evidence of corrective actions to the FDA in response to the Form FDA 483. The FDA issued a Warning Letter, dated July 16, 2013, related to two of the four Form FDA 483 observations asking for additional corrective actions and indicated their intent to perform a follow-up inspection. We have responded to the Warning Letter with plans for corrective action, and continue to provide supplemental responses with objective evidence of corrections as they are completed. In addition, the FDA collected electronic samples of all our advertising and promotional material for review, and to date have taken no action in connection therewith. However, we cannot assure that, upon re-inspection, the FDA will find that our corrective actions are acceptable or that they have been adequately implemented. We also cannot assure that the FDA will not find other observations. The FDA previously inspected our Sunnyvale, CA headquarters in January 2012 and did not issue a Form FDA 483 as a result of this inspection.

The receipt of a Warning Letter places certain limits on the ability to obtain FDA issued Certificates to Foreign Government (“CFG”)s used for new and re-registration of products in certain foreign countries.

Medical Device Reporting

In September of 2012 we contacted the Office of Surveillance and Biometrics (OSB) in the FDA Center for Devices and Radiological Health (CDRH) regarding proposed changes to our reporting practices for non-injury malfunction Medical Device Reports (MDRs). In addition we discussed summary reporting for well characterized events. As a result of the proposed changes, we have increased our reports of device malfunction MDRs, the vast majority of which are related to instruments and not to systems. None of these device malfunction MDRs involve reportable injuries or deaths. These MDRs are posted on the FDA Manufacturer and User Facility Device Experience (MAUDE) database.

In addition, claims brought to our attention by plaintiffs’ attorneys, which contain allegations of patient injury, are required to be investigated and in most cases are reported to the FDA as MDRs. This has led to increases in MDRs.

We will continue to work with the FDA CDRH OSB to establish agreement on reporting criteria and to complete any retrospective reporting that may be required as a result of new criteria. We cannot predict when this work will be completed as it is highly dependent on FDA questions and the acceptance of our responses and data.

Recalls and Corrections

Medical device companies have regulatory obligations to correct or remove medical devices in the field which have factors which could pose a risk to health. The definition of Recalls and Corrections is expansive and includes repair, replacement, inspections, re-labeling and issuance of new, added or reinforcement of instructions for use and training when such actions are taken for specific reasons of safety or compliance. These field actions require stringent documentation, reporting and monitoring worldwide. There are other actions which a medical device manufacturer may take in the field without reporting, including routine servicing, the introduction of new products, new indications for use and stock rotations.

As we determine whether a field action is reportable in any regulatory jurisdiction, we prepare and submit notifications to the appropriate regulatory agency for the particular jurisdiction. In general, upon submitting required notifications to regulators regarding a field action which is a recall or correction, we will notify customers regarding the field action, provide any additional documentation required in their national language and arrange, as required, return or replacement of the affected product or a field service visit to perform the correction. In some cases actions taken by the Company believed to be routine or not reportable may be retrospectively classified by regulators as reportable, resulting in the reporting of additional field actions, which in some cases may have already been completed. In addition, regulators can require the expansion, reclassification or change in scope and language of the field action. Field actions can result in adverse effects on the business including damage to reputation, delays by customers of purchase decisions, reduction or stoppage of use of installed systems, and reduced revenue as well as increased expenses to complete field actions.

Year-to-Date 2013 Business Events and Trends

Procedures

Overall. During the nine months ended September 30, 2013, total *da Vinci* procedures grew approximately 18% compared with the first nine months of 2012, driven by growth in general surgery and gynecology procedures in the U.S. and international urology procedures, partially offset by an approximately 6% reduction in dVP procedures in the U.S.

dVP. We believe the U.S. Preventive Services Task Force recommendation against PSA screening, as well as changes in treatment patterns for low risk prostate cancer away from definitive treatment, have led to a decline in our dVP business. U.S. dVP procedure volumes appear to have stabilized and third quarter 2013 U.S. dVP procedures were approximately equal to the third quarter of 2012. These treatment patterns have also impacted our European dVP procedure volumes. dVP is at earlier market penetration stages in the European markets, therefore, we are unable to precisely estimate the extent to which these recommendations and treatment pattern changes may have been adopted by governments or clinicians within non-U.S. jurisdictions.

Benign Gynecology Procedure Adoption Trends. During the nine months ended September 30, 2013, we experienced lower growth rates in the category of U.S. benign gynecologic procedures than in prior years. Year-to-date 2013 benign gynecologic procedures grew at lower rates than the previous year. The slower 2013 growth rate in the category of U.S. benign gynecologic procedures reflected a number of factors including, but not limited to, apparent pressure on benign gynecology hospital admissions, negative media reports, and a trend by payers toward encouraging conservative disease management and treatment in outpatient settings. We still have a significant remaining market opportunity in benign gynecologic procedures since a large number are still done via open technique. However, as we penetrate more deeply into benign gynecologic procedures, our pace of capturing or consolidating the remaining market is progressing at a slower rate than previously.

Monopolar Curved Scissors Field Action. During early May 2013, we issued a field notice informing customers of the potential for micro-crack formations in certain of our *EndoWrist* Monopolar Curved Scissors (“MCS”). We decided to stop shipment of these versions until a replacement product was made available. However, as the risk of injury to patients from the recalled product was extremely low, customers were notified that they could continue to use the recalled product; which most did. To date, we have no confirmed evidence of patient injury attributable to this issue. The replacement MCS product began shipping on May 31, 2013. We do not believe that this field action materially impacted our 2013 procedure volume and customer returns of the recalled product have not been material.

Procedure Seasonality. The majority of *da Vinci* procedures performed are now for benign conditions, most notably benign hysterectomies. The proportion of these benign procedures is growing in relation to the total number of procedures performed. Hysterectomies for benign conditions and other short-term elective procedures tend to be more seasonal than cancer operations and surgeries for other life threatening conditions. Seasonality for these benign procedures results in higher fourth quarter procedure volume when more patients have met annual deductibles and lower first quarter procedure volume when deductibles

are reset. Third quarter activity is also slower given vacation periods, particularly in Europe. As we achieve deeper penetration in certain procedures, seasonality has a more substantive impact on our business.

Environment and Demand for Our Products

During the nine months ended September 30, 2013, there have been a number of factors that have resulted in slowing growth rates in U.S. benign gynecologic procedures as noted previously. We expect growth in benign procedures to continue at a level below 2012 and could decline further depending on changes in hospital admissions, payer behavior, the impact of the Affordable Care Act and other factors. Demand for *da Vinci* systems fluctuates quarter to quarter based upon procedure growth, system utilization patterns and changing economic and geopolitical factors.

In addition, there is continued uncertainty regarding the potential impact of the recent shutdown of the U.S. federal government in October 2013 and the ongoing debates related to the U.S. budget and debt ceiling, which may result in changes to monetary and fiscal policies and health care reform legislation in the United States, any of which may impact hospital spending, reimbursement and fees which will be levied on certain medical device revenues and adversely affect our business and results of operations.

The European credit and sovereign debt issues have slowed capital sales and curtailed procedure growth during 2012 and through the first three quarters of 2013. European uncertainties could adversely impact demand for our products globally.

Recent Media and Lawsuits

Prior to and during the nine months ended September 30, 2013, various print, television, and internet media have released pieces questioning the patient safety and efficacy associated with *da Vinci* Surgery, the cost of *da Vinci* Surgery relative to other disease management methods, the adequacy of surgeon training, and the Company's sales and marketing practices. In addition, as further described below in Part II, Item 1, Legal Proceedings, we are currently named as a defendant in about 50 individual product liability lawsuits. Plaintiffs' attorneys are engaged in well-funded national advertising campaigns soliciting clients who have undergone *da Vinci* surgery and claim to have suffered an injury, and we have seen a substantial increase in these claims. We believe that *da Vinci* Surgery continues to be a safe and effective surgical method, as supported by a substantial and growing number of scientific studies and peer reviewed papers. We also believe that the training we provide to surgeons helps to ensure that they are able to operate our systems with the requisite skill and expertise. However, the recent negative media publicity likely has and may continue to delay or adversely impact procedure adoption, system sales, and our revenue growth in future periods. We are not able at this time to reasonably estimate the financial impact of this recent negative media publicity.

New Product Introductions

EndoWrist Stapler 45. In October 2012, we received FDA clearance for the *EndoWrist* Stapler 45 instrument with Blue (3.5mm open staple height) and Green (4.3mm open staple height) 45 mm reloads. The *EndoWrist* Stapler 45 is a wristed, stapling instrument intended for resection, transection and/or creation of anastomoses in general, gynecologic and urologic surgery. This instrument enables operators of the *da Vinci Si* to precisely position and fire the *EndoWrist* Stapler 45. We expect its initial surgical use to be directed towards colorectal procedures. During the first nine months of 2013, the *EndoWrist* Stapler was used by a limited and gradually increasing number of customers. We expect to continue to expand slowly to a broadening set of customers as 2013 progresses. Although our first customer experiences have been positive, we are in the early stages of selling *EndoWrist* Stapler 45 and we are not able to predict the extent to which the instrument may be adopted.

Third Quarter 2013 Financial Highlights

- Total revenue decreased by 7% to \$499.0 million during the three months ended September 30, 2013 from \$537.8 million during the three months ended September 30, 2012.
- The total number of *da Vinci* procedures performed during the three months ended September 30, 2013 increased approximately 16% compared with the three months ended September 30, 2012.
- Instruments and accessories revenue increased by 10% to \$239.1 million during the three months ended September 30, 2013 from \$218.0 million during the three months ended September 30, 2012.
- Recurring revenue increased 11% to \$340.5 million during the three months ended September 30, 2013, representing 68% of total revenue, from \$305.8 million during the three months ended September 30, 2012, representing 57% of total revenue.
- We sold 101 *da Vinci* Surgical Systems during the three months ended September 30, 2013, compared with 155 during the three months ended September 30, 2012.
- System revenue decreased 32% to \$158.5 million during the three months ended September 30, 2013 from \$232.0 million during the three months ended September 30, 2012.

- As of September 30, 2013, we had a *da Vinci* Surgical System installed base of 2,871 systems, consisting of 2,042 in the U.S., 455 in Europe, and 374 in the rest of the world.
- Operating income decreased 18% to \$174.2 million during the three months ended September 30, 2013 compared with \$211.4 million during the three months ended September 30, 2012. Operating income included \$50.4 million and \$47.3 million during the three months ended September 30, 2013 and 2012, respectively, of share-based compensation expense related to employee stock programs.
- As of September 30, 2013, we had \$2.5 billion in cash, cash equivalents and investments. Cash, cash equivalents and investments decreased by \$494.9 million during the three months ended September 30, 2013 primarily driven by cash used in repurchasing \$693.8 million of stock, partially offset by cash provided from operations.

Results of Operations

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013	% of total revenue	2012	% of total revenue	2013	% of total revenue	2012	% of total revenue
Revenue:								
Product	\$ 397.6	80%	\$ 450.0	84%	\$ 1,395.0	83%	\$ 1,317.5	84%
Service	101.4	20%	87.8	16%	293.9	17%	252.0	16%
Total revenue	499.0	100%	537.8	100%	1,688.9	100%	1,569.5	100%
Cost of revenue:								
Product	112.0	22%	119.3	22%	399.2	24%	353.9	23%
Service	30.3	6%	28.4	5%	93.5	6%	83.2	5%
Total cost of revenue	142.3	29%	147.7	27%	492.7	29%	437.1	28%
Product gross profit	285.6	57%	330.7	61%	995.8	59%	963.6	61%
Service gross profit	71.1	14%	59.4	11%	200.4	12%	168.8	11%
Gross profit	356.7	71%	390.1	73%	1,196.2	71%	1,132.4	72%
Operating expenses:								
Selling, general and administrative	139.3	28%	129.0	24%	426.3	25%	374.1	24%
Research and development	43.2	9%	49.7	9%	126.0	7%	128.3	8%
Total operating expenses	182.5	37%	178.7	33%	552.3	33%	502.4	32%
Income from operations	174.2	34%	211.4	40%	643.9	38%	630.0	40%
Interest and other income, net	3.9	1%	4.3	1%	12.5	1%	12.1	1%
Income before taxes	178.1	35%	215.7	41%	656.4	39%	642.1	41%
Income tax expense	21.3	4%	32.4	5%	151.6	9%	160.4	10%
Net income	\$ 156.8	31%	\$ 183.3	36%	\$ 504.8	30%	\$ 481.7	31%

Total Revenue

Total revenue was \$499.0 million for the three months ended September 30, 2013, compared with \$537.8 million for the three months ended September 30, 2012. Lower total revenue for the three months ended September 30, 2013 was driven by 32% lower da Vinci Surgical system sales, partially offset by 11% higher recurring revenue derived from growth in surgical procedure volume and service revenue. For the nine months ended September 30, 2013, total revenue increased to \$1,688.9 million compared with \$1,569.5 million for the nine months ended September 30, 2012. Higher total revenue for the nine months ended September 30, 2013 revenue was driven by 17% higher recurring revenue derived from growth in surgical procedure volume and service revenue, partially offset by 6% lower da Vinci Surgical system sales. Recurring instrument and accessory revenue growth for these periods was driven by the continued adoption of *da Vinci* surgery, resulting largely from the growth in U.S. general surgery procedures, including cholecystectomy and colorectal procedures, and gynecologic procedures, including dVH, and sacrocolpopexy, and the growth in dVP procedures outside the U.S., partially offset by a year-to-date decline of approximately 6% in dVP procedures in the U.S. The reduction in dVP procedures in the U.S. reflects pressures from reduced levels of PSA testing and non-surgical disease management.

Revenue within the U.S. accounted for 73% and 74% of total revenue for the three and nine months ended September 30, 2013, respectively, compared to 79% and 80% of total revenue for the three and nine months ended September 30, 2012, respectively. Our domestic revenue has accounted for the large majority of total revenue primarily due to rapid procedure adoption in the U.S. driven by the ability of patients to choose their provider and method of treatment. In 2013, international revenue has grown at a faster rate than U.S. revenue primarily due to a decline in system sales in the U.S. market and higher system sales in the Japanese and European markets.

The following table summarizes our revenue and *da Vinci* Surgical System unit sales for the three and nine months ended September 30, 2013 and 2012 (in millions, except percentages and unit sales):

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2013	2012	2013	2012
Revenue				
Instruments and accessories	\$ 239.1	\$ 218.0	\$ 764.7	\$ 649.5
Systems	158.5	232.0	630.3	668.0
Total product revenue	397.6	450.0	1,395.0	1,317.5
Services	101.4	87.8	293.9	252.0
Total revenue	\$ 499.0	\$ 537.8	\$ 1,688.9	\$ 1,569.5
Recurring revenue	\$ 340.5	\$ 305.8	\$ 1,058.6	\$ 901.5
% of total revenue	68%	57%	63%	57%
Domestic	\$ 366.1	\$ 422.6	\$ 1,244.7	\$ 1,248.6
International	132.9	115.2	444.2	320.9
Total revenue	\$ 499.0	\$ 537.8	\$ 1,688.9	\$ 1,569.5
% of Revenue - Domestic	73%	79%	74%	80%
% of Revenue - International	27%	21%	26%	20%
Unit Sales by Region:				
Domestic Unit Sales	65	114	270	343
International Unit Sales	36	41	138	102
Total Unit Sales	101	155	408	445
Unit Sales by Model:				
<i>da Vinci Si-e</i> - Single console Unit Sales (3 arm)	2	6	9	13
<i>da Vinci Si</i> - Single console Unit Sales (4 arm)	66	113	286	327
<i>da Vinci Si</i> - Dual console Unit Sales	32	20	107	73
Total <i>da Vinci Si</i> Unit Sales	100	139	402	413
<i>da Vinci S</i> Unit Sales	1	16	6	32
Total Unit Sales	101	155	408	445
Unit Sales involving System Trade-ins:				
Unit sales involving trade-ins of <i>da Vinci standard</i> Surgical Systems	5	8	18	39
Unit sales involving trade-ins of <i>da Vinci S</i> Surgical Systems	24	26	93	76
Total unit sales involving trade-ins	29	34	111	115
Unit Sales not involving trade-ins	72	121	297	330
Total Unit Sales	101	155	408	445

Product Revenue

Product revenue was \$397.6 million for the three months ended September 30, 2013 compared with \$450.0 million for the three months ended September 30, 2012.

Instruments and accessories revenue increased 10% to \$239.1 million for the three months ended September 30, 2013 compared with \$218.0 million for the three months ended September 30, 2012. Instrument and accessory revenue growth was driven by approximately 16% higher *da Vinci* surgical procedure volume and revenue generated from sales of new instrument and accessory products, including Single-Site, *Firefly*, and the *EndoWrist One* Vessel Sealer, partially offset by lower instrument and accessory stocking orders associated with lower system sales and customer buying patterns. Overall procedure growth was driven by U.S. general surgery procedures, including cholecystectomy and colorectal procedures; gynecologic procedures, including dVH and sacrocolpopexy procedures; and dVP procedures outside the U.S. Gynecologic procedures, particularly dVH for benign conditions, in the U.S., growth rates have decreased significantly relative to previous years, reflecting the factors noted above (See Environment and Demand for Our Products).

Systems revenue decreased to \$158.5 million during the three months ended September 30, 2013 from \$232.0 million during the three months ended September 30, 2012. We sold 101 *da Vinci* Surgical Systems during the three months ended September 30, 2013 compared with 155 in the same period last year. The decrease in system unit sales reflects lower third quarter 2013 system sales into U.S. and international markets. During the third quarter of 2013, 65 systems were sold into the U.S., 17 into Europe, 13 into Japan, and 6 into other markets, compared with 114 systems sold into the U.S., 13 into Europe, 16 into Japan, and 12 into other markets during the third quarter of 2012. The demand for systems is ultimately driven by *da Vinci* surgical procedure volume and is highly sensitive to changes in procedure growth rates. The decline in U.S. system sales in the third quarter of 2013 was largely driven by moderating growth in the category of benign gynecologic procedures (as described in the Procedures section) resulting in fewer systems sales required to be sold into the installed base to expand capacity. In addition, hospital capital spending appears to have been impacted by strategic uncertainties surrounding the Affordable Care Act, economic pressures, and negative media reports. The *da Vinci* system average selling price ("ASP") was \$1.56 million for the three months ended September 30, 2013, compared with \$1.49 million for the three months ended September 30, 2012. The higher third quarter 2013 ASP was driven by favorable product and geographic mix.

Product revenue was \$1,395.0 million for the nine months ended September 30, 2013 compared with \$1,317.5 million for the nine months ended September 30, 2012.

Instruments and accessories revenue increased 18% to \$764.7 million for the nine months ended September 30, 2013 compared with \$649.5 million for the nine months ended September 30, 2012. Instrument and accessory revenue growth was driven by approximately 18% higher *da Vinci* surgical procedure volume and revenue generated from sales of new instrument and accessory products, including Single-Site, *Firefly*, and the *EndoWrist One* Vessel Sealer, partially offset by lower instrument and accessory stocking orders. Overall procedure growth was driven by the growth in U.S. general surgery procedures, including cholecystectomy and colorectal procedures, and gynecologic procedures, including dVH and sacrocolpopexy, and the growth in dVP procedures outside of U.S. markets, partially offset by a decline of approximately 6% in dVP procedures in the U.S.

Systems revenue decreased to \$630.3 million during the nine months ended September 30, 2013 from \$668.0 million during the nine months ended September 30, 2012 primarily due to lower *da Vinci* system unit sales. We sold 408 *da Vinci* Surgical Systems during the nine months ended September 30, 2013 compared with 445 in the same period last year. The decline in system unit sales reflects lower 2013 year-to-date U.S. system sales, partially offset by higher system sales into the Japanese and European markets. During the first nine months of 2013, 270 systems were sold into the U.S., 54 into Europe, 58 into Japan and 26 into other markets. During the first nine months of 2012, 343 systems were sold into the U.S., 40 into Europe, 30 systems into Japan, and 32 into other markets. The demand for systems is ultimately driven by *da Vinci* surgical procedure volume and is highly sensitive to changes in procedure growth rates. The 2013 year-to-date decline in U.S. system sales was largely driven by moderating growth in the category of benign gynecologic procedures (as described in the Procedures section) resulting in fewer systems sales required to be sold into the installed base to expand capacity. In addition, in the second and third quarters of 2013 hospitals appeared to more slowly close systems purchases in response to strategic uncertainties surrounding the Affordable Care Act, economic pressures, and negative media reports. The *da Vinci* system ASP was \$1.54 million for the nine months ended September 30, 2013, compared with \$1.49 million for the nine months ended September 30, 2012, driven primarily by product mix as system sales during the nine months ended September 30, 2013 contained a higher proportion of dual console configurations. During the nine months ended September 30, 2013, 97 of the 408 systems sold were dual console systems, compared to 66 of 445 during the nine months ended September 30, 2012.

Service Revenue

Service revenue increased 15% to \$101.4 million for the three months ended September 30, 2013 compared with \$87.8 million for the three months ended September 30, 2012. Service revenue increased 17% to \$293.9 million for the nine months ended September 30, 2013 compared with \$252.0 million for the nine months ended September 30, 2012. We typically enter into service contracts at the time systems are sold. The large majority of these service contracts have been renewed at the end of the initial contract periods. Higher service revenue during the three and nine months ended September 30, 2013 was primarily driven by a larger installed base of *da Vinci* Surgical Systems producing contract service revenue.

Gross Profit

Product gross profit for the three months ended September 30, 2013 decreased 14% to \$285.6 million, or 71.8% of product revenue, compared with \$330.7 million, or 73.5% of product revenue, for the three months ended September 30, 2012. The lower third quarter 2013 product gross profit was driven by lower product revenue. The lower 2013 product gross margin largely reflected the impact of the new U.S. medical device excise tax and lower gross margins earned on recently released instrument and accessory products. Product cost of revenue for the three months ended September 30, 2013 included \$4.9 million related to the U.S. medical device excise tax, which became effective January 1, 2013. Third quarter 2013 product revenue included a higher proportion of recently introduced instrument and accessory products which yield lower gross margin percentages, particularly Single-Site Instruments and the *EndoWrist One Vessel Sealer*. Margins on newly launched products will typically be lower than our mature products reflecting vendor pricing on low volumes, temporary tooling costs and other start-up costs. Over time, as volumes increase, and we refine the manufacturing processes and products, we expect to see improvement in the margins of these newer products. However, gross margins may ultimately differ for these newer products relative to our previous products based market conditions, volume, and complexity of the product. Product gross profit for the three months ended September 30, 2013 and 2012 reflected share-based compensation expense of \$5.2 million and \$4.3 million, respectively.

Product gross profit for the nine months ended September 30, 2013 increased 3% to \$995.8 million, or 71.4% of product revenue, compared with \$963.6 million, or 73.1% of product revenue, for the nine months ended September 30, 2012. The higher year-to-date 2013 product gross profit was driven by higher product revenue. The lower 2013 product gross margin largely reflected the impact of the new U.S. medical device excise tax and lower gross margins earned on recently released instrument and accessory products. Product cost of revenue for the nine months ended September 30, 2013 included \$17.6 million related to the U.S. medical device excise tax, which became effective January 1, 2013. Third quarter year-to-date 2013 product revenue included a higher proportion of recently introduced instrument and accessory products which yield lower gross margin percentages, particularly Single-Site Instruments and the *EndoWrist One Vessel Sealer*. Margins on newly launched products will typically be lower than our mature products reflecting vendor pricing on low volumes, temporary tooling costs and other start-up costs. Over time, as volumes increase, and we refine the manufacturing processes and products, we expect to see improvement in the margins of these newer products. However, gross margins may ultimately differ for these products relative to our other products based on the volume and complexity of the product. Product gross profit for the nine months ended September 30, 2013 and 2012 reflected share-based compensation expense of \$13.2 million and \$10.6 million, respectively.

Service gross profit during the three months ended September 30, 2013 was \$71.1 million, or 70.1% of service revenue, compared with \$59.4 million, or 67.7% of service revenue during the three months ended September 30, 2012. Service gross profit during the nine months ended September 30, 2013 was \$200.4 million, or 68.2% of service revenue, compared with \$168.8 million, or 67.0% of service revenue during the nine months ended September 30, 2012. The higher 2013 service gross profit was driven by a larger installed base of *da Vinci* Surgical Systems. Service gross profit margins increased for the three and nine months ended September 30, 2013 primarily due to lower 2013 service parts consumption. Service gross profit for the three months ended September 30, 2013 and 2012 reflected share-based compensation expense of \$3.6 million and \$4.1 million, respectively. Service gross profit for the nine months ended September 30, 2013 and 2012 reflected share-based compensation expense of \$9.5 million and \$9.6 million, respectively.

Selling, General and Administrative Expenses

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

Selling, general and administrative expenses for the three months ended September 30, 2013 increased 8% to \$139.3 million, compared with \$129.0 million for the three months ended September 30, 2012. Selling, general and administrative expenses for the nine months ended September 30, 2013 increased 14% to \$426.3 million, compared with \$374.1 million for the nine months ended September 30, 2012. The increase was primarily due to organizational growth to support our expanding business, particularly in the clinical field sales function, and higher legal costs related to pending or threatened litigation, partially offset by lower employee incentive costs. Share-based compensation expense for the three months ended September 30, 2013 and 2012 was approximately \$30.6 million and \$28.2 million, respectively. Share-based compensation expense for the nine months ended September 30, 2013 and 2012 was approximately \$76.6 million and \$69.7 million, respectively.

Research and Development Expenses

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

R&D expenses for the three months ended September 30, 2013 decreased 13% to \$43.2 million, compared with \$49.7 million for the three months ended September 30, 2012. R&D expenses for the nine months ended September 30, 2013 decreased 2% to \$126.0 million, compared with \$128.3 million for the nine months ended September 30, 2012. The decrease was driven by timing of higher project and prototype expenses in 2012, partially offset by growth in our R&D headcount and lower employee incentive costs. Share-based compensation expense for the three months ended September 30, 2013 and 2012 was approximately \$11.0 million and \$10.7 million, respectively. Share-based compensation expense for the nine months ended September 30, 2013 and 2012 was approximately \$28.0 million and \$25.1 million, respectively. Amortization expense related to purchased intellectual property during the three months ended September 30, 2013 and 2012 were \$2.6 million and \$3.2 million, respectively. Amortization expense related to purchased intellectual property during the nine months ended September 30, 2013 and 2012 were \$8.1 million and \$9.8 million, respectively. We expect to continue to make substantial investments in R&D and anticipate that R&D expense will continue to increase in the future.

Interest and Other Income, Net

Interest and other income, net for the three months ended September 30, 2013 and 2012 was \$3.9 million and \$4.3 million, respectively. Interest and other income, net for the nine months ended September 30, 2013 and 2012 was \$12.5 million and \$12.1 million, respectively. Higher year-to-date 2013 interest and other income, net was driven by higher 2013 interest income.

Income Tax Expense

Effective tax rates for the three and nine months ended September 30, 2013 were 12.0% and 23.1%, respectively, compared to 15.0% and 25.0% for the three and nine months ended September 30, 2012, respectively. The Company's effective tax rates for all these periods differ from the statutory federal income tax rate of 35% due primarily to certain undistributed foreign earnings which are taxed at rates lower than the federal statutory rate, and for which no U.S. taxes were provided because such earnings are intended to be indefinitely reinvested outside the U.S. Effective tax rates for the three months ended September 30, 2013 and 2012 also reflected reversals of certain previously unrecognized tax benefits and associated interests as result of the expiration of statutes of limitations in multiple jurisdictions.

The lower effective tax rates for the three and nine months ended September 30, 2013 as compared to the same periods of 2012 is due primarily to a higher proportion of foreign earnings in 2013. The effective tax rate for the first nine months of 2013 also reflected a net tax benefit related to 2012 federal R&D credit which was retroactively reinstated during the first quarter of 2013. No federal R&D credit benefit was recorded in the income tax provision for the first nine months of 2012.

The Company files federal, state and foreign income tax returns in many jurisdictions in the U.S. and abroad. Generally, years before 2010 are closed for most significant jurisdictions except for California, for which all years since inception remain open due to utilization in open years of net operating losses and R&D credit carryovers or longer statutes of limitations. Management believes that adequate provisions have been made for any adjustments that may result from tax examinations. However, the Company is subject to the examination of its income tax returns by the Internal Revenue Service and other tax authorities. The outcome of tax audits cannot be predicted with certainty. Management regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Our principal source of liquidity is cash provided by operations and proceeds from employee exercises of stock options. Cash and cash equivalents and short and long-term investments decreased from \$2.9 billion at December 31, 2012 to \$2.5 billion at September 30, 2013.

As of September 30, 2013, \$565.9 million of our cash, cash equivalents and investments were held by foreign subsidiaries. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S. We currently have no plans to repatriate any foreign earnings back to the U.S. as we believe our cash flows provided by our U.S. operations will meet our U.S. liquidity needs.

Condensed Consolidated Cash Flow Summary (unaudited)

The following table summarizes our cash flow activities as of September 30, 2013 and 2012 (in millions):

	Nine Months Ended September 30,	
	2013	2012
Net cash provided by (used in):		
Operating activities	\$ 650.9	\$ 587.4
Investing activities	322.2	(703.0)
Financing activities	(940.2)	46.1
Effect of exchange rates on cash and cash equivalents	0.2	(0.1)
Net increase (decrease) in cash and cash equivalents	<u>\$ 33.1</u>	<u>\$ (69.6)</u>

Operating Activities

For the nine months ended September 30, 2013, cash flow from operations of \$650.9 million exceeded our net income of \$504.8 million for two primary reasons:

1. Our net income included substantial non-cash charges in the form of share-based compensation, amortization of intangible assets, taxes, depreciation and accretion of discounts on investments. These non-cash charges totaled \$169.9 million during the nine months ended September 30, 2013.
2. Net working capital, other assets and liabilities changed in the nine months ended September 30, 2013 by approximately \$23.8 million, which offset the non-cash charges noted above.

Working capital is primarily comprised of accounts receivable, inventories, deferred revenue and other operating liabilities. Accounts receivable decreased by \$89.7 million during the nine months ended September 30, 2013 reflecting lower system sales and timing of collections. Inventories increased by \$87.9 million during the nine months ended September 30, 2013 primarily due to lower than expected systems sales in the second and third quarters of 2013 and expanded product offerings. Accrued compensation and employee benefits decreased by \$49.1 million during the nine months ended September 30, 2013.

For the nine months ended September 30, 2012, cash flow from operations of \$587.4 million exceeded our net income of \$481.7 million for two primary reasons:

1. Our net income included substantial non-cash charges in the form of share-based compensation, amortization of intangible assets, taxes, depreciation and accretion of discounts on investments. These non-cash charges totaled \$162.0 million during the nine months ended September 30, 2012.
2. Net working capital, other assets and liabilities changed during the nine months ended September 30, 2012 by approximately \$56.3 million, which offset the non-cash charges noted above.

Working capital is primarily comprised of accounts receivable, inventory, deferred revenue and other operating liabilities. The increase in accounts receivable of \$34.8 million during the nine months ended September 30, 2012 was primarily due to increased revenue. The increase in inventory of \$11.4 million during the nine months ended September 30, 2012 was due to our business growth and expanded product offerings.

Investing Activities

Net cash used in investing activities during the nine months ended September 30, 2013 consisted of purchases of investments (net of proceeds from sales and maturities of investments) of \$397.9 million and purchase of property and equipment, intellectual property and business of \$75.7 million. Net cash used in investing activities during the nine months ended September 30, 2012 consisted of purchases of investments (net of proceeds from sales and maturities of investments) of \$616.9 million and purchase of property and equipment, intellectual property and business of \$71.1 million, including the increase in acquisition-related restricted cash. We invest predominantly in high quality, fixed income securities. Our investment portfolio may at any time contain investments in U.S. Treasury and U.S. government agency securities, taxable and/or tax exempt municipal notes (some of which may have an auction reset feature), corporate notes and bonds, commercial paper, cash deposits and money market funds. We are not a capital intensive business.

Financing Activities

Net cash used in financing activities during the nine months ended September 30, 2013 was primarily related to the repurchase of approximately 2,585,060 shares of our common stock through open market transactions of \$1,109.2 million, offset by proceeds from stock option exercises and employee stock purchases of \$137.9 million and excess tax benefits from share-based compensation of \$31.1 million. Net cash provided by financing activities during the nine months ended September 30, 2012 was primarily related to proceeds from stock option exercises and employee stock purchases of \$176.5 million and excess tax benefits from share-based compensation of \$54.7 million, offset by \$185.1 million used in the repurchase of approximately 372,155 shares of our common stock through open market transactions.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our critical accounting policies and estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no material changes to our critical accounting policies and estimates discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the nine months ended September 30, 2013 compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure.

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

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in a variety of claims, lawsuits, investigations and proceedings relating to securities laws, product liability, employment disputes, contract disputes, intellectual property disputes and other matters relating to various claims that arise from time to time in the normal course of our business. Certain of these lawsuits are described in further detail below. We do not know whether we will prevail in these matters nor can we assure that any remedy could be reached on commercially

reasonable terms, if at all. Based on currently available information, we believe that we have meritorious defenses and intend to vigorously defend these actions. It is not possible to predict the outcome of pending or threatened litigation. Nevertheless, it is possible that future legal costs (including settlements, judgments, legal fees and other related defense costs) could have a material adverse effect on our business, financial condition, results of operations or cash flows. In accordance with U.S. GAAP, we record a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case.

Purported Shareholder Class Action Lawsuit filed August 6, 2010

On August 6, 2010, a purported class action lawsuit entitled *Perlmutter v. Intuitive Surgical et al.*, No. CV10-3451, was filed against seven of our current and former officers and directors in the United States District Court for the Northern District of California. The lawsuit seeks unspecified damages on behalf of a putative class of persons who purchased or otherwise acquired our common stock between February 1, 2008 and January 7, 2009. The complaint alleges that the defendants violated federal securities laws by making allegedly false and misleading statements and omitting certain material facts in our filings with the Securities and Exchange Commission. On February 15, 2011, the Police Retirement System of St. Louis was appointed lead plaintiff in the case pursuant to the Private Securities Litigation Reform Act of 1995. An amended complaint was filed on April 15, 2011, making allegations substantially similar to the allegations described above. On May 23, 2011, we filed a motion to dismiss the amended complaint. On August 10, 2011, that motion was granted and the action was dismissed; the plaintiffs were given 30 days to file an amended complaint. On September 12, 2011, plaintiffs filed their amended complaint. The allegations contained therein are substantially similar to the allegations in the prior complaint. We filed a motion to dismiss the amended complaint. A hearing occurred on February 16, 2012, and on May 22, 2012 our motion was granted. The complaint was dismissed with prejudice, and a final judgment was entered in our favor on June 1, 2012. On June 20, 2012, plaintiffs filed a notice of appeal with the United States Court of Appeals for the Ninth Circuit. The appeal is styled *Police Retirement System of St. Louis v. Intuitive Surgical, Inc. et al.*, No. 12-16430. Plaintiffs filed their opening brief on September 28, 2012. We filed an answering brief on November 13, 2012, and plaintiffs filed a reply brief on December 17, 2012. No oral argument date has been set, and the appeal remains pending.

Purported Derivative Actions

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

Purported Shareholder Class Action Lawsuits filed April 26, 2013 and May 24, 2013

On April 26, 2013, a purported class action lawsuit entitled *Abrams v. Intuitive Surgical et al.*, No. 5-13-cv-1920, was filed against nine of our current and former officers and directors in the United States District Court for the Northern District of California. A substantially identical complaint, entitled *Adel v. Intuitive Surgical, et al.*, No. 5:13-cv-02365, was filed in the same court against the same defendants on May 24, 2013. The *Adel* case was voluntarily dismissed without prejudice on August 20, 2013. The *Abrams* lawsuit seeks unspecified damages on behalf of a putative class of persons who purchased or otherwise acquired our common stock between October 19, 2011 and April 18, 2013. The complaint alleges that the defendants violated federal securities laws by making allegedly false and misleading statements and omitting certain material facts in our filings with the Securities and Exchange Commission. Motions seeking appointment as lead plaintiff in the *Abrams* case were filed by two parties on June 25, 2013. One of those motions was subsequently withdrawn. The remaining motion is scheduled to be heard on November 22, 2013. By agreement with the plaintiff in the *Abrams* action, no response to the complaint is required until after a lead plaintiff is appointed by the Court and that duly appointed lead plaintiff files a consolidated complaint or informs us that it has chosen to proceed with the complaint already on file. Also by agreement with plaintiff, the lead plaintiff filed a consolidated complaint on October 15, 2013, and we must respond by December 16, 2013.

Product Liability Litigation

We are currently named as a defendant in about 50 individual product liability lawsuits filed in various state and federal courts by plaintiffs who allege that they underwent surgical procedures that utilized the *da Vinci* Surgical System and sustained a variety of personal injuries and, in some cases, death as a result of such surgery. In addition, we have been named as a defendant in a purported class action filed in Louisiana state court seeking damages on behalf of all patients who were allegedly injured by the *da Vinci* Surgical System at a single hospital in Louisiana. The cases raise a variety of allegations including, to varying degrees, that the plaintiffs' injuries resulted from purported defects in the *da Vinci* Surgical System and/or failure on our part to provide adequate training resources to the healthcare professionals who performed plaintiffs' surgeries. The cases further allege that we failed to adequately disclose and/or misrepresented the potential risks and/or benefits of the *da Vinci* Surgical System. Plaintiffs also assert a variety of causes of action, including for example, strict liability based on purported design defects, negligence, fraud, breach of express and implied warranties, unjust enrichment, and loss of consortium. Plaintiffs seek recovery for alleged personal injuries and, in many cases, punitive damages. Except for a few cases, including the *Taylor* case described below, these cases generally are in the early stages of pretrial activity.

Plaintiffs' attorneys are engaged in well-funded national advertising campaigns soliciting clients who have undergone *da Vinci* surgery and claim to have suffered an injury. The plaintiffs' attorneys are now alleging that Intuitive Surgical is liable for those injuries under products liability theories. We have seen a substantial increase in these claims; however, we have not received detailed information regarding many of these claims. In an effort to provide an orderly process for evaluating claims before they result in costly litigation, we have entered into tolling agreements with certain plaintiffs' counsel acting on behalf of such claimants. The tolling agreements provide that the statute of limitations for each individual will be tolled for a period of three to six months in exchange for the individual's agreement that, if he or she ultimately files a lawsuit, it will be filed in certain agreed upon venues. The tolling agreements provide the parties and their legal counsel with additional time to evaluate the claims, and to explore whether the claims have merit and whether they can be resolved without litigation. We do not currently know how many individuals will ultimately file lawsuits or decide not to pursue their claims, nor are we able at this time to estimate the financial impact of their claims or predict the final disposition of such claims. Based on currently available information, we believe that we have meritorious defenses in the above matters and intend to assert them vigorously.

In February 2011, we were named as a defendant in a product liability action that had originally been filed in Washington State Superior Court for Kitsap County against the healthcare providers and hospital involved in the plaintiff's decedent's surgery (*Josette Taylor, as Personal Representative of the Estate of Fred E. Taylor, deceased; and on behalf of the Estate of Fred E. Taylor v. Intuitive Surgical, Inc.*, No. 09-2-03136-5). In *Taylor*, plaintiff asserted wrongful death and product liability claims against us, generally alleging that the decedent died four years after surgery as a result of injuries purportedly suffered during the surgery, which was conducted with the use of the *da Vinci* Surgical System. The plaintiff in *Taylor* asserted that such injuries were caused, in whole or in part, by our purported failure to properly train, warn, and instruct the surgeon. The lawsuit sought unspecified damages for past medical expenses, pain and suffering, loss of consortium as well as punitive damages. A trial commenced in the action on April 15, 2013. On May 23, 2013, the jury returned a defense verdict, finding that we were not negligent. Judgment was entered in favor of Intuitive Surgical on June 7, 2013. Plaintiff has filed a notice of appeal.

ITEM 1A. RISK FACTORS

There have been no changes to the Risk Factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013.

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

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

(c) Issuer Purchases of Equity Securities

The table below summarizes our stock repurchase activity for the three months ended September 30, 2013:

<u>Fiscal Period</u>	<u>Total Number of Shares Repurchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased As Part of a Publicly Announced Program</u>	<u>Approximate Dollar Amount of Shares That May Yet be Purchased Under the Program</u>
July 1, 2013 to July 31, 2013	441,430	\$ 439.18	441,430	\$ 1,500.0 million
August 1, 2013 to August 31, 2013	1,298,149	385.16	1,298,149	1,000.0 million
September 1, 2013 to September 30, 2013	—	—	—	1,000.0 million
Total during quarter ended September 30, 2013	<u>1,739,579</u>	\$ <u>398.87</u>	<u>1,739,579</u>	\$ 1,000.0 million

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation of Intuitive Surgical, Inc. (incorporated by reference to Exhibit 3.1 on Form 10-K filed with the Securities and Exchange Commission on February 6, 2009).
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Intuitive Surgical, Inc. (incorporated by reference to Exhibit 3.2 on Form 10-K filed with the Securities and Exchange Commission on February 6, 2009).
3.3	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Intuitive Surgical, Inc. (incorporated by reference to Exhibit A to Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on March 1, 2012).
3.4	Amended and Restated Bylaws of Intuitive Surgical, Inc. (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2012).
10.1	Master Confirmation and Supplemental Confirmation between Intuitive Surgical, Inc. and Goldman, Sachs & Co., dated July 29, 2013.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Intuitive Surgical, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the unaudited Condensed Consolidated Balance Sheets, (ii) the unaudited Condensed Consolidated Statements of Comprehensive Income, (iii) the unaudited Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements (unaudited), tagged at Level I through IV.

SIGNATURE

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

INTUITIVE SURGICAL, INC.

By: /s/ MARSHALL L. MOHR

Marshall L. Mohr

Senior Vice President and Chief Financial Officer

(Principal Financial Officer and duly authorized signatory)

Date: October 18, 2013

GOLDMAN, SACHS & CO. | 200 WEST STREET | NEW YORK, NEW YORK 10282-2198 | TEL: 212-902-1000

Opening Transaction

To: Intuitive Surgical, Inc.
1266 Kifer Rd
Sunnyvale, CA 94086

A/C: #####

From: Goldman, Sachs & Co.

Re: Capped Accelerated Stock Buyback

Ref. No: As provided in the Supplemental Confirmation

Date: July 29, 2013

This master confirmation (this “**Master Confirmation**”), dated as of July 29, 2013 is intended to set forth certain terms and provisions of certain Transactions (each, a “**Transaction**”) entered into from time to time between Goldman, Sachs & Co. (“**GS&Co.**”) and Intuitive Surgical, Inc. (“**Counterparty**”). This Master Confirmation, taken alone, is neither a commitment by either party to enter into any Transaction nor evidence of a Transaction. The additional terms of any particular Transaction shall be set forth in (i) a Supplemental Confirmation in the form of Schedule A hereto (a “**Supplemental Confirmation**”), which shall reference this Master Confirmation and supplement, form a part of, and be subject to this Master Confirmation and (ii) a Trade Notification in the form of Schedule B hereto (a “**Trade Notification**”), which shall reference the relevant Supplemental Confirmation and supplement, form a part of, and be subject to such Supplemental Confirmation. This Master Confirmation, each Supplemental Confirmation and the related Trade Notification together shall constitute a “Confirmation” as referred to in the Agreement specified below.

The definitions and provisions contained in the 2002 ISDA Equity Derivatives Definitions (the “**Equity Definitions**”), as published by the International Swaps and Derivatives Association, Inc., are incorporated into this Master Confirmation. This Master Confirmation, each Supplemental Confirmation and the related Trade Notification evidence a complete binding agreement between Counterparty and GS&Co. as to the subject matter and terms of each Transaction to which this Master Confirmation, such Supplemental Confirmation and Trade Notification relate and shall supersede all prior or contemporaneous written or oral communications with respect thereto.

This Master Confirmation, each Supplemental Confirmation and each Trade Notification supplement, form a part of, and are subject to an agreement in the form of the 1992 ISDA Master Agreement (Multicurrency-Cross Border) (the “**Agreement**”) as if GS&Co. and Counterparty had executed the Agreement on the date of this Master Confirmation (but without any Schedule except for (i) the election of Loss and Second Method, New York law (without reference to its choice of laws doctrine other than Title 14 of Article 5 of the New York General Obligations Law) as the governing law and US Dollars (“**USD**”) as the Termination Currency, (ii) the election that subparagraph (ii) of Section 2(c) will not apply to the Transactions, (iii) the replacement of the word “third” in the last line of Section 5(a)(i) with the word “first,” (iv) the election that the “Cross Default” provisions of Section 5(a)(vi), as amended by (x) deleting the words “, or becoming capable at such time of being declared,” from Section 5(a)(vi)(1) and (y) inserting at the end of Section 5(a)(vi) “; *provided, however, that notwithstanding the foregoing, an Event of Default shall not be deemed to have occurred at any time under clause (2) hereof if the default is a failure to pay caused, as demonstrated to the reasonable satisfaction of the other party, solely by an error or omission of an administrative or operational nature where (i) funds required to make payment were available to the relevant party to enable it to make the relevant payment when due and (ii) such payment is in fact made within 2 Local Business Days after the relevant party receives written notice from an interested party of such default*”, shall apply to GS&Co. and Counterparty, with a “Threshold Amount” of USD 50 million in each case, (v) the designation of the General Guarantee Agreement dated January 30, 2006 made by The Goldman Sachs Group, Inc. (“**GS Group**”) in favor of each person to whom GS&Co. may owe any Obligations (as defined in the General Guarantee Agreement) and filed as Exhibit 10.45 to GS Group’s

Form 10-K for the fiscal year ended November 25, 2005 and any successor guarantee by GS Group in favor of each person to whom GS&Co. may owe any Obligations (as defined in the General Guarantee Agreement) as a Credit Support Document under the Agreement and (vi) the designation of GS Group as a Credit Support Provider in relation to GS&Co. under the Agreement.

The Transactions shall be the sole Transactions under the Agreement. If there exists any ISDA Master Agreement between GS&Co. and Counterparty or any confirmation or other agreement between GS&Co. and Counterparty pursuant to which an ISDA Master Agreement is deemed to exist between GS&Co. and Counterparty, then notwithstanding anything to the contrary in such ISDA Master Agreement, such confirmation or agreement or any other agreement to which GS&Co. and Counterparty are parties, the Transactions shall not be considered Transactions under, or otherwise governed by, such existing or deemed ISDA Master Agreement.

All provisions contained or incorporated by reference in the Agreement shall govern this Master Confirmation, each Supplemental Confirmation and each Trade Notification except as expressly modified herein or in the related Supplemental Confirmation.

If, in relation to any Transaction to which this Master Confirmation, a Supplemental Confirmation and a Trade Notification relate, there is any inconsistency between the Agreement, this Master Confirmation, any Supplemental Confirmation, any Trade Notification and the Equity Definitions, the following will prevail for purposes of such Transaction in the order of precedence indicated: (i) such Trade Notification, (ii) such Supplemental Confirmation; (iii) this Master Confirmation; (iv) the Agreement; and (v) the Equity Definitions.

1. Each Transaction constitutes a Share Forward Transaction for the purposes of the Equity Definitions. Set forth below are the terms and conditions that, together with the terms and conditions set forth in the Supplemental Confirmation and Trade Notification relating to any Transaction, shall govern such Transaction.

General Terms:

Trade Date:	For each Transaction, as set forth in the related Supplemental Confirmation.
Buyer:	Counterparty
Seller:	GS&Co.
Shares:	Common Stock, par value USD0.001 per share, of Counterparty (Ticker: ISRG)
Exchange:	The NASDAQ Global Select Market
Related Exchange(s):	All Exchanges.
Prepayment\Variable Obligation:	Applicable
Prepayment Amount:	For each Transaction, as set forth in the related Supplemental Confirmation.
Prepayment Date:	For each Transaction, as set forth in the related Supplemental Confirmation.

Valuation:

Hedge Period:	The period from and including the first Exchange Business Day following the Trade Date to and including the Hedge Completion Date.
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Hedge Completion Date:	For each Transaction, as set forth in the related Trade Notification, to be the Exchange Business Day on which GS&Co. finishes establishing its initial commercially reasonable hedge positions in respect of such Transaction, as determined by GS&Co. in its sole discretion, but in no event later than the Hedge Period End Date.
Hedge Period End Date:	For each Transaction, as set forth in the related Supplemental Confirmation, subject to postponement as provided in “Valuation Disruption” below.
Hedge Period Reference Price:	For each Transaction, as set forth in the related Trade Notification, to be the average of the VWAP Prices for the Exchange Business Days in the Hedge Period, subject to “Valuation Disruption” below.
VWAP Price:	For any Exchange Business Day, as determined by the Calculation Agent based on the NASDAQ 10b-18 Volume Weighted Average Price per Share for the regular trading session (including any extensions thereof) of the Exchange on such Exchange Business Day (without regard to pre-open or after hours trading outside of such regular trading session for such Exchange Business Day), as published by Bloomberg at 4:15 p.m. New York time (or 15 minutes following the end of any extension of the regular trading session) on such Exchange Business Day, on Bloomberg page “ISRG Q <Equity> AQR_SEC” (or any successor thereto), or if such price is not so reported on such Exchange Business Day for any reason or is, in the Calculation Agent’s reasonable discretion, erroneous, such VWAP Price shall be as reasonably determined by the Calculation Agent. For purposes of calculating the VWAP Price, the Calculation Agent will include only those trades that are reported during the period of time during which Counterparty could purchase its own shares under Rule 10b-18(b)(2) and are effected pursuant to the conditions of Rule 10b-18(b)(3), each under the Securities Exchange Act of 1934, as amended (the “ Exchange Act ”) (such trades, “ Rule 10b-18 eligible transactions ”).
Forward Price:	The average of the VWAP Prices for the Exchange Business Days in the Calculation Period, subject to “Valuation Disruption” below.
Forward Price Adjustment Amount:	For each Transaction, as set forth in the related Trade Notification, to be equal to the product of the Forward Price Adjustment Percentage for such Transaction and the Hedge Period Reference Price for such Transaction.
Forward Price Adjustment Percentage:	For each Transaction, as set forth in the related Supplemental Confirmation.
Calculation Period:	The period from and including the Calculation Period Start Date to and including the Termination Date.
Calculation Period Start Date:	For each Transaction, the first Exchange Business Day in the Hedge Period.
Termination Date:	The Scheduled Termination Date; provided that GS&Co. shall have the right to designate any Exchange Business Day on or after the First Acceleration Date to be the Termination Date (the “ Accelerated Termination Date ”) by delivering notice to Counterparty of any such designation prior to 6:00 P.M. New York City time on the Exchange Business Day immediately following the designated Accelerated Termination Date.
Scheduled Termination Date:	For each Transaction, as set forth in the related Supplemental Confirmation, subject to postponement as provided in “Valuation Disruption” below.

First Acceleration Date: For each Transaction, as set forth in the related Supplemental Confirmation.

Valuation Disruption: The definition of “Market Disruption Event” in Section 6.3(a) of the Equity Definitions is hereby amended by deleting the words “at any time during the one-hour period that ends at the relevant Valuation Time, Latest Exercise Time, Knock-in Valuation Time or Knock-out Valuation Time, as the case may be” and inserting the words “at any time on any Scheduled Trading Day during the Hedge Period, Calculation Period or Settlement Valuation Period” after the word “material,” in the third line thereof.

Section 6.3(d) of the Equity Definitions is hereby amended by deleting the remainder of the provision following the term “Scheduled Closing Time” in the fourth line thereof.

Notwithstanding anything to the contrary in the Equity Definitions, to the extent that a Disrupted Day occurs (i) in the Hedge Period or the Calculation Period, the Calculation Agent may, in its good faith and commercially reasonable discretion, postpone either or both of the Hedge Period End Date and/or the Scheduled Termination Date, or (ii) in the Settlement Valuation Period, the Calculation Agent may extend the Settlement Valuation Period. If any such Disrupted Day is a Disrupted Day because of a Market Disruption Event (or a deemed Market Disruption Event as provided herein), the Calculation Agent shall determine whether (i) such Disrupted Day is a Disrupted Day in full, in which case the VWAP Price for such Disrupted Day shall not be included for purposes of determining the Hedge Period Reference Price, the Forward Price or the Settlement Price, as the case may be, or (ii) such Disrupted Day is a Disrupted Day only in part, in which case the VWAP Price for such Disrupted Day shall be determined by the Calculation Agent based on Rule 10b-18 eligible transactions in the Shares on such Disrupted Day effected before the relevant Market Disruption Event occurred and/or after the relevant Market Disruption Event ended, and the weighting of the VWAP Price for the relevant Exchange Business Days during the Hedge Period, the Calculation Period or the Settlement Valuation Period, as the case may be, shall be adjusted in a commercially reasonable manner by the Calculation Agent for purposes of determining the Hedge Period Reference Price, the Forward Price or the Settlement Price, as the case may be, with such adjustments based on, among other factors, the duration of any Market Disruption Event and the volume, historical trading patterns and price of the Shares. Any Scheduled Trading Day on which the Exchange is scheduled to close prior to its normal close of trading shall be deemed to be a Disrupted Day in full.

If a Disrupted Day occurs during the Hedge Period, the Calculation Period or the Settlement Valuation Period, as the case may be, and each of the nine immediately following Scheduled Trading Days is a Disrupted Day, then the Calculation Agent, in its good faith and commercially reasonable discretion, may deem such ninth Scheduled Trading Day to be an Exchange Business Day that is not a Disrupted Day and determine the VWAP Price for such ninth Scheduled Trading Day using its good faith estimate of the value of the Shares on such ninth Scheduled Trading Day based on the volume, historical trading patterns and price of the Shares and such other factors as it deems appropriate.

Settlement Terms:

Physical Settlement: Applicable; *provided* that GS&Co. does not, and shall not, make the agreement or the representations set forth in Section 9.11 of the Equity Definitions related to the restrictions imposed by applicable securities laws with respect to any Shares delivered by GS&Co. to Counterparty under any Transaction.

Number of Shares to be Delivered:	A number of Shares equal to (a) the Prepayment Amount <i>divided</i> by (b)(i) the Forward Price <i>minus</i> (ii) the Forward Price Adjustment Amount; <i>provided</i> that the Number of Shares to be Delivered shall not be less than the Minimum Shares and not greater than the Maximum Shares. The Number of Shares to be Delivered on the Settlement Date shall be reduced, but not below zero, by any Shares delivered pursuant to the Initial Share Delivery and the Minimum Share Delivery described below.
Excess Dividend Amount:	For the avoidance of doubt, all references to the Excess Dividend Amount shall be deleted from Section 9.2(a)(iii) of the Equity Definitions.
Settlement Date:	The date that is one Settlement Cycle immediately following the Termination Date.
Settlement Currency:	USD
Initial Share Delivery:	GS&Co. shall deliver a number of Shares equal to the Initial Shares to Counterparty on the Initial Share Delivery Date in accordance with Section 9.4 of the Equity Definitions, with the Initial Share Delivery Date deemed to be a “Settlement Date” for purposes of such Section 9.4.
Initial Share Delivery Date:	For each Transaction, as set forth in the related Supplemental Confirmation.
Initial Shares:	For each Transaction, as set forth in the related Supplemental Confirmation.
Minimum Share Delivery:	GS&Co. shall deliver a number of Shares equal to the excess, if any, of the Minimum Shares over the Initial Shares on the Minimum Share Delivery Date in accordance with Section 9.4 of the Equity Definitions, with the Minimum Share Delivery Date deemed to be a “Settlement Date” for purposes of such Section 9.4.
Minimum Share Delivery Date:	The date one Settlement Cycle immediately following the Hedge Completion Date.
Minimum Shares:	For each Transaction, as set forth in the related Supplemental Confirmation.
Maximum Shares:	For each Transaction, as set forth in the related Supplemental Confirmation.
Share Adjustments:	
Potential Adjustment Event:	Notwithstanding anything to the contrary in Section 11.2(e) of the Equity Definitions, an Extraordinary Dividend shall not constitute a Potential Adjustment Event. It shall constitute an additional Potential Adjustment Event if the Scheduled Termination Date for any Transaction is postponed pursuant to “Valuation Disruption” above, in which case the Calculation Agent may, in its commercially reasonable discretion, adjust any relevant terms of any such Transaction as appropriate to account for the economic effect on the Transaction of such postponement.
Extraordinary Dividend:	Any dividend or distribution on the Shares (other than any dividend or distribution of the type described in Section 11.2(e)(i) or Section 11.2(e)(ii)(A) or (B) of the Equity Definitions).

Method of Adjustment: Calculation Agent Adjustment

Extraordinary Events:

Consequences of
Merger Events:

- | | |
|-------------------------|---------------------------------------|
| (a) Share-for-Share: | Modified Calculation Agent Adjustment |
| (b) Share-for-Other: | Cancellation and Payment |
| (c) Share-for-Combined: | Component Adjustment |

Tender Offer:

Applicable; *provided* that (i) Section 12.1(l) of the Equity Definitions shall be amended (x) by deleting the parenthetical in the fifth line thereof, (y) by replacing “that” in the fifth line thereof with “whether or not such announcement” and (z) by adding immediately after the words “Tender Offer” in the fifth line thereof “, and any publicly announced change or amendment to such an announcement (including the announcement of an abandonment of such intention)” and (ii) Sections 12.3(a) and 12.3(d) of the Equity Definitions shall each be amended by replacing each occurrence of the words “Tender Offer Date” by “Announcement Date.”

Consequences of
Tender Offers:

- | | |
|-------------------------|--|
| (a) Share-for-Share: | Modified Calculation Agent Adjustment or Cancellation and Payment, at the election of GS&Co. |
| (b) Share-for-Other: | Modified Calculation Agent Adjustment or Cancellation and Payment, at the election of GS&Co. |
| (c) Share-for-Combined: | Modified Calculation Agent Adjustment or Cancellation and Payment, at the election of GS&Co. |

Nationalization,
Insolvency or Delisting:

Cancellation and Payment; *provided* that in addition to the provisions of Section 12.6(a)(iii) of the Equity Definitions, it shall also constitute a Delisting if the Exchange is located in the United States and the Shares are not immediately re-listed, re-traded or re-quoted on any of the New York Stock Exchange, the American Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market (or their respective successors); if the Shares are immediately re-listed, re-traded or re-quoted on any such exchange or quotation system, such exchange or quotation system shall be deemed to be the Exchange.

Additional Disruption Events:

- | | |
|---------------------------|----------------------------|
| (a) Change in Law: | Applicable |
| (b) Failure to Deliver: | Applicable |
| (c) Insolvency Filing: | Applicable |
| (d) Loss of Stock Borrow: | Applicable |
| Maximum Stock Loan Rate: | 275 basis points per annum |

Hedging Party: GS&Co.

Determining Party: GS&Co.

Additional Termination Event(s): Notwithstanding anything to the contrary in the Equity Definitions, if, as a result of an Extraordinary Event, any Transaction would be cancelled or terminated (whether in whole or in part) pursuant to Article 12 of the Equity Definitions, an Additional Termination Event (with such terminated Transaction(s) (or portions thereof) being the Affected Transaction(s) and Counterparty being the sole Affected Party) shall be deemed to occur, and, in lieu of Sections 12.7, 12.8 and 12.9 of the Equity Definitions, Section 6 of the Agreement shall apply to such Affected Transaction(s).

The declaration by the Issuer of any Extraordinary Dividend, the ex-dividend date for which occurs or is scheduled to occur during the Relevant Dividend Period, will constitute an Additional Termination Event, with Counterparty as the sole Affected Party and all Transactions hereunder as the Affected Transactions. For the avoidance of doubt, any amount payable under Section 6(d)(ii) of the Agreement in respect of such Additional Termination Event shall be calculated without regard to such Extraordinary Dividend.

Relevant Dividend Period: The period from and including the first day of the Hedge Period to and including the Relevant Dividend Period End Date.

Relevant Dividend Period End Date: If Annex A applies, the last day of the Settlement Valuation Period; otherwise, the Termination Date.

Non-Reliance/Agreements and Acknowledgements Regarding Hedging Activities/Additional Acknowledgements: Applicable

Transfer: Notwithstanding anything to the contrary in the Agreement, GS&Co. may assign, transfer and set over all rights, title and interest, powers, privileges and remedies of GS&Co. under any Transaction, in whole or in part, to an affiliate of GS&Co. whose obligations are guaranteed by The Goldman Sachs Group, Inc. without the consent of Counterparty.

GS&Co. Payment Instructions: Chase Manhattan Bank New York
For A/C Goldman, Sachs & Co.
A/C #####
ABA: #####

Counterparty's Contact Details for Purpose of Giving Notice: To be provided by Counterparty

GS&Co.'s Contact Details for Purpose of Giving Notice: Goldman, Sachs & Co.
555 California Street, 42nd Floor
San Francisco, CA 94104
Attention: #####, Equity Capital Markets
Telephone: #####

With a copy to:

Attention: #####
Equity Capital Markets
Phone: #####
Fax: #####
E-mail: #####

And email notification to the following address:
#####

2. Calculation Agent. GS&Co.

3. Additional Mutual Representations, Warranties and Covenants of Each Party. In addition to the representations, warranties and covenants in the Agreement, each party represents, warrants and covenants to the other party that:

(a) Eligible Contract Participant. It is an “eligible contract participant”, as defined in the U.S. Commodity Exchange Act (as amended), and is entering into each Transaction hereunder as principal (and not as agent or in any other capacity, fiduciary or otherwise) and not for the benefit of any third party.

(b) Accredited Investor. Each party acknowledges that the offer and sale of each Transaction to it is intended to be exempt from registration under the Securities Act of 1933, as amended (the “**Securities Act**”), by virtue of Section 4(2) thereof. Accordingly, each party represents and warrants to the other that (i) it has the financial ability to bear the economic risk of its investment in each Transaction and is able to bear a total loss of its investment, (ii) it is an “accredited investor” as that term is defined under Regulation D under the Securities Act and (iii) the disposition of each Transaction is restricted under this Master Confirmation, the Securities Act and state securities laws.

4. Additional Representations, Warranties and Covenants of Counterparty. In addition to the representations, warranties and covenants in the Agreement, Counterparty represents, warrants and covenants to GS&Co. that:

(a) The purchase or writing of each Transaction and the transactions contemplated hereby will not violate Rule 13e-1 or Rule 13e-4 under the Exchange Act.

(b) It is not entering into any Transaction (i) on the basis of, and is not aware of, any material non-public information with respect to the Shares (ii) in anticipation of, in connection with, or to facilitate, a distribution of its securities, a self tender offer or a third-party tender offer or (iii) to create actual or apparent trading activity in the Shares (or any security convertible into or exchangeable for the Shares) or to raise or depress or otherwise manipulate the price of the Shares (or any security convertible into or exchangeable for the Shares).

(c) Each Transaction is being entered into pursuant to a publicly disclosed Share buy-back program and its Board of Directors has approved the use of derivatives to effect the Share buy-back program.

(d) Without limiting the generality of Section 13.1 of the Equity Definitions, it acknowledges that neither GS&Co. nor any of its affiliates is making any representations or warranties or taking any position or expressing any view with respect to the treatment of any Transaction under any accounting standards including FASB Statements 128, 133 as amended, or 149, 150, EITF 00-19, 01-6, 03-6 or 07-5 (or any successor issue statements) or under the Financial Accounting Standards Board’s Liabilities & Equity Project.

(e) As of (i) the date hereof and (ii) the Trade Date for each Transaction hereunder, Counterparty is in compliance with its reporting obligations under the Exchange Act and its most recent Annual Report on Form 10-K, together with all reports subsequently filed by it pursuant to the Exchange Act, taken together and as amended and supplemented to the date of this representation, do not, as of their respective filing dates, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(f) Counterparty shall report each Transaction as required under Regulation S-K under the Exchange Act.

(g) The Shares are not, and Counterparty will not cause the Shares to be, subject to a “restricted period” (as defined in Regulation M promulgated under the Exchange Act (“**Regulation M**”)) at any time during any Regulation M Period (as defined below) for any Transaction unless Counterparty has provided written notice to GS&Co. of such restricted period not later than the Scheduled Trading Day immediately preceding the first day of such “restricted period”; Counterparty acknowledges that any such notice may cause a Disrupted Day to occur pursuant to Section 5 below; accordingly, Counterparty acknowledges that its delivery of such notice must comply with the standards set forth in Section 6 below; “**Regulation M Period**” means, for any Transaction, (i) the Relevant Period (as defined below) and (ii) the Settlement Valuation Period, if any, for such Transaction. “**Relevant Period**” means, for any Transaction, the period commencing on the first day of the Hedge Period for such Transaction and ending on the earlier of (i) the Scheduled Termination Date and (ii) the last Additional Relevant Day (as specified in the related Supplemental Confirmation) for such Transaction, or such earlier day as elected by GS&Co. and communicated to Counterparty on such day (or, if later, the First Acceleration Date without regard to any acceleration thereof pursuant to “Special Provisions for Acquisition Transaction Announcements” below).

(h) As of the Trade Date, the Prepayment Date, the Initial Share Delivery Date, the Minimum Share Delivery Date and the Settlement Date for each Transaction, Counterparty is not “insolvent” (as such term is defined under Section 101(32) of the U.S. Bankruptcy Code (Title 11 of the United States Code) (the “**Bankruptcy Code**”)) and Counterparty would be able to purchase a number of Shares with a value equal to the Prepayment Amount in compliance with the laws of the jurisdiction of Counterparty’s incorporation.

(i) Counterparty is not and, after giving effect to any Transaction, will not be, required to register as an “investment company” as such term is defined in the Investment Company Act of 1940, as amended.

(j) Counterparty has not and will not enter into agreements similar to the Transactions described herein where any initial hedge period, calculation period, relevant period or settlement valuation period (each however defined) in such other transaction will overlap at any time (including as a result of extensions in such initial hedge period, calculation period, relevant period or settlement valuation period as provided in the relevant agreements) with any Relevant Period or, if applicable, any Settlement Valuation Period under this Master Confirmation. In the event that the initial hedge period, relevant period, calculation period or settlement valuation period in any other similar transaction overlaps with any Relevant Period or, if applicable, Settlement Valuation Period under this Master Confirmation as a result of any postponement of the Scheduled Termination Date or extension of the Settlement Valuation Period pursuant to “Valuation Disruption” above, Counterparty shall promptly amend such transaction to avoid any such overlap.

5. Additional Covenants of GS&Co. In addition to the representations, warranties and covenants in the Agreement and those contained herein, GS&Co. covenants to Counterparty that with respect to purchases of Shares by GS&Co. or any of its affiliates in connection with its hedging activities in relation to any Transaction during the Hedge Period for such Transaction, GS&Co. or such affiliate will use good faith and commercially reasonable efforts to effect such purchases in a manner so that, if such purchases were made by Counterparty, they would meet the requirements of paragraphs (b)(2), (3) and (4) of Rule 10b-18 under the Exchange Act (taking into account any applicable Securities and Exchange Commission or staff no-action letters or interpretations as appropriate and subject to any delays between execution and reporting of a trade of the Shares on the Exchange and other circumstances beyond GS&Co.’s or such affiliate’s control).

6. Regulatory Disruption. In the event that GS&Co. concludes, in its sole discretion based on the advice of counsel, that it is appropriate with respect to any legal, regulatory or self-regulatory requirements or related policies and procedures (whether or not such requirements, policies or procedures are imposed by law or have been voluntarily adopted by GS&Co.), for it to refrain from purchasing Shares on any Scheduled Trading Day or Days during the Hedge Period, the Calculation Period or, if applicable, the Settlement Valuation Period, GS&Co. may by written notice to Counterparty elect to deem that a Market Disruption Event has occurred and will be continuing on such Scheduled Trading Day or Days.

7. 10b5-1 Plan. Counterparty represents, warrants and covenants to GS&Co. that:

(a) Counterparty is entering into this Master Confirmation and each Transaction hereunder in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b5-1 under the Exchange Act (“**Rule 10b5-1**”) or any other antifraud or anti-manipulation provisions of the federal or applicable state securities laws and that it has not entered into or altered and will not enter into or alter any corresponding or hedging transaction or position with respect to the Shares. Counterparty acknowledges that it is the intent of the parties that each Transaction entered into under this Master Confirmation comply with the requirements of paragraphs (c)(1)(i)(A) and (B) of Rule 10b5-1 and each Transaction entered into under this Master Confirmation shall be interpreted to comply with the requirements of Rule 10b5-1(c).

(b) Counterparty will not seek to control or influence GS&Co.’s decision to make any “purchases or sales” (within the meaning of Rule 10b5-1(c)(1)(i)(B)(3)) under any Transaction entered into under this Master Confirmation, including, without limitation, GS&Co.’s decision to enter into any hedging transactions. Counterparty represents and warrants that it has consulted with its own advisors as to the legal aspects of its adoption and implementation of this Master Confirmation, each Supplemental Confirmation and each Trade Notification under Rule 10b5-1.

(c) Counterparty acknowledges and agrees that any amendment, modification, waiver or termination of this Master Confirmation, the relevant Supplemental Confirmation or Trade Notification must be effected in accordance with the requirements for the amendment or termination of a “plan” as defined in Rule 10b5-1(c). Without limiting the generality of the foregoing, any such amendment, modification, waiver or termination shall be made in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5, and no such amendment, modification or waiver shall be made at any time at which Counterparty or any officer, director, manager or similar person of Counterparty is aware of any material non-public information regarding Counterparty or the Shares.

8. Counterparty Purchases. Counterparty (or any “affiliated purchaser” as defined in Rule 10b-18 under the Exchange Act (“**Rule 10b-18**”)) shall not, without the prior written consent of GS&Co., directly or indirectly purchase any Shares (including by means of a derivative instrument), listed contracts on the Shares or securities that are convertible into, or exchangeable or exercisable for Shares (including, without limitation, any Rule 10b-18 purchases of blocks (as defined in Rule 10b-18)) during any Relevant Period or, if applicable, Settlement Valuation Period, except through GS&Co.

9. Special Provisions for Merger Transactions. Notwithstanding anything to the contrary herein or in the Equity Definitions:

(a) Counterparty agrees that it:

(i) will not during the period commencing on the Trade Date through the end of the Relevant Period or, if applicable, the Settlement Valuation Period for any Transaction make, or permit to be made, any public announcement (as defined in Rule 165(f) under the Securities Act) of any Merger Transaction or potential Merger Transaction unless such public announcement is made prior to the opening or after the close of the regular trading session on the Exchange for the Shares;

(ii) shall promptly (but in any event prior to the next opening of the regular trading session on the Exchange) notify GS&Co. following any such announcement that such announcement has been made; and

(iii) shall promptly (but in any event prior to the next opening of the regular trading session on the Exchange) provide GS&Co. with written notice specifying (i) Counterparty's average daily Rule 10b-18 Purchases (as defined in Rule 10b-18) during the three full calendar months immediately preceding the announcement date that were not effected through GS&Co. or its affiliates and (ii) the number of Shares purchased pursuant to the proviso in Rule 10b-18(b)(4) under the Exchange Act for the three full calendar months preceding the announcement date. Such written notice shall be deemed to be a certification by Counterparty to GS&Co. that such information is true and correct. In addition, Counterparty shall promptly notify GS&Co. of the earlier to occur of the completion of such transaction and the completion of the vote by target shareholders. Counterparty acknowledges that any such notice may cause the terms of any Transaction to be adjusted or such Transaction to be terminated; accordingly, Counterparty acknowledges that its delivery of such notice must comply with the standards set forth in Section 6 above.

(b) GS&Co. in its sole discretion may (i) make adjustments in good faith and in a commercially reasonable manner to the terms of any Transaction, including, without limitation, the Scheduled Termination Date or the Forward Price Adjustment Amount, and/or suspend the Hedge Period, the Calculation Period and/or any Settlement Valuation Period or (ii) treat the occurrence of such public announcement as an Additional Termination Event with Counterparty as the sole Affected Party and the Transactions hereunder as the Affected Transactions and with the amount under Section 6(e) of the Agreement determined taking into account the fact that the Calculation Period or Settlement Valuation Period, as the case may be, had fewer Scheduled Trading Days than originally anticipated.

"Merger Transaction" means any merger, acquisition or similar transaction involving a recapitalization as contemplated by Rule 10b-18(a)(13)(iv) under the Exchange Act.

10. Special Provisions for Acquisition Transaction Announcements. (a) If an Acquisition Transaction Announcement occurs on or prior to the Settlement Date for any Transaction, then the Calculation Agent shall make such adjustments to the exercise, settlement, payment or any other terms of such Transaction (including, without limitation, the number of Minimum Shares and the Forward Price Adjustment Amount) as the Calculation Agent determines appropriate, at such time or at multiple times as the Calculation Agent determines appropriate, to account for the economic effect on such Transaction of such Acquisition Transaction Announcement (including adjustments to account for changes in volatility, expected dividends, stock loan rate and liquidity relevant to the Shares or to such Transaction). If an Acquisition Transaction Announcement occurs after the Trade Date, but prior to the First Acceleration Date of any Transaction, the First Acceleration Date shall be the date of such Acquisition Transaction Announcement. If the Number of Shares to be Delivered for any settlement of any Transaction is a negative number, then the terms of the Counterparty Settlement Provisions in Annex A shall apply.

(b) **"Acquisition Transaction Announcement"** means (i) the announcement of an Acquisition Transaction, (ii) an announcement that Counterparty or any of its subsidiaries has entered into an agreement, a letter of intent or an understanding designed to result in an Acquisition Transaction, (iii) the announcement of the intention to solicit or enter into, or to explore strategic alternatives or other similar undertaking that may include, an Acquisition Transaction, (iv) any other announcement that in the reasonable judgment of the Calculation Agent may result in an Acquisition Transaction or (v) any announcement of any change or amendment to any previous Acquisition Transaction Announcement (including any announcement of the abandonment of any such previously announced Acquisition Transaction, agreement, letter of intent, understanding or intention). For the avoidance of doubt, announcements as used in the definition of Acquisition Transaction Announcement refer to any public announcement whether made by the Issuer or a third party.

(c) **“Acquisition Transaction”** means (i) any Merger Event (for purposes of this definition the definition of Merger Event shall be read with the references therein to “100%” being replaced by “15%” and to “50%” by “75%” and without reference to the clause beginning immediately following the definition of Reverse Merger therein to the end of such definition), Tender Offer or Merger Transaction or any other transaction involving the merger of Counterparty with or into any third party, (ii) the sale or transfer of all or substantially all of the assets of Counterparty, (iii) a recapitalization, reclassification, binding share exchange or other similar transaction, (iv) any acquisition, lease, exchange, transfer, disposition (including by way of spin-off or distribution) of assets (including any capital stock or other ownership interests in subsidiaries) or other similar event by Counterparty or any of its subsidiaries where the aggregate consideration transferable or receivable by or to Counterparty or its subsidiaries exceeds 15% of the market capitalization of Counterparty and (v) any transaction in which Counterparty or its board of directors has a legal obligation to make a recommendation to its shareholders in respect of such transaction (whether pursuant to Rule 14e-2 under the Exchange Act or otherwise).

11. Acknowledgments. (a) The parties hereto intend for:

(i) each Transaction to be a “securities contract” as defined in Section 741(7) of the Bankruptcy Code, a “swap agreement” as defined in Section 101(53B) of the Bankruptcy Code and a “forward contract” as defined in Section 101(25) of the Bankruptcy Code, and the parties hereto to be entitled to the protections afforded by, among other Sections, Sections 362(b)(6), 362(b)(17), 362(b)(27), 362(o), 546(e), 546(g), 546(j), 555, 556, 560 and 561 of the Bankruptcy Code;

(ii) the Agreement to be a “master netting agreement” as defined in Section 101(38A) of the Bankruptcy Code;

(iii) a party’s right to liquidate, terminate or accelerate any Transaction, net out or offset termination values or payment amounts, and to exercise any other remedies upon the occurrence of any Event of Default or Termination Event under the Agreement with respect to the other party or any Extraordinary Event that results in the termination or cancellation of any Transaction to constitute a “contractual right” (as defined in the Bankruptcy Code); and

(iv) all payments for, under or in connection with each Transaction, all payments for the Shares (including, for the avoidance of doubt, payment of the Prepayment Amount) and the transfer of such Shares to constitute “settlement payments” and “transfers” (as defined in the Bankruptcy Code).

(b) Counterparty acknowledges that:

(i) during the term of any Transaction, GS&Co. and its affiliates may buy or sell Shares or other securities or buy or sell options or futures contracts or enter into swaps or other derivative securities in order to establish, adjust or unwind its hedge position with respect to such Transaction;

(ii) GS&Co. and its affiliates may also be active in the market for the Shares other than in connection with hedging activities in relation to any Transaction;

(iii) GS&Co. shall make its own determination as to whether, when or in what manner any hedging or market activities in Counterparty’s securities shall be conducted and shall do so in a manner that it deems appropriate to hedge its price and market risk with respect to the Forward Price and the VWAP Price;

(iv) any market activities of GS&Co. and its affiliates with respect to the Shares may affect the market price and volatility of the Shares, as well as the Forward Price and VWAP Price, each in a manner that may be adverse to Counterparty; and

(v) each Transaction is a derivatives transaction in which it has granted GS&Co. an option; GS&Co. may purchase shares for its own account at an average price that may be greater than, or less than, the price paid by Counterparty under the terms of the related Transaction.

12. Credit Support Documents. The parties hereto acknowledge that no Transaction hereunder is secured by any collateral that would otherwise secure the obligations of Counterparty herein or pursuant to the Agreement.

13. Set-off. (a) The parties agree to amend Section 6 of the Agreement by adding a new Section 6(f) thereto as follows:

“(f) Upon the occurrence of an Event of Default or Termination Event with respect to a party who is the Defaulting Party or the Affected Party (“X”), the other party (“Y”) will have the right (but not be obliged) without prior notice to X or any other person to set-off or apply any obligation of X owed to Y (or any Affiliate of Y) (whether or not matured or contingent and whether or not arising under the Agreement, and regardless of the currency, place of payment or booking office of the obligation) against any obligation of Y (or any Affiliate of Y) owed to X (whether or not matured or contingent and whether or not arising under the Agreement, and regardless of the currency, place of payment or booking office of the obligation). Y will give notice to the other party of any set-off effected under this Section 6(f).

Amounts (or the relevant portion of such amounts) subject to set-off may be converted by Y into the Termination Currency at the rate of exchange at which such party would be able, acting in a reasonable manner and in good faith, to purchase the relevant amount of such currency. If any obligation is unascertained, Y may in good faith estimate that obligation and set-off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained. Nothing in this Section 6(f) shall be effective to create a charge or other security interest. This Section 6(f) shall be without prejudice and in addition to any right of set-off, combination of accounts, lien or other right to which any party is at any time otherwise entitled (whether by operation of law, contract or otherwise).”

(b) Notwithstanding anything to the contrary in the foregoing, GS&Co. agrees not to set off or net amounts due from Counterparty with respect to any Transaction against amounts due from GS&Co. to Counterparty with respect to contracts or instruments that are not Equity Contracts. “**Equity Contract**” means any transaction or instrument that does not convey to GS&Co. rights, or the ability to assert claims, that are senior to the rights and claims of common stockholders in the event of Counterparty’s bankruptcy.

14. Delivery of Shares. Notwithstanding anything to the contrary herein, GS&Co. may, by prior notice to Counterparty, satisfy its obligation to deliver any Shares or Alternative Delivery Property on any date due (an “**Original Delivery Date**”) by making separate deliveries of Shares or such Alternative Delivery Property, as the case may be, at more than one time on or prior to such Original Delivery Date, so long as the aggregate number of Shares and/or Alternative Delivery Units so delivered on or prior to such Original Delivery Date is equal to the number required to be delivered on such Original Delivery Date.

15. Early Termination. In the event that an Early Termination Date (whether as a result of an Event of Default or a Termination Event) occurs or is designated with respect to any Transaction (except as a result of a Merger Event in which the consideration or proceeds to be paid to holders of Shares consists solely of cash), if either party would owe any amount to the other party pursuant to Section 6(d)(ii) of the Agreement or Article 12 of the Equity Definitions (any such amount, a “**Payment Amount**”), then, in lieu of any payment of such Payment Amount, Counterparty may, no later than the Early Termination Date or the date on which such Transaction is terminated, elect to deliver or for GS&Co. to deliver, as the case may be, to the other party a number of Shares (or, in the case of a Merger Event, a number of units, each comprising the number or amount of the securities or property that a hypothetical holder of one Share would receive in such Merger Event (each such unit, an “**Alternative Delivery Unit**” and, the securities or property comprising such unit, “**Alternative Delivery Property**”) with a value equal to the Payment Amount, as determined by the Calculation Agent (and the parties agree that, in making such determination of value, the Calculation Agent may take into account a number of factors, including the market price of the Shares or Alternative Delivery Property on the date of early termination and, if such delivery is made by GS&Co., the prices at which GS&Co. purchases Shares or Alternative Delivery Property, in a commercially reasonable manner and over a commercially reasonable time period, to fulfill its delivery obligations under this Section 15); *provided* that in determining the composition of any Alternative Delivery Unit, if the relevant Merger Event involves a choice of consideration to be received by holders, such holder shall be deemed to have elected to receive the maximum possible amount of cash. If such delivery is made by Counterparty, paragraphs 2 through 7 of Annex A shall apply as if such delivery were a settlement of the Transaction to which Net Share Settlement applied, the Cash Settlement Payment Date were the Early Termination Date and the Forward Cash Settlement Amount were zero (0) *minus* the Payment Amount owed by Counterparty.

16. Calculations and Payment Date upon Early Termination. The parties acknowledge and agree that in calculating Loss pursuant to Section 6 of the Agreement GS&Co. may (but need not) determine losses (or gains) without reference to actual losses incurred but based on expected losses assuming a commercially reasonable (including without limitation with regard to reasonable legal and regulatory guidelines) risk bid were used to determine loss (or gain) to avoid awaiting the

delay associated with closing out any hedge or related trading position in a commercially reasonable manner prior to or sooner following the designation of an Early Termination Date. Notwithstanding anything to the contrary in Section 6(d)(ii) of the Agreement, all amounts calculated as being due in respect of an Early Termination Date under Section 6(e) of the Agreement will be payable on the day that notice of the amount payable is effective; *provided* that if Counterparty elects to receive Shares or Alternative Delivery Property in accordance with Section 15, such Shares or Alternative Delivery Property shall be delivered on a date selected by GS&Co as promptly as practicable and in a commercially reasonable manner.

17. Special Provisions for Counterparty Payments. The parties hereby agree that, notwithstanding anything to the contrary herein or in the Agreement, in the event that an Early Termination Date (whether as a result of an Event of Default or a Termination Event) occurs or is designated with respect to any Transaction and, as a result, Counterparty owes to GS&Co. an amount calculated under Section 6(e) of the Agreement, such amount shall be deemed to be zero; *provided* that following an Acquisition Transaction Announcement, this Section 17 shall cease to apply.

18. Delivery of Cash. For the avoidance of doubt, nothing in this Master Confirmation shall be interpreted as requiring Counterparty to deliver cash in respect of the settlement of the Transactions contemplated by this Master Confirmation following payment by Counterparty of the relevant Prepayment Amount, except in circumstances where the required cash settlement thereof is permitted for classification of the contract as equity by EITF 00-19 as in effect on the relevant Trade Date (including, without limitation, where Counterparty so elects to deliver cash or fails timely to elect to deliver Shares or Alternative Delivery Property in respect of the settlement of such Transactions).

19. Claim in Bankruptcy. GS&Co. acknowledges and agrees that this Confirmation is not intended to convey to it rights with respect to the Transaction that are senior to the claims of common stockholders in the event of Counterparty's bankruptcy.

20. [Reserved].

21. General Obligations Law of New York. With respect to each Transaction, (i) this Master Confirmation, together with the related Supplemental Confirmation, as supplemented by the related Trade Notification, is a "qualified financial contract", as such term is defined in Section 5-701(b)(2) of the General Obligations Law of New York (the "**General Obligations Law**"); (ii) such Trade Notification constitutes a "confirmation in writing sufficient to indicate that a contract has been made between the parties" hereto, as set forth in Section 5-701(b)(3)(b) of the General Obligations Law; and (iii) this Master Confirmation, together with the related Supplemental Confirmation, constitutes a prior "written contract" as set forth in Section 5-701(b)(1)(b) of the General Obligations Law, and each party hereto intends and agrees to be bound by this Master Confirmation and the related Supplemental Confirmation, as supplemented by the Trade Notification.

22. Governing Law. The Agreement, this Master Confirmation, each Supplemental Confirmation, each Trade Notification and all matters arising in connection with the Agreement, this Master Confirmation, each Supplemental Confirmation and each Trade Notification shall be governed by, and construed and enforced in accordance with, the laws of the State of New York (without reference to its choice of laws doctrine other than Title 14 of Article 5 of the New York General Obligations Law).

23. Offices.

(a) The Office of GS&Co. for each Transaction is: 200 West Street, New York, NY 10282-2198.

(b) The Office of Counterparty for each Transaction is: Intuitive Surgical, Inc., 1266 Kifer Rd, Sunnyvale, CA 94086

24. Arbitration. **The Agreement, this Master Confirmation, each Supplemental Confirmation and each Trade Notification are subject to the following arbitration provisions:**

(a) **All parties to this Master Confirmation are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.**

(b) **Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.**

(c) **The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.**

(d) The arbitrators do not have to explain the reason(s) for their award.

(e) The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry, unless Counterparty is a member of the organization sponsoring the arbitration facility, in which case all arbitrators may be affiliated with the securities industry.

(f) The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court.

(g) The rules of the arbitration forum in which the claim is filed, and any amendments thereto, shall be incorporated into this Master Confirmation.

Counterparty agrees that any and all controversies that may arise between Counterparty and GSI, including, but not limited to, those arising out of or relating to the Agreement or any Transaction hereunder, shall be determined by arbitration conducted before FINRA Dispute Resolution ("FINRA-DR"), or if FINRA-DR decline to hear the matter, before the American Arbitration Association, in accordance with their arbitration rules then in force. The award of the arbitrator shall be final, and judgment upon the award rendered may be entered in any court, state or federal, having jurisdiction.

No person shall bring a putative or certified class action to arbitration, nor seek to enforce any pre-dispute arbitration agreement against any person who has initiated in court a putative class action or who is a member of a putative class who has not opted out of the class with respect to any claims encompassed by the putative class action until: (i) the class certification is denied; (ii) the class is decertified; or (iii) Counterparty is excluded from the class by the court.

Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this Master Confirmation except to the extent stated herein.

25. Counterparts. This Master Confirmation may be executed in any number of counterparts, all of which shall constitute one and the same instrument, and any party hereto may execute this Master Confirmation by signing and delivering one or more counterparts.

Counterparty hereby agrees (a) to check this Master Confirmation carefully and immediately upon receipt so that errors or discrepancies can be promptly identified and rectified and (b) to confirm that the foregoing (in the exact form provided by GS&Co.) correctly sets forth the terms of the agreement between GS&Co. and Counterparty with respect to any particular Transaction to which this Master Confirmation relates, by manually signing this Master Confirmation or this page hereof as evidence of agreement to such terms and providing the other information requested herein and immediately returning an executed copy to Equity Derivatives Documentation Department, Facsimile No. #####.

Yours faithfully,

GOLDMAN, SACHS & CO.

By: /s/ DANIEL KOPPER

Authorized Signatory

Name: Daniel Kopper

Title: Vice President

Agreed and Accepted By:

INTUITIVE SURGICAL, INC.

By: /s/ MARSHALL L. MOHR

Name: Marshall L. Mohr

Title: Senior Vice President and Chief Financial Officer

SCHEDULE A

SUPPLEMENTAL CONFIRMATION

To: Intuitive Surgical, Inc.
1266 Kifer Rd
Sunnyvale, CA 94086

From: Goldman, Sachs & Co.

Subject: Capped Accelerated Stock Buyback

Ref. No: **[Insert Reference No.]**

Date: **[Insert Date]**

The purpose of this Supplemental Confirmation is to confirm the terms and conditions of the Transaction entered into between Goldman, Sachs & Co. (“**GS&Co.**”) and Intuitive Surgical, Inc. (“**Counterparty**”) (together, the “**Contracting Parties**”) on the Trade Date specified below. Supplemental Confirmation is a binding contract between GS&Co. and Counterparty as of the relevant Trade Date for the Transaction referenced below.

1. This Supplemental Confirmation supplements, forms part of, and is subject to the Master Confirmation dated as of July 29, 2013 (the “**Master Confirmation**”) between the Contracting Parties, as amended and supplemented from time to time. All provisions contained in the Master Confirmation govern this Supplemental Confirmation except as expressly modified below.

2. The terms of the Transaction to which this Supplemental Confirmation relates are as follows:

Trade Date:	[]
Forward Price Adjustment Percentage:	[]
Hedge Period End Date:	[]
Scheduled Termination Date:	[]
First Acceleration Date:	[]
Prepayment Amount:	[]
Prepayment Date:	[]
Initial Shares:	[] Shares; <i>provided</i> that if, in connection with the Transaction, GS&Co. is unable to borrow or otherwise acquire a number of Shares equal to the Initial Shares for delivery to Counterparty on the Initial Share Delivery Date, the Initial Shares delivered on the Initial Share Delivery Date shall be reduced to such number of Shares that GS&Co. is able to so borrow or otherwise acquire.
Initial Share Delivery Date:	[]

Minimum Shares: As set forth in the Trade Notification, to be a number of Shares equal to (a) the Prepayment Amount *divided by* (b) 110% of the Hedge Period Reference Price.

Maximum Shares: As set forth in the Trade Notification, to be a number of Shares equal to (a) the Prepayment Amount *divided by* (b) 90% of the Hedge Period Reference Price.

Additional Relevant Days: The 5 Exchange Business Days immediately following the Calculation Period.

3. Counterparty represents and warrants to GS&Co. that neither it nor any “affiliated purchaser” (as defined in Rule 10b-18 under the Exchange Act) has made any purchases of blocks pursuant to the proviso in Rule 10b-18(b)(4) under the Exchange Act during either (i) the four full calendar weeks immediately preceding the Trade Date or(ii) during the calendar week in which the Trade Date occurs.

4. This Supplemental Confirmation may be executed in any number of counterparts, all of which shall constitute one and the same instrument, and any party hereto may execute this Supplemental Confirmation by signing and delivering one or more counterparts.

Counterparty hereby agrees (a) to check this Supplemental Confirmation carefully and immediately upon receipt so that errors or discrepancies can be promptly identified and rectified and (b) to confirm that the foregoing (in the exact form provided by GS&Co.) correctly sets forth the terms of the agreement between GS&Co. and Counterparty with respect to the Transaction to which this Supplemental Confirmation relates, by manually signing this Supplemental Confirmation or this page hereof as evidence of agreement to such terms and providing the other information requested herein and immediately returning an executed copy to Equity Derivatives Documentation Department, facsimile No. #####.

Yours sincerely,

GOLDMAN, SACHS & CO.

By: _____

Authorized Signatory

Agreed and Accepted By:

INTUITIVE SURGICAL, INC.

By: _____

Name:

Title:

SCHEDULE B

TRADE NOTIFICATION

To: Intuitive Surgical, Inc.
1266 Kifer Rd
Sunnyvale, CA 94086

From: Goldman, Sachs & Co.

Subject: Capped Accelerated Stock Buyback

Ref. No: [Insert Reference No.]

Date: [Insert Date]

The purpose of this Trade Notification is to notify you of certain terms in the Transaction entered into between Goldman, Sachs & Co. (“**GS&Co.**”) and Intuitive Surgical, Inc. (“**Counterparty**”) (together, the “**Contracting Parties**”) on the Trade Date specified below.

This Trade Notification supplements, forms part of, and is subject to the Supplemental Confirmation dated as of July 29, 2013 (the “**Supplemental Confirmation**”) between the Contracting Parties, as amended and supplemented from time to time. The Supplemental Confirmation is subject to the Master Confirmation dated as of [] (the “**Master Confirmation**”) between the Contracting Parties, as amended and supplemented from time to time.

Hedge Completion Date: []

Hedge Period Reference Price: USD []

Forward Price Adjustment Amount: USD[]

Minimum Shares: []

Maximum Shares: []

Yours sincerely,

GOLDMAN, SACHS & CO.

By: _____
Authorized Signatory

ANNEX A

COUNTERPARTY SETTLEMENT PROVISIONS

1. The following Counterparty Settlement Provisions shall apply to the extent indicated under the Master Confirmation:

Settlement Currency:	USD
Settlement Method Election:	Applicable; <i>provided</i> that (i) Section 7.1 of the Equity Definitions is hereby amended by deleting the word “Physical” in the sixth line thereof and replacing it with the words “Net Share” and (ii) the Electing Party may make a settlement method election only if the Electing Party represents and warrants to GS&Co. in writing on the date it notifies GS&Co. of its election that, as of such date, the Electing Party is not aware of any material non-public information concerning Counterparty or the Shares and is electing the settlement method in good faith and not as part of a plan or scheme to evade compliance with the federal securities laws.
Electing Party:	Counterparty
Settlement Method Election Date:	The earlier of (i) the Scheduled Termination Date and (ii) the second Exchange Business Day immediately following the Accelerated Termination Date (in which case the election under Section 7.1 of the Equity Definitions shall be made no later than 10 minutes prior to the open of trading on the Exchange on such second Exchange Business Day), as the case may be.
Default Settlement Method:	Cash Settlement
Forward Cash Settlement Amount:	The Number of Shares to be Delivered <i>multiplied</i> by the Settlement Price.
Settlement Price:	The average of the VWAP Prices for the Exchange Business Days in the Settlement Valuation Period, subject to Valuation Disruption as specified in the Master Confirmation.
Settlement Valuation Period:	A number of Scheduled Trading Days selected by GS&Co. in its good faith commercially reasonable discretion by reference to (x) the then-prevailing volume limitations of Rule 10b-18 in respect of the Shares and (y) the number of commercially reasonable Scheduled Trading Days necessary or advisable to unwind a commercially reasonable hedge position, beginning on the Scheduled Trading Day immediately following the earlier of (i) the Scheduled Termination Date or (ii) the Exchange Business Day immediately following the Termination Date.

Cash Settlement:	If Cash Settlement is applicable, then Buyer shall pay to Seller the absolute value of the Forward Cash Settlement Amount on the Cash Settlement Payment Date.
Cash Settlement Payment Date:	The date one Settlement Cycle following the last day of the Settlement Valuation Period.
Net Share Settlement Procedures:	If Net Share Settlement is applicable, Net Share Settlement shall be made in accordance with paragraphs 2 through 7 below.

2. Net Share Settlement shall be made by delivery on the Cash Settlement Payment Date of a number of Shares satisfying the conditions set forth in paragraph 3 below (the “**Registered Settlement Shares**”), or a number of Shares not satisfying such conditions (the “**Unregistered Settlement Shares**”), in either case with a value equal to the absolute value of the Forward Cash Settlement Amount, as determined by the Calculation Agent, with such Shares’ value determined by the Calculation Agent (which value shall, in the case of Unregistered Settlement Shares, take into account a commercially reasonable illiquidity discount).

3. Counterparty may only deliver Registered Settlement Shares pursuant to paragraph 2 above if:

(a) a registration statement covering public resale of the Registered Settlement Shares by GS&Co. (the “**Registration Statement**”) shall have been filed with the Securities and Exchange Commission under the Securities Act and been declared or otherwise become effective on or prior to the date of delivery, and no stop order shall be in effect with respect to the Registration Statement; a printed prospectus relating to the Registered Settlement Shares (including any prospectus supplement thereto, the “**Prospectus**”) shall have been delivered to GS&Co., in such quantities as GS&Co. shall reasonably have requested, on or prior to the date of delivery;

(b) the form and content of the Registration Statement and the Prospectus (including, without limitation, any sections describing the plan of distribution) shall be satisfactory to GS&Co.;

(c) as of or prior to the date of delivery, GS&Co. and its agents shall have been afforded a reasonable opportunity to conduct a due diligence investigation with respect to Counterparty customary in scope for underwritten offerings of equity securities of similar size and the results of such investigation are satisfactory to GS&Co., in its discretion; and

(d) as of the date of delivery, an agreement (the “**Underwriting Agreement**”) shall have been entered into with GS&Co. in connection with the public resale of the Registered Settlement Shares by GS&Co. substantially similar to underwriting agreements customary for underwritten offerings of equity securities of similar size, in form and substance satisfactory to GS&Co., which Underwriting Agreement shall include, without limitation, provisions substantially similar to those contained in such underwriting agreements relating, without limitation, to the indemnification of, and contribution in connection with the liability of, GS&Co. and its affiliates and the provision of customary opinions, accountants’ comfort letters and lawyers’ negative assurance letters.

4. If Counterparty delivers Unregistered Settlement Shares pursuant to paragraph 2 above:

(a) all Unregistered Settlement Shares shall be delivered to GS&Co. (or any affiliate of GS&Co. designated by GS&Co.) pursuant to the exemption from the registration requirements of the Securities Act provided by Section 4(2) thereof;

(b) as of or prior to the date of delivery, GS&Co. and any potential purchaser of any such shares from GS&Co. (or any affiliate of GS&Co. designated by GS&Co.) identified by GS&Co. shall be afforded a commercially reasonable opportunity to conduct a due diligence investigation with respect to Counterparty customary in scope for private placements of equity securities for an issuance of similar size (including, without limitation, the

right to have made available to them for inspection all financial and other records, pertinent corporate documents and other information reasonably requested by them);

(c) as of the date of delivery, Counterparty shall enter into an agreement (a “**Private Placement Agreement**”) with GS&Co. (or any affiliate of GS&Co. designated by GS&Co.) in connection with the private placement of such shares by Counterparty to GS&Co. (or any such affiliate) and the private resale of such shares by GS&Co. (or any such affiliate), substantially similar to private placement purchase agreements customary for private placements of equity securities for an issuance of similar size, in form and substance commercially reasonably satisfactory to GS&Co., which Private Placement Agreement shall include, without limitation, provisions substantially similar to those contained in such private placement purchase agreements relating, without limitation, to the indemnification of, and contribution in connection with the liability of, GS&Co. and its affiliates and the provision of customary opinions, accountants’ comfort letters and lawyers’ negative assurance letters, and shall provide for the payment by Counterparty of all reasonable fees and expenses in connection with such resale, including all reasonable fees and expenses of counsel for GS&Co., and shall contain representations, warranties, covenants and agreements of Counterparty reasonably necessary or advisable to establish and maintain the availability of an exemption from the registration requirements of the Securities Act for such resales; and

(d) in connection with the private placement of such shares by Counterparty to GS&Co. (or any such affiliate) and the private resale of such shares by GS&Co. (or any such affiliate), Counterparty shall, if so requested by GS&Co., prepare, in cooperation with GS&Co., a private placement memorandum in form and substance reasonably satisfactory to GS&Co.

5. GS&Co., itself or through an affiliate (the “**Selling Agent**”) or any underwriter(s), will sell all, or such lesser portion as may be required hereunder, of the Registered Settlement Shares or Unregistered Settlement Shares and any Makewhole Shares (as defined below) (together, the “**Settlement Shares**”) delivered by Counterparty to GS&Co. pursuant to paragraph 6 below commencing on the Cash Settlement Payment Date and continuing until the date on which the aggregate Net Proceeds (as such term is defined below) of such sales, as determined by GS&Co., is equal to the absolute value of the Forward Cash Settlement Amount (such date, the “**Final Resale Date**”). If the proceeds of any sale(s) made by GS&Co., the Selling Agent or any underwriter(s), net of any fees and commissions (including, without limitation, underwriting or placement fees) customary for similar transactions under the circumstances at the time of the offering, together with commercially reasonable carrying charges and expenses incurred in connection with the offer and sale of the Shares (including, but without limitation to, the covering of any over-allotment or short position (syndicate or otherwise)) (the “**Net Proceeds**”) exceed the absolute value of the Forward Cash Settlement Amount, GS&Co. will refund, in USD (or, at Counterparty’s election, Shares of equivalent value, as determined by the Calculation Agent), such excess to Counterparty on the date that is three (3) Currency Business Days following the Final Resale Date, and, if any portion of the Settlement Shares remains unsold, GS&Co. shall return to Counterparty on that date such unsold Shares.

6. If the Calculation Agent determines that the Net Proceeds received from the sale of the Registered Settlement Shares or Unregistered Settlement Shares or any Makewhole Shares, if any, pursuant to this paragraph 6 are less than the absolute value of the Forward Cash Settlement Amount (the amount in USD by which the Net Proceeds are less than the absolute value of the Forward Cash Settlement Amount being the “**Shortfall**” and the date on which such determination is made, the “**Deficiency Determination Date**”), Counterparty shall on the Exchange Business Day next succeeding the Deficiency Determination Date (the “**Makewhole Notice Date**”) deliver to GS&Co., through the Selling Agent, a notice of Counterparty’s election that Counterparty shall either (i) pay an amount in cash equal to the Shortfall on the day that is one (1) Currency Business Day after the Makewhole Notice Date, or (ii) deliver additional Shares. If Counterparty elects to deliver to GS&Co. additional Shares, then Counterparty shall deliver additional Shares in compliance with the terms and conditions of paragraph 3 or paragraph 4 above, as the case may be (the “**Makewhole Shares**”), on the first Clearance System Business Day which is also an Exchange Business Day following the Makewhole Notice Date in such number as the Calculation Agent reasonably believes would have a market value on that Exchange Business Day equal to the Shortfall. Such Makewhole Shares shall be sold by GS&Co. in accordance with the provisions above; *provided* that if the sum of the Net Proceeds from the sale of the originally delivered Shares and the Net Proceeds from the sale of any Makewhole Shares is less than the absolute

value of the Forward Cash Settlement Amount then Counterparty shall, at its election, either make such cash payment or deliver to GS&Co. further Makewhole Shares until such Shortfall has been reduced to zero.

7. Notwithstanding the foregoing, in no event shall the aggregate number of Settlement Shares and Makewhole Shares be greater than the Reserved Shares *minus* the amount of any Shares actually delivered by Counterparty under any other Transaction(s) under this Master Confirmation (the result of such calculation, the “**Capped Number**”). Counterparty represents and warrants (which shall be deemed to be repeated on each day that a Transaction is outstanding) that the Capped Number is equal to or less than the number of Shares determined according to the following formula:

$$A - B$$

Where A = the number of authorized but unissued shares of the Counterparty that are not reserved for future issuance on the date of the determination of the Capped Number; and

B = the maximum number of Shares required to be delivered to third parties if Counterparty elected Net Share Settlement of all transactions in the Shares (other than Transactions in the Shares under this Master Confirmation) with all third parties that are then currently outstanding and unexercised.

“**Reserved Shares**” means initially, 10,000,000 Shares. The Reserved Shares may be increased or decreased in a Supplemental Confirmation.

SUPPLEMENTAL CONFIRMATION

To: Intuitive Surgical, Inc.
1266 Kifer Rd
Sunnyvale, CA 94086

From: Goldman, Sachs & Co.

Subject: Capped Accelerated Stock Buyback

Ref. No: SDB4166515286

Date: July 29, 2013

The purpose of this Supplemental Confirmation is to confirm the terms and conditions of the Transaction entered into between Goldman, Sachs & Co. (“**GS&Co.**”) and Intuitive Surgical, Inc. (“**Counterparty**”) (together, the “**Contracting Parties**”) on the Trade Date specified below. Supplemental Confirmation is a binding contract between GS&Co. and Counterparty as of the relevant Trade Date for the Transaction referenced below.

1. This Supplemental Confirmation supplements, forms part of, and is subject to the Master Confirmation dated as of July 29, 2013 (the “**Master Confirmation**”) between the Contracting Parties, as amended and supplemented from time to time. All provisions contained in the Master Confirmation govern this Supplemental Confirmation except as expressly modified below.
2. The terms of the Transaction to which this Supplemental Confirmation relates are as follows:

Trade Date:	July 29, 2013
Forward Price Adjustment Percentage:	0.65%
Hedge Period:	The period from and including the Hedge Period Start Date to and including the Hedge Completion Date.
Hedge Period Start Date:	July 29, 2013
Hedge Period End Date:	July 31, 2013
Scheduled Termination Date:	October 29, 2013
First Acceleration Date:	August 16, 2013
Prepayment Amount:	USD 500,000,000.00
Prepayment Date:	August 1, 2013
Initial Shares:	832,305 Shares; provided that if, in connection with the Transaction, GS&Co. is unable to borrow or otherwise acquire a number of Shares equal to the Initial Shares for delivery to Counterparty on the Initial Share Delivery Date, the Initial Shares delivered on the Initial Share Delivery Date shall be reduced to such number of Shares that GS&Co. is able to so borrow or otherwise acquire.
Initial Share Delivery Date:	August 1, 2013
Minimum Shares:	As set forth in the Trade Notification, to be a number of Shares equal to (a) the Prepayment Amount <i>divided by</i> (b) 110% of the Hedge Period Reference Price.
Maximum Shares:	Not Applicable. All references to “Maximum Shares” in the Master Confirmation and any Trade Notification shall be disregarded for purposes of the Transaction to which this Supplemental Confirmation relates.
Number of Shares to be Delivered:	The definition of “Number of Shares to be Delivered” in the Master Confirmation shall be deleted and replaced with the following: “A number of Shares equal to (a) the Prepayment Amount <i>divided by</i> (b) the Divisor Amount; <i>provided</i> that the Number of Shares to be Delivered shall not be less than the Minimum Shares. The Number of Shares to be Delivered on the Settlement Date shall be reduced, but not below zero, by any Shares delivered pursuant to the Initial Share Delivery and the Minimum Share Delivery described below.”
Divisor Amount:	The greater of (i) the Forward Price <i>minus</i> the Forward Price Adjustment Amount and (ii) \$45.00.
Additional Relevant Days:	The 5 Exchange Business Days immediately following the Calculation Period.
Reserved Shares:	1,438,000 Shares

3. Notwithstanding anything to the contrary in Section 6 of the Agreement, an Additional Termination Event with Counterparty as the sole Affected Party and the Transaction to which this Supplemental Confirmation relates as the Affected Transaction will automatically occur without any notice or action by GS&Co. or Counterparty if the price of the Shares on the Exchange at any time falls below USD 191.00 (the “**Termination Price**”), and the Exchange Business Day that the price of the Shares on the Exchange at any time falls below the Termination Price will be the “Early Termination Date” for purposes of the Agreement.

4. Counterparty represents and warrants to GS&Co. that neither it nor any “affiliated purchaser” (as defined in Rule 10b-18 under the Exchange Act) has made any purchases of blocks pursuant to the proviso in Rule 10b-18(b)(4)

under the Exchange Act during either (i) the four full calendar weeks immediately preceding the Trade Date or (ii) during the calendar week in which the Trade Date occurs.

5. Counterparty represents and warrants to GS&Co. that it:

(a) is an “institutional account” as defined in FINRA Rule 4512(c);

(b) is capable of evaluating investment risks independently, both in general and with regard to all transactions and investment strategies involving a security or securities, and will exercise independent judgment in evaluating the recommendations of GS&Co. or its associated persons, unless it has otherwise notified GS&Co. in writing; and

(c) will notify GS&Co. if any of the statements contained in clause (i) or (ii) ceases to be true during the term of the Transaction to which this Supplemental Confirmation relates.

6. This Supplemental Confirmation may be executed in any number of counterparts, all of which shall constitute one and the same instrument, and any party hereto may execute this Supplemental Confirmation by signing and delivering one or more counterparts.

Counterparty hereby agrees (a) to check this Supplemental Confirmation carefully and immediately upon receipt so that errors or discrepancies can be promptly identified and rectified and (b) to confirm that the foregoing (in the exact form provided by GS&Co.) correctly sets forth the terms of the agreement between GS&Co. and Counterparty with respect to the Transaction to which this Supplemental Confirmation relates, by manually signing this Supplemental Confirmation or this page hereof as evidence of agreement to such terms and providing the other information requested herein and immediately returning an executed copy to Equity Derivatives Documentation Department, facsimile No. #####.

Yours faithfully,

GOLDMAN, SACHS & CO.

By: /s/ DANIEL KOPPER
Authorized Signatory
Name: Daniel Kopper
Title: Vice President

Agreed and Accepted By:

INTUITIVE SURGICAL, INC.

By: /s/ MARSHALL L. MOHR
Name: Marshall L. Mohr
Title: Senior Vice President and Chief Financial Officer

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

I, Gary S. Guthart, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Intuitive Surgical, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 18, 2013

/s/ Gary S. Guthart

Gary S. Guthart

President and Chief Executive Officer

(Principal Executive Officer)

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

I, Marshall L. Mohr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Intuitive Surgical, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 18, 2013

/s/ Marshall L. Mohr

Marshall L. Mohr

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

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

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2013 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: October 18, 2013

/s/ Gary S. Guthart

Gary S. Guthart

President and Chief Executive Officer

(Principal Executive Officer)

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

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2013 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: October 18, 2013

/s/ Marshall L. Mohr

Marshall L. Mohr

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)