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

FORM 10-K

(MARK ONE)

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

For the fiscal year ended December 31, 2001

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 000-30713

Intuitive Surgical, Inc.

(Exact name of Registrant as Specified in its Charter)

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

950 Kifer Road
Sunnyvale, California 94086
(Address of Principal Executive Offices including Zip Code)

(408) 523-2100
(Registrant's Telephone Number, Including Area Code)

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.0001 Par Value

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 x o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price of Common Stock on March 15, 2002, as reported by Nasdaq, was approximately $279,861,580. Shares of voting stock held by each officer and director and by each person who owns 5% or more of the outstanding voting stock have been excluded in that such persons may be deemed to be affiliates. This assumption regarding affiliate status is not necessarily a conclusive determination for other purposes.

The number of outstanding shares of the registrant's common stock on March 15, 2002 was 36,372,813.

DOCUMENTS INCORPORATED BY REFERENCE

Part III -- Portions of the registrant's definitive Proxy Statement to be issued in conjunction with the Registrant's Annual Meeting of Stockholders to be held on May 23, 2002 are incorporated by reference into Part III.

Intuitive Surgical, Inc.

2001 ANNUAL REPORT ON FORM 10-K

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PART I

ITEM 1: BUSINESS

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements based on our current expectations about our company and our industry. You can identify these forward-looking statements when you see us using words such as "expect," "anticipate," "estimate" and other similar expressions. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the factors described in the "Risk Factors" section of Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report. We undertake no obligation to publicly update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

COMPANY BACKGROUND

In this report, "Intuitive Surgical," "we," "us," and "our" refer to Intuitive Surgical, Inc. Intuitive™®, *da Vinci*™, EndoWrist™, InSite™ and Navigator™ are trademarks of Intuitive Surgical, Inc.

We design and manufacture the *da Vinci* Surgical System, an advanced surgical system that we believe represents a new generation of surgery -- the third generation. We believe that this new generation of surgery, which we call Intuitive surgery, is a revolutionary advance similar in scope to the previous two generations of surgery -- open surgery and minimally invasive surgery, or MIS. Our *da Vinci* Surgical System consists of a surgeon's console, a patient-side cart, a high performance vision system and our proprietary instruments. By placing computer-enhanced technology between the surgeon and patient, we believe that our system enables surgeons to perform better surgery in a manner never before experienced. The *da Vinci* Surgical System seamlessly translates the surgeon's natural hand movements on instrument controls at a console into corresponding micro-movements of instruments positioned inside the patient through small puncture incisions, or ports. Our *da Vinci* Surgical System is the only commercially available technology that can provide the surgeon with the intuitive control, range of motion, fine tissue manipulation capability and 3-D visualization characteristic of open surgery, while simultaneously allowing the surgeon to work through the small ports of minimally invasive surgery.

In March 1997, surgeons using an early prototype of our technology successfully performed Intuitive surgery on humans. Beginning in May 1998, surgeons using our technology successfully performed what we believe were the world's first computer-enhanced closed chest heart surgeries, including mitral valve repair, dissection of an internal mammary artery and grafting of a coronary artery. In early 2000, surgeons using our technology successfully completed what we believe was the world's first beating heart bypass procedure using only small ports. In July 2000, we received marketing clearance from the U.S. Food and Drug Administration (FDA) for the *da Vinci* Surgical System to assist in the control of Intuitive Surgical endoscopic instruments including: rigid endoscopes, blunt and sharp endoscopic dissectors, scissors, scalpels, forceps/pickups, needle holders, endoscopic retractors, stabilizers, electrocautery, and accessories during laparoscopic surgical procedures such as cholecystectomy or Nissen fundoplication. We received clearance for a non-cardiac thoracoscopic surgery indication for the product in March 2001. Additionally, in May 2001 we received clearance for use of our products in laparoscopic prostatectomy procedures. As of December 31, 2001, we have sold 89 of our *da Vinci* Surgical Systems and surgeons using our technology have successfully completed several thousand surgery procedures of various types.

The first generation of surgery, open surgery, remains the predominant form of surgery and is still used in almost every area of the body. However, the large incisions required for open surgery create significant trauma to the patient, resulting in long hospitalization and recovery times, high hospitalization costs, as well as significant pain and suffering. Over the past several decades, the second generation of surgery, MIS surgery, has reduced trauma to the patient by allowing some surgeries to be performed through small ports rather than large incisions, resulting in shorter recovery times, fewer complications and reduced hospitalization costs. MIS surgery has been widely adopted for certain surgical procedures, but it has not been widely adopted for complex procedures. We believe surgeons have been slow to adopt MIS surgery for complex procedures because they generally find that fine tissue manipulations, such as dissecting and suturing, using these techniques are more difficult to learn and perform, and are less precise, than in open surgery.

Intuitive surgery overcomes many of the shortcomings of both open surgery and MIS surgery. Surgeons operate while seated comfortably at a console viewing a bright and sharp 3-D image of the surgical field. This immersive visualization results in surgeons no longer feeling disconnected from the surgical field and the instruments, as they do when using an endoscope in MIS surgery. While seated at the console, the surgeon manipulates instrument controls in a natural manner, just as he or she has been trained to do in open surgery. Our 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 every surgeon's hand. In designing our products, we have focused on making our technology as simple as possible to use. In our experience, based on over a thousand procedures, surgeons can learn to manipulate our instruments with only a short amount of training and can learn to perform Intuitive surgery with less training than is required for MIS surgery.

Our products are designed to make a broad range of open surgical and MIS procedures suitable for Intuitive surgery. The *da Vinci* Surgical System is designed to allow surgeons to perform better surgery while providing patients with the benefits of MIS surgery. We believe that these advantages will enable us to drive a fundamental change in surgery.

Third Generation Surgery: The Intuitive Surgical Solution

Our technology is designed to return to the surgeon the range of motion, fine tissue control and 3-D vision characteristic of open surgery while simultaneously allowing the surgeon to work through the ports used in MIS surgery. All this is accomplished in an intuitive manner, in the same way that the movements of a surgeon's hands in open surgery are entirely intuitive.

We believe that our technology overcomes many of the limitations of existing MIS surgery in the following ways:

- Natural Instrument Movements. Our technology is designed to directly transform the surgeon's natural hand movements outside the body into corresponding micromovements inside the patient's body. For example, a hand movement to the right outside the body causes the instrument inside the patient to be moved to the right, eliminating the backward nature of existing MIS surgery.
- EndoWrist Instruments Provide Natural Dexterity and Range of Motion. Our technology is designed to provide surgeons with a range of motion in the surgical field analogous to the motions of a human hand and wrist. Our proprietary instruments, which we call EndoWrist instruments, incorporate "wrist" joints that enable surgeons to reach behind tissues and suture with precision, just as they can in open surgery. The surgeon controls the joint's movements from the surgeon's console using natural hand and wrist movements. EndoWrist joints are located near the tips of all of our instruments.
- More Precise Movements and Reduced Tremor. With our technology, the surgeon can also use "motion scaling," a feature that translates, for example, a three millimeter hand movement outside the patient's body into a one millimeter instrument movement in the surgical field inside the patient's body. Motion scaling is designed to allow greater precision than is normally achievable in both open and MIS surgery. In addition, our technology is designed to filter out the tremor inherent in every surgeon's hands.
- Immersive 3-D Visualization. Our vision system, which we call the InSite vision system, is designed to give surgeons the perception that their hands are immersed in the surgical field even though they are outside the patient's body. As a result, we believe that surgeons no longer feel disconnected from the surgical field and the instruments, as they currently do with MIS surgery. In addition, we believe that the InSite system provides a much brighter and sharper image than any other 3-D endoscope vision system. The InSite system also incorporates our proprietary Navigator camera control technology that allows the surgeon to easily change, move, zoom and rotate his or her field of vision. The combination of these features offers what we believe is the most advanced surgical vision system available today.
- Easy to Learn and Perform. In designing our products, we have focused on making our technology as simple as possible to use, even though it is inherently complex. We believe that tissue manipulations using our products are as natural as hand movements in open surgery. In our experience, based on feedback from surgeons who have performed hundreds of procedures, surgeons can learn to manipulate our instruments with only a short amount of training. Learning to perform surgical procedures using the *da Vinci* Surgical System will vary depending on the complexity of the procedure and the surgical team's experience with MIS surgery techniques.
- Multi-Specialty Surgical Platform. The *da Vinci* Surgical System is designed to enable surgeons to perform surgery in virtually any part of the body. To date, surgeons have used the *da Vinci* Surgical System to perform over 100 different types of surgical procedures.

We believe that these advantages give the patient the benefits of less traumatic MIS surgery while restoring to the surgeon the range of motion and fine tissue control possible with open surgery, along with further enhancements such as tremor reduction, motion scaling and superior visualization.

We believe that our technology has the potential to change surgical procedures in three basic ways:

- Convert Open Procedures to Intuitive Surgery. We believe our technology will make a number of surgical procedures that currently are performed only with open surgical techniques suitable for Intuitive surgery.
- Facilitate Difficult MIS Operations. We believe surgical procedures that today are performed only rarely using MIS techniques will be performed routinely and with confidence using Intuitive surgery. Some procedures have been adapted for port-based techniques but are extremely difficult and are currently performed by a limited number of highly skilled surgeons. We believe our *da Vinci* Surgical System will enable more surgeons at more institutions to perform these procedures.
- Simplify Existing, High-Volume MIS Procedures. We believe surgical procedures that today are performed routinely using MIS techniques will be performed more quickly and safely with Intuitive surgery. For example, over the past decade, approximately 85% of gall bladder removals performed in the United States have been converted to MIS surgery. We believe that the *da Vinci* Surgical System will make these procedures easier, faster and more cost effective to perform.

INTUITIVE SURGICAL'S PRODUCTS

Our principal products include the *da Vinci* Surgical System and a variety of "smart disposable" EndoWrist instruments.

***da Vinci* Surgical System**

Surgeon's Console. The *da Vinci* Surgical System allows the surgeon to operate while comfortably seated at an ergonomic console viewing a 3-D image of the surgical field. The surgeon's fingers grasp the instrument controls below the display with wrists naturally positioned relative to his or her eyes. Using hardware, software, algorithms, mechanics and optics, our technology is designed to seamlessly translate the surgeon's hand movements into precise and corresponding real-time microsurgical movements of the EndoWrist instruments inside the patient.

Patient-Side Cart. The patient-side cart, which can be easily moved next to the operating table, holds electromechanical arms that manipulate the instruments inside the patient. Three arms attached to the cart can be easily positioned as appropriate, and then locked into place. The first two arms, one representing the left hand and one the right hand of the surgeon, hold our EndoWrist

instruments. The third arm positions the endoscope, allowing the surgeon to easily change, move, zoom and rotate his or her field of vision.

3-D Vision System. The vision system includes our InSite high resolution 3-D endoscope with two separate vision channels linked to two high resolution, progressively scanned color monitors. The vision system also incorporates our InSite image processing equipment comprised of high performance video cameras, specialized edge enhancement and noise reduction equipment. The resulting 3-D image has high resolution and contrast and no flicker or cross-fading, which occurs in single monitor systems, and minimizes eye fatigue. Our vision system allows the surgeon to move his or her head in the viewer without affecting image quality.

EndoWrist Instruments

We manufacture a variety of EndoWrist instruments, each of which incorporates a wrist joint for natural dexterity, with tips customized for various surgical procedures. These EndoWrist instruments are currently approximately seven millimeters in diameter. The instruments mount onto the electromechanical arms that represent the surgeon's left and right hands and provide the mechanical capability necessary for performing complex tissue manipulations through ports. At their tips, the various EndoWrist instruments include forceps, scissors, electrocautery, scalpels and other surgical tools that are readily familiar to the surgeon from open and MIS surgery. Generally, a variety of EndoWrist instruments are selected and used interchangeably during the surgery. Where instrument tips need to incorporate a disposable component, for example, scalpel blades, we sell disposable inserts. We plan to continue to add new types of EndoWrist instruments for additional types of surgical procedures.

The EndoWrist instruments are "smart disposables" because they are resterilizable and reusable for a defined number of procedures or hours of use. A custom computer chip inside each instrument performs several functions that help determine how the system and instruments work together. When an EndoWrist instrument is attached to an arm of the patient-side cart, the chip performs an "electronic handshake" that ensures the instrument was manufactured by us and recognizes the type and function of the instrument and number of past uses or hours. For example, the chip distinguishes between scissors and a scalpel and controls the unique functions of different instruments as appropriate. In addition, the chip will not allow the instrument to be used for more than the prescribed number of procedures or hours so that its performance meets specifications during each procedure. In addition, we can sell the instrument for a fixed number of uses or hours and effectively price our EndoWrist instruments on a per-procedure or per-hour basis.

USING THE DA VINCI SURGICAL SYSTEM

During a procedure, the patient-side cart is positioned next to the operating table with the electromechanical arms arranged to provide access to the initial ports selected by the surgeon. Metal tubes attached to the arms are inserted through the ports, and the EndoWrist instruments are introduced through the tubes into the patient's body. The surgeon then performs the procedure while sitting comfortably at the surgeon's console, manipulating the instrument controls and viewing the operation through our InSite vision system. When a surgeon needs to change an instrument, as is done many times during an operation, the instrument is withdrawn from the surgical field using the controls at the console, in similar fashion to the way a surgeon withdraws instruments from the patient in MIS surgery. A scrub nurse standing near the patient removes the unwanted instrument from the electromechanical arm and replaces it with the new instrument, in a process designed to be rapid enough not to disturb the natural flow of the procedure. As a result, the scrub nurse plays a role similar to that played in open and MIS surgery. At the conclusion of the operation, the metal tubes are removed from the patient's body and the small incisions are sutured or stapled.

OUR STRATEGY

Our goal is to establish Intuitive surgery as the standard for complex surgical procedures and many other procedures currently performed using either open or MIS surgery. We intend to accomplish this objective both by pioneering new types of endoscopic surgery and by making existing MIS procedures easier, safer and more cost effective. Over time, our strategy is to broaden the number of procedures performed using the *da Vinci* Surgical System and to educate surgeons and hospitals as to the benefits of Intuitive surgery. Key elements of this strategy include:

Focus on Key Institutions. Our marketing efforts are focused on large multi-specialty care hospitals where a majority of complex surgical procedures are performed. Following the initial placement at a given hospital, we intend to expand the number of physicians who use the *da Vinci* Surgical System and work with the hospitals and their surgeons to promote patient education as to the benefits of Intuitive surgery. We believe that these efforts will result in increased usage per system, leading to high volume sales of instruments and sales of additional systems at each hospital. In addition, we believe such efforts will benefit early-adopting hospitals by increasing their market share in the procedures and specialties that benefit from Intuitive surgery. We expect these efforts to increase demand for our products among competitive hospitals, surgeons and referring physicians.

Focus on Leading Surgeons to Drive Rapid and Broad Adoption. We will place significant emphasis on marketing the *da Vinci* Surgical System to leading surgeons who are considered to be the "thought leaders" in their institutions and fields. These surgeons typically perform complex surgical procedures that are currently not adaptable to MIS techniques. For example, cardiac procedures, of which over one million are currently performed annually worldwide, are among the most difficult to perform using MIS techniques. This strategy puts surgeons at the forefront of procedure development and provides them an opportunity to maintain a competitive edge in their specialty. We believe that early adoption of our products by surgical thought leaders will give many other surgeons the confidence that the *da Vinci* Surgical System can be used for all types of surgical procedures.

Develop Protocols for New Surgical Procedures. We intend to leverage our relationships with key institutions and surgical thought leaders to develop protocols for new surgical procedures. These protocols would include guidance on patient screening, port

placement, interaction of the surgical team and advice on the sequence and selection of tools and maneuvers. We believe that establishing protocols for a given procedure will facilitate the broader adoption of Intuitive surgery for that procedure.

Maintain Market Leadership. We intend to maintain our leadership advantage by continuing to develop and enhance our technology and to communicate the benefits of our *da Vinci* Surgical System to surgeons, hospitals and patients. We will continue to improve our *da Vinci* Surgical System through software and hardware enhancements and by developing new surgical instruments. We will also continue to develop our surgical platform to facilitate and support future surgical innovations.

CLINICAL CONTRIBUTIONS

We believe our technology is capable of enhancing or enabling a wide variety of procedures in many surgical specialties. To date, surgeons using our *da Vinci* Surgical System have performed over a thousand surgery procedures of various types including general and vascular surgery, gynecologic and urologic surgery, and cardiovascular surgery. These applications, as well as potential applications for orthopedic surgery, are described below.

General and Vascular Surgery

Aortic Aneurysms. A common vascular procedure is the repair of aortic aneurysms, which are sacs formed by the dilation of the wall of the main artery in the body. Aneurysms are caused primarily by atherosclerosis, which is characterized by the deposition of fatty substances in large and medium-sized arteries, such as the arteries that lead to the heart and brain. Surgical treatment involves clamping the aorta and making long incisions at multiple sites to resect and replace the aneurysm with a synthetic graft. Once the aorta is clamped, time is of the essence, since procedures are typically done without heart/lung bypass machines. Thus, only a narrow window of time for completion is available. Currently, some aneurysms are treated by intravascular stent-grafts. These stent-grafts can be inserted through the main artery in the thigh, called the femoral artery, and do not require an incision. However, the necessity of traversing the femoral artery to gain access to the aorta limits the usage of this technique. We believe that the capability of our technology to deliver to the surgeon enhanced dexterity and the ability to suture grafts, alone or in conjunction with stent-grafts, will help convert this procedure from open surgery to Intuitive surgery.

Aorto-Femoral Bypass. The lower portion of the abdominal aorta is often a location of atherosclerosis. Atherosclerotic blockage of this portion of the aorta restricts blood flow to the lower body. To treat this condition using open surgery, a synthetic graft is attached above and below the blockage. This procedure currently requires open surgery because of the need to suture the grafts in place. We believe that with our technology, surgeons will be able to perform the required suturing of arteries, called an anastomosis, through ports and avoid the large incision currently required.

Cholecystectomy. Removal of the gallbladder, or cholecystectomy, is the most common procedure performed by general surgeons. The procedure is used to treat cholecystitis, which is an inflammation of the gall bladder. Although a minimally invasive approach, called a laparoscopic cholecystectomy, is now well accepted for routine cases, there is great variability in the level of skill required to accomplish the procedure. The skill level necessary to complete a laparoscopic cholecystectomy is dependent on the disease status the surgeon discovers after the abdomen is entered. For example, acute cholecystitis can result in inflammation and the abnormal union of tissues resulting from the formation of new fibrous tissue in the inflammatory process. As a result, very meticulous surgery to access gallbladder anatomy can be required. Similarly, during the operation, the surgeon may find a condition known as choledocolithiasis, or stones in the common bile duct. The surgeon may choose to incise or cut the common duct to extract stones that are caught between the liver and intestine. Exploration of the common bile duct is an extremely delicate procedure that requires micro-sutures to be placed in the common duct. Most surgeons will not do this procedure laparoscopically because of its difficulty. This usually results in a conversion to open technique or another surgical or delicate gastrointestinal endoscopic procedure to extract the stones. With our technology, we believe that the surgeon will have expanded capability to deal with complicated cholecystectomies and can avoid subjecting the patient to a second procedure.

Nissen Fundoplication. Nissen fundoplication is a general surgical procedure that is performed to correct esophageal reflux. Esophageal reflux disease is a digestive disorder that affects the muscle connecting the esophagus with the stomach. As an elective procedure, Nissen fundoplication is currently performed on only a small fraction of candidates who suffer from this condition because the open surgical procedure is quite invasive. An MIS alternative exists, but there are only a limited number of surgeons skilled in the procedure. We believe that our technology will significantly improve the ease of performing the Nissen procedure through ports. Specifically, our technology will address the two most difficult steps in this procedure, which are made more difficult by existing MIS techniques, esophageal dissection and suturing of the fundus of the stomach. If adoption of our technology becomes widespread for Nissen procedures, we believe that the number of surgeons able to perform a Nissen procedure using port-based techniques will increase. Further, we expect that the widespread availability of a port-based approach may significantly expand the number of surgeries performed.

Colon Resection. Removal of the colon or large bowel is a common general surgical procedure done for both benign and malignant disease. Colon resection is accomplished in a variety of ways by removing all or part of the colon. These procedures are complicated and involve resecting a portion of diseased tissue and then re-anastomosing the two ends of the colon to re-establish continuity of intestinal flow. When using existing MIS techniques, the challenge is to have enough manipulating capability to perform fine dissection of the colon and then to be able to sew or staple the ends of the bowel to accomplish the re-anastomosis. The MIS procedure is currently performed by only a small fraction of general surgeons. By making dissection significantly more precise, we believe that our products will allow port-based colon resection to be performed more widely.

Hernia Repair. An inguinal hernia is a condition in which tissue protrudes through the wall of the pelvis. It is caused by a defect or weakness in the lining covering the pelvic region. Repair of inguinal hernia is the second most common procedure done in general surgery. There are a variety of hernia procedures available that use both open and MIS techniques. However, the lack of precise dissection capability inhibits adoption of the MIS procedures. Specifically, the delicate dissection of some of the structures and the peritoneal sac, which often adheres to the pelvic anatomy, is very difficult for surgeons to accomplish using MIS techniques. We believe that our technology will encourage surgeons to convert hernia procedures to the port-based approach by removing the training barrier that limits its adoption.

Gynecologic Surgery

General Gynecology. Laparoscopy has been used for several decades in a large number of diagnostic infertility procedures. Although there are a variety of therapeutic infertility procedures that can currently be performed by some gynecologists using existing MIS techniques, these procedures are relatively difficult to perform using existing MIS tools because of the lack of tissue control, inability to perform fine dissection, and limited suturing capability. We believe that our technology will provide gynecologists with the ability to do sophisticated procedures such as tubal re-anastomosis and dissection of ovarian cysts, as well as common procedures such as surgical removal of an ovary or fallopian tube.

Hysterectomy. Removal of the uterus is one of the most commonly performed surgeries in gynecology and it can be done by using open or MIS techniques. Like colon resection, it demands a significant degree of tissue manipulation in the dissection and ligation, or tying, of blood vessels, ligaments and other pelvic structures. Further, laparoscopic techniques used in this procedure increase the risk of injury to the ureters, which are vital structures that provide the conduit for urine between the kidney and bladder. It is often difficult to ensure the identification and prevention of injury to the ureters and bladder with conventional MIS instruments because of the limited angles at which these instruments can be positioned. We believe that our products will increase the surgeon's dexterity in this procedure and, as a result, will have a significant impact on safety, operating time, and rate of adoption of port-based techniques in hysterectomy.

Bladder Neck Suspension. Bladder incontinence is a widespread condition affecting middle aged women, which can be treated surgically with a procedure known as bladder neck suspension. This procedure involves elevation of the bladder neck by suspension with sutures, surgically recreating the normal angle of the urethra and re-establishing bladder sphincter control. The procedure works well in open surgery and is the "gold standard" for correction of bladder incontinence. However, because of its long recovery time, most candidates are discouraged from undergoing the procedure using open surgical technique. Instead, they use adult diapers for their incontinence, which is an embarrassment and inconvenience. Bladder neck suspension can currently be done laparoscopically but is difficult to perform because of the need to suture at awkward angles using existing MIS instruments. We believe our technology may provide a better solution for suturing the bladder neck and would represent an advance in the ease of performing incontinence surgery.

Orthopedic Surgery

Arthroscopy. Many knee surgeries are accomplished by an MIS technique called arthroscopy. This technique is well accepted in the surgical community. However, many of the more sophisticated maneuvers in arthroscopy, such as suturing torn meniscal tissue, are very difficult with existing MIS instruments. The meniscus is a structure located in the knee joint that provides a surface and cushion upon which the bones of the knee joint can move. We believe that our technology and the capabilities of our EndoWrist instruments will increase the ease with which complex arthroscopic procedures such as advanced knee and shoulder arthroscopy can be performed.

Spinal Surgery. Disc removal and spinal fusion are common procedures performed in open spinal surgery. MIS techniques where surgeons approach the spine through the abdomen and use laparoscopic methods to expose the anterior portion of the spine and lumbar disc space are just emerging. This procedure requires both delicate and precise dissection and retraction of tissue, and would benefit greatly from the enhanced capabilities offered by the *da Vinci* Surgical System. We believe that our technology may make this procedure safer, easier, more precise, and allow more surgeons to perform it with confidence.

Cardiothoracic Surgery

Internal Mammary Artery Dissection. In a coronary artery bypass graft procedure used in cardiac surgery, a blocked coronary artery is bypassed with a graft. When available, an artery from the chest called the internal mammary artery is dissected from its natural position and grafted into place to perform the bypass. Because the internal mammary artery is located on the underside of the anterior surface of the chest, dissection of the vessel is challenging using existing surgical instruments through the three- to five-inch incision currently used in a coronary artery bypass graft procedure. Our products have multiple joints that emulate the surgeon's shoulders and elbows, allowing exact positioning of the instruments inside the patient's chest. In addition, the EndoWrist joints permit the surgeon to reach behind the tissues for easier dissection of the internal mammary artery. Thus, we believe that the internal mammary artery can be dissected with greater ease and precision using our technology.

Coronary Anastomosis. Coronary artery bypass graft surgery demands that the surgeon delicately dissect and precisely suture very small structures, which are less than two millimeters in diameter, under significant magnification. These procedures are difficult when performed in open surgery. They are even more difficult when performed using an endoscopic or limited incision approach, and extraordinarily difficult to perform when the heart is beating. As a result, this procedure is typically done as open surgery by stopping the heart and using a heart/lung bypass machine. Our technology is designed to allow surgeons to perform scaled instrument movements that can be even more precise than the movements used in open surgery, thus enabling precise suturing of single and multiple coronary vessels on a stopped or beating heart.

Mitral and Aortic Valve Repair/Replacement. Valve repair and replacement surgeries are challenging even when using open surgical techniques. Significant exposure of the surgical field is essential to the identification and precise manipulation of valves and other structures inside the heart, and is key to successful surgical outcomes with minimal complications. Motion scaling allows a surgeon using our *da Vinci* Surgical System to maneuver instruments inside the patient even more precisely than is possible in open surgery. Our system has already enabled heart valve repairs to be performed through small ports in a manner that could not have been accomplished with open surgery. Replacement of valves currently requires a small incision, even if the majority of the procedure is eventually performed through ports using our technology, because the replacement valve itself is too large to be inserted into the chest through a port. However, new valve designs that can be delivered through ports are being developed, and the small incisions necessary today to deliver a replacement valve to the heart may eventually not be required, allowing a surgeon using the *da Vinci* Surgical System to replace a valve entirely using ports.

Thoracoscopy. A number of procedures performed in the thorax, or chest cavity, can be accomplished by minimally invasive methods. These methods are generally referred to as thoracoscopic procedures. They include various types of lung resection, biopsy procedures, node dissections, nerve resections and esophageal surgery. Conventional thoracoscopic tools have all the limitations of conventional laparoscopic tools, such as "backward" movement and limited range of motion. The capability of our technology to operate dexterously in the often very small and restrictive space of the chest cavity is believed to offer significant clinical value in the performance of advanced thoracoscopic procedures.

MARKETING AND DISTRIBUTION

We market our products through a direct sales force in the United States and most of Europe. We have also entered into agreements with distributors in Italy and Japan. Our marketing and sales strategy in the United States and Europe involves the use of a combination of area sales managers, technical sales representatives and clinical training specialists. As of December 31, 2001, we had 70 employees in sales and marketing. We expect to significantly increase our sales and marketing force as we expand our business.

The role of our technical sales representatives is to educate physicians and surgeons on the advantages of Intuitive surgery and the clinical applications that our technology makes possible. We also train our technical sales representatives to educate hospital management on the potential benefits of early adoption of our technology and the potential for increased local market share that may result from Intuitive surgery. Once a hospital has installed a *da Vinci* Surgical System, our sales force will help introduce the technology to other surgical specialties within the hospital.

Clinical training specialists provide training and support to physicians and other hospital staff. We employ service technicians to install our *da Vinci*™ Surgical Systems and to provide non-clinical technical expertise, service and maintenance. We believe that this combination of technical sales representatives, clinical training specialists and service technicians provides an appropriate balance of professional selling skills while maintaining an appropriate level of technical expertise in the field.

Our *da Vinci* Surgical System has a lengthy sales and purchase order cycle because it is a major capital item and requires the approval of senior management at purchasing institutions. Particularly during the period in which our sales volume is low, this may contribute to fluctuations in our quarterly operating results.

TECHNOLOGY

Using key technologies, we have designed the *da Vinci* Surgical System to ensure intuitive control and fail-safe operation of the system. The system updates arm and instrument positions over 1,000 times per second, thereby ensuring real-time connectivity between the surgeon's hand movements and the movements of the instrument tips. A backup battery is included in the system that can power the system for more than 20 minutes in case of power loss or fluctuation. This 20-minute period is believed to be sufficient either to reestablish the power supply or for the hospital back-up power system to become effective.

Monitoring the operation of the system at all times is a network of approximately 20 micro-controllers that checks for proper system performance. System misuse or system fault can be detected and the system can be transitioned to a safe state in micro-seconds. The system also includes a sensor that detects the presence of the surgeon's head in the viewer. If the surgeon removes his or her head from the viewer, the system automatically disengages and locks the instruments in place to prevent their inadvertent movement.

The instrument controls at the surgeon's console have eight degrees of freedom of motion that allow the surgeon to move each hand through a workspace approximately one cubic foot in volume. These degrees of freedom allow the surgeon to orient his or her hands without limitation. The instrument controls are constructed with very low friction cables and gear transmissions to ensure smooth operation. Furthermore, critical components are constructed of magnesium and titanium to provide high mechanical stiffness and low inertia, ensuring a light and responsive feel to the surgeon.

The electromechanical arms of the patient-side cart are gravitationally counterbalanced to allow for smooth, easy and safe positioning of the instruments in the patient. The arms have seven degrees of freedom, allowing for control of position, orientation, translation and grip of the instrument, all inside the body. Redundant sensors are designed to ensure fail-safe operation of the instrument tips.

Unlike other 3-D systems, our InSite vision system relies on two entirely separate vision channels. Two eyepieces are linked by a precisely designed optical assembly to two high resolution, and high contrast medical grade monitors, which have been specially designed to have a high visual update rate that eliminates flicker and thus, reduces eye fatigue. Our stereo endoscope uses two

separate high-resolution optical channels to improve image clarity. The stereo images pass through video processing electronics that provide specialized edge enhancement and noise reduction. A foot switch at the surgeon's console operates a focus controller on the endoscope. The endoscope self-regulates the temperature of its tip to eliminate fogging during procedures.

Our EndoWrist instruments use a wrist joint architecture driven by tiny but very high strength, flexible tungsten cables. Each tungsten cable is a "metal rope" constructed from over 200 fibers that are each less than one thousandth of an inch in diameter. These cables are similar in function to the tendons of a human wrist and are used to drive fluid motions of the wrist joint. The instruments each contain a custom memory chip that records and stores data each time the instrument is placed on the system. The chip contains encrypted security codes to protect against use of non-Intuitive Surgical instruments so that only our instruments will work with the *da Vinci* Surgical System. The chip identifies the type of tool being inserted so that different instrument types can be controlled uniquely by the system. The chip also records usage of the instrument and expires the instrument after its prescribed life.

INTELLECTUAL PROPERTY

Since our inception in late 1995, we have encountered and solved a number of technical hurdles. We have patented and continue to pursue patent and other intellectual property protection for the technology that we have developed to overcome such hurdles. In addition to developing our own patent portfolio, we have spent significant resources in acquiring exclusive license rights to necessary and desirable patents and other intellectual property from SRI International and IBM, who were early leaders in applying robotics to surgery. One of the strengths of our portfolio is that the licensed SRI International and IBM patents have original filing dates as early as January 1992 and June 1991, respectively. We have also exclusively licensed a patent application from MIT concerning robotic surgery. In April 2000, we exclusively licensed an extensive minimally invasive heart surgery patent portfolio from Heartport, Inc. in the field of robotic surgery. These patents cover many different forms of minimally invasive robotic surgery, including single- and multi-vessel coronary artery bypass grafts, heart valve repair and replacement and beating heart stabilization. In June 2001, we entered into a non-exclusive patent license with Olympus Optical Co., Ltd. of Japan for several robotic surgery patents. As of February 19, 2002, we hold exclusive field-of-use licenses for over 70 United States patents and approximately 40 foreign patents, and own outright 15 U.S. patents that expire no earlier than 2016. We also own or have licensed numerous pending United States and foreign patent applications, several of which were recently allowed. Our patents and patent applications relate to a number of important aspects of our technology, including our surgeon's console, electromechanical arms, vision system and our EndoWrist instruments. We intend to continue to file additional patent applications to seek protection for other proprietary aspects of our technology.

Our success will depend in part on our ability to obtain patent and copyright protection for our products and processes, to preserve our trade secrets, to operate without infringing or violating valid and enforceable proprietary rights of third parties, and to prevent others from infringing our proprietary rights. We intend to take action to protect our intellectual property rights when we believe doing so is necessary and appropriate. In addition, our strategy is to actively pursue patent protection in the United States and in foreign jurisdictions for technology that we believe is proprietary and that offers a potential competitive advantage, and to license appropriate technologies when necessary or desirable. We cannot be certain that we will be able to obtain adequate protection for our technology or licenses on acceptable terms. Furthermore, if any protection we obtain is reduced or eliminated, others could use our intellectual property without compensating us, resulting in harm to our business. In addition, the laws of certain foreign countries do not protect intellectual property rights to the same extent as do the laws of the United States. See "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors Affecting Operating Results." Others may assert that our products infringe their intellectual property rights, which may cause us to engage in costly disputes and, if we are not successful in defending ourselves, could also cause us to pay substantial damages and prohibit us from selling our products. In this regard, see "Item 3: Legal Proceedings" for a description of pending cases and interferences before the U.S. Patent and Trademark Office regarding our *da Vinci* Surgical System.

SRI International License Agreement

After receiving funding in 1990 from the U.S. Advanced Research Projects Agency, SRI International conducted research to develop a "telesurgery" system to allow surgeons to perform surgery on the battlefield from a remote location. SRI International developed the precise electromechanics, force-feedback systems, vision systems and surgical instruments needed to build and demonstrate a prototype system that could accurately reproduce a surgeon's hand motions with remote surgical instruments. In 1995, John G. Freund, M.D., one of our founders, acquired an option to license SRI International's telesurgery technology, which resulted in SRI International granting us a license.

Under the terms of our license agreement with SRI International, we have an exclusive, worldwide, royalty-free license to use the SRI International technology developed before September 12, 1997, including all patents and patent applications resulting from such work, in the field of manipulating tissues and medical devices in animal and human medicine, including surgery, laparoscopic surgery and microsurgery. We also have the right of first negotiation with respect to any SRI International technology developed in these areas before September 12, 1999 but after September 12, 1997.

Our license with SRI International will terminate upon the last expiration of the patents licensed from SRI International or December 20, 2012, whichever is later. Currently, the last patent expiration date is in 2016, although this could change. SRI International may terminate the license in the event of a material, uncured breach of our obligations. In the event SRI International terminates the license, we cannot assure you that the necessary licenses could be reacquired from SRI International on satisfactory terms, if at all.

IBM License Agreement

IBM conducted research on the application of computers and robotics to surgery during the late 1980s and early 1990s. IBM performed some of this work in conjunction with the Johns Hopkins Medical Center. Our license agreement with IBM covers a number of technologies related to the application of computers and robotics to surgery. Under the terms of this agreement, we have an exclusive, worldwide, royalty-free license to a number of IBM patents and patent applications in the field of surgery performed on animals and humans. We also have a non-exclusive license from IBM to practice in the areas of neurology, ophthalmology, orthopedics and biopsies. Under the license, we were obligated to make two payments to IBM, which were tied to revenue milestones. The final payment became payable in December 2001 and was paid in March 2002. The IBM license agreement will terminate upon the last expiration of the licensed patents. Currently, the last patent expiration date is in 2016, although this could change. IBM could have terminated the license had we failed to make the required payments. IBM may terminate the license in the event of a material, uncured breach of our obligations. In the event IBM terminates the license agreement, we cannot assure you that necessary licenses could be reacquired from IBM on satisfactory terms, if at all.

In March 2001, consistent with the terms of our license agreement with IBM, Intuitive and IBM jointly sued Computer Motion, Inc. in the U.S. District Court for the District of Delaware alleging infringement of U.S. Patent No. 6,201,984. Trial in this case is presently set for the third quarter of 2002. See "Item 3: Legal Proceedings" for a more detailed description of this litigation.

MIT License Agreement

After receiving funding from the U.S. Department of the Army, several researchers at MIT conducted research on various aspects of robotic surgical systems. As a result of that work, several patent applications were filed. Both MIT and the Army waived their rights to all but one of these applications, which the inventors ultimately assigned to us. MIT owns the other application. Under the terms of our license agreement with MIT, we have an exclusive, worldwide, royalty-free license to this patent application in the field of medical devices. The MIT license will terminate upon the last expiration of any patents issuing from the licensed patent application. MIT also has the right to terminate the MIT license in the event of a material, uncured breach of our obligations under the license. In the event MIT terminates the license, we cannot assure you that we would be able to reacquire a license from MIT on satisfactory terms, if at all.

Heartport, Inc. License Agreement

Since its inception in the early 1990s, Heartport, Inc. has developed an extensive patent portfolio covering systems and methods for performing many different aspects of minimally invasive heart surgery, including single- and multi-vessel coronary artery bypass grafts, heart valve repair and replacement, and beating heart stabilization. In April 2000, we acquired an exclusive, worldwide license in the field of robotic surgery to much of Heartport's portfolio, including many issued U.S. patents so far and many still-pending U.S. and foreign applications. The license is royalty-free unless we sell instruments for robotic surgery procedures that are not operated by the robotic surgery system, in which case we pay a small royalty.

Our license will terminate upon the last expiration of the patents licensed from Heartport. Currently, the last patent expiration date is in 2015, although this could change. Heartport may terminate the license in the event of a material, uncured breach of our obligations. In the event Heartport terminates the license, we cannot assure you that the necessary or desirable licenses could be reacquired from Heartport on satisfactory terms, if at all. Intuitive's exclusive license survives Johnson & Johnson's acquisition of Heartport.

In April 2001, Heartport became part of the Cardiovations Division of Ethicon, Inc., a Johnson & Johnson Company. Ethicon, Inc. therefore is now Intuitive's licensor under the Heartport license.

RESEARCH AND DEVELOPMENT

Substantially all of our research and development activity is performed internally. Our research and development team is divided into four groups: software engineering, systems analysis, electrical engineering and mechanical engineering. In addition, various members of the research and development team support the design and development of the manufacturing processes used in fabricating our products.

MANUFACTURING

Prior to February 2002, we leased a 13,000 square foot manufacturing facility in Mountain View, California. We used this facility and our manufacturing personnel to produce the systems and instruments that were sold and used in clinical trials through December 2001. The manufacture of our products is a complex operation involving a number of separate processes and components.

In February 2002, we moved our manufacturing facility to Sunnyvale, California. We now lease approximately 18,000 square feet of manufacturing space.

We purchase both custom and off-the-shelf components from a large number of certified suppliers and subject them to stringent quality specifications. We periodically conduct quality audits of suppliers and have established a supplier certification program. Some of the components necessary for the assembly of our products are currently provided to us by sole source suppliers or single source suppliers. We purchase components through purchase orders rather than long-term supply agreements and generally do not maintain large volumes of inventory. The disruption or termination of the supply of components could cause a significant increase in the costs of these components, which could affect our profitability. A disruption or termination in the supply of components

could also result in our inability to meet demand for our products, which could harm our ability to generate revenues, lead to customer dissatisfaction and damage our reputation.

COMPETITION

We consider our primary competition to be existing open or MIS surgical techniques. Our success depends in part on convincing hospitals, surgeons and patients to convert procedures to Intuitive surgery from open or existing MIS surgery.

We also face competition from several companies that are developing new approaches and products for the minimally invasive surgery market, and, in particular, minimally invasive cardiac surgery. Many of these companies have an established presence in the field of MIS, including Boston Scientific Corporation, CardioThoracic Systems, Inc., a division of Guidant Corporation, C.R. Bard, Inc., Guidant Corporation, Heartport, Inc., Ethicon Endo-Surgery, Inc., a division of Johnson & Johnson, Medtronic, Inc., and United States Surgical Corporation, a division of Tyco International Ltd. If we are unable to compete successfully with these companies our revenues will suffer.

In addition, a limited number of companies are using robots and computers in surgery, including Brock Rogers Surgical, Inc., Computer Motion, Inc., Integrated Surgical Systems, Inc., Johns Hopkins University Engineering Research Consortium, Maquet AG, MicroDexterity Systems, Inc., Armstrong Healthcare Ltd., and Ross-Hime Designs, Inc. Our revenues may be reduced or eliminated if our competitors develop and market products that are more effective or less expensive than our products.

We believe that the primary competitive factors in the market we address are capability, safety, efficacy, ease of use, price, quality, reliability, and effective sales, support, training and service. The length of time required for products to be developed and to receive regulatory and reimbursement approval is also an important competitive factor.

GOVERNMENT REGULATION

United States

Our products and operations are subject to extensive and rigorous regulation by the FDA. The FDA regulates the research, testing, manufacturing, safety, labeling, storage, recordkeeping, promotion, distribution, and production of medical devices in the United States to ensure that medical products distributed domestically are safe and effective for their intended uses. In addition, the FDA regulates the export of medical devices manufactured in the United States to international markets.

Under the Federal Food, Drug, and Cosmetic Act (the "FFDCA"), medical devices are classified into one of three classes -- Class I, Class II or Class III -- depending on the degree of risk associated with each medical device and the extent of control needed to ensure safety and effectiveness. Our current products are Class II medical devices.

Class I devices are those for which safety and effectiveness can be assured by adherence to a set of guidelines, which include compliance with the applicable portions of the FDA's Quality System Regulation ("QSR"), facility registration and product listing, reporting of adverse medical events, and appropriate, truthful and non-misleading labeling, advertising, and promotional materials (the "General Controls"). Some Class I devices also require premarket clearance by the FDA through the 510(k) premarket notification process described below.

Class II devices are those which are subject to the General Controls and most require premarket demonstration of adherence to certain performance standards or other special controls, as specified by the FDA, and clearance by the FDA. Premarket review and clearance by the FDA for these devices is accomplished through the 510(k) premarket notification procedure. For most Class II devices, the manufacturer must submit to the FDA a premarket notification submission, demonstrating that the device is "substantially equivalent" to either:

(1) a device that was legally marketed prior to May 28, 1976, the date upon which the Medical Device Amendments of 1976 were enacted, or

(2) to another commercially available, similar device which was subsequently cleared through the 510(k) process.

If the FDA agrees that the device is substantially equivalent, it will grant clearance to commercially market the device. By regulation, the FDA is required to clear a 510(k) within 90 days of submission of the application. As a practical matter, clearance often takes longer. The FDA may require further information, including clinical data, to make a determination regarding substantial equivalence. If the FDA determines that the device, or its intended use, is not "substantially equivalent", the FDA will place the device, or the particular use of the device, into Class III, and the device sponsor must then fulfill much more rigorous premarketing requirements.

A Class III product is a product which has a new intended use or uses advanced technology that is not substantially equivalent to a use or technology with respect to a legally marketed device. The safety and effectiveness of Class III devices cannot be assured solely by the General Controls and the other requirements described above. These devices almost always require formal clinical studies to demonstrate safety and effectiveness.

Approval of a premarket approval application ("PMA") from the FDA is required before marketing of a Class III product can proceed. The PMA process is much more demanding than the 510(k) premarket notification process. A PMA application, which is intended to demonstrate that the device is safe and effective, must be supported by extensive data, including data from preclinical

studies and human clinical trials and existing research material, and must contain a full description of the device and its components, a full description of the methods, facilities, and controls used for manufacturing, and proposed labeling. Once the FDA determines that an application is sufficiently complete to permit a substantive review, the FDA will accept the application for review. The FDA, by statute and by regulation, has 180 days to review a filed PMA application, although the review of an application frequently occurs over a significantly longer period of time, sometimes up to several years. In approving a PMA application or clearing a 510(k) application, the FDA may also require some form of post-market surveillance, whereby the manufacturer follows certain patient groups for a number of years and makes periodic reports to the FDA on the clinical status of those patients when necessary to protect the public health or to provide additional safety and effectiveness data for the device.

When FDA approval of a Class I, Class II or Class III device requires human clinical trials, and if the device presents a "significant risk" (as defined by the FDA) to human health, the device sponsor is required to file an investigational device exemption ("IDE") application with the FDA and obtain IDE approval prior to commencing the human clinical trial. If the device is considered a "non-significant" risk, IDE submission to the FDA is not required. Instead, only approval from the Institutional Review Board overseeing the clinical trial is required. Human clinical studies are generally required in connection with approval of Class III devices and to a much lesser extent for Class I and II devices.

In addition, our manufacturing processes are required to comply with the FDA's Good Manufacturing Practice (GMP) requirements contained in its Quality System Regulation (QSR). The QSR covers, among other things, the methods and documentation of the design, testing, production, processes, controls, quality assurance, labeling, packaging, and shipping of the Company's products. The QSR also requires maintenance of a device master record, device history record, and complaint files. The Company's domestic facility, records, and manufacturing processes are subject to periodic unscheduled inspections by the FDA.

In July 1997, we received 510(k) clearance from the FDA for the surgeon's console and patient cart to be used with only rigid endoscopes, blunt dissectors, retractors and stabilizer instruments. In November 1997, we withdrew a subsequent 510(k) submission covering additional instruments necessary for performing most surgical procedures, including scissors, scalpels, forceps/pickups, needle holders, clip appliers and electrocautery, after the FDA indicated that substantial clinical data would be required to support clearance.

In January 1999, we filed a 510(k) submission with clinical data, seeking clearance for the *da Vinci* Surgical System and EndoWrist instruments for laparoscopic surgical procedures. In May 1999, the FDA determined that our products were not eligible for 510(k) clearance but would instead be required to undergo the PMA approval process. On June 16, 1999, after review of the clinical data on the use of our products in laparoscopic surgical procedures, the FDA's General Surgery Advisory Panel recommended approval. In November 1999, we filed a PMA application to commercialize our products for laparoscopic surgery, which was accepted for review by the FDA in December 1999. In March 2000, the FDA inspected our Mountain View facility and determined, after conducting an extensive audit, that our facility and manufacturing practices were consistent with Good Manufacturing Processes. In June 2000, the FDA determined that the PMA approval process was inappropriate for the *da Vinci* Surgical System and re-classified the device as class II. The Premarket Approval Application submitted in November 1999 was closed and the original 510(k) application reactivated. In July 2000, we received a letter from the FDA informing us of their decision to clear the *da Vinci* Surgical System for use in laparoscopic surgery. The decision to reclassify the device to class II also means that future submissions for the *da Vinci* Surgical System may be reviewed under the premarket notification process unless changes to the intended use significantly change the safety and effectiveness of the device, in which case a PMA may be required.

Subsequent to Intuitive's July 2000 clearance of the *da Vinci* Surgical System, we have obtained additional 510(k) clearances from the FDA to include non-cardiac thoracoscopic surgical procedures (March 2001) and laparoscopic radical prostatectomy (May 2001). In November 2000, we submitted an investigational device exemption application to the FDA requesting permission to conduct a multi-center clinical evaluation of the *da Vinci* Surgical System for mitral valve repair. In December 2000, we received a letter from the FDA approving the trials for mitral valve repair. We have commenced this clinical trial and, if completed, we expect to submit a 510(k) to the FDA requesting permission to expand the intended use for the *da Vinci* Surgical System to include mitral valve repair. In July 2001, we submitted an investigational device exemption application to the FDA requesting permission to conduct a multi-center evaluation of the *da Vinci* Surgical System for atrial septal defect closure. In August 2001, we received a letter from the FDA approving trials for atrial septal defect closure. We have commenced this clinical trial and, if completed, we expect to submit a 510(k) to the FDA requesting permission to expand the intended use for the *da Vinci* Surgical System to include atrial septal defect closure. In January 2001, we submitted an investigational device exemption application to the FDA requesting permission to conduct a multi-center evaluation of the *da Vinci* Surgical System for totally endoscopic coronary artery bypass grafting. In April 2001, we received a letter from the FDA approving trials for totally endoscopic coronary artery bypass grafting. We have commenced this clinical trial and, if completed, we expect to submit a 510(k) to the FDA requesting permission to expand the intended use for the da Vinci Surgical System to include totally endoscopic coronary artery bypass grafting. While each of these trials is in progress, we cannot assure you that such trials will produce clinical data adequate to support a 510(k) application.

We are subject to inspection and market surveillance by the FDA to determine compliance with regulatory requirements. If the FDA finds that we have failed to comply, the agency can institute a wide variety of enforcement actions, ranging from a public warning letter to more severe sanctions. The FDA also has the authority to request repair, replacement or refund of the cost of any medical device manufactured or distributed by us. Our failure to comply with applicable requirements could lead to an enforcement action that may have an adverse effect on our financial condition and results of operations.

California Regulation

The state of California requires that we obtain a license to manufacture medical devices and subjects us to periodic inspection. Our facilities and manufacturing processes were inspected in February 1998. We passed the inspection and received our device

manufacturing license from the Food and Drug Branch (FDB) of the California Department of Health Service in March 1998. In March 2002, our facilities and manufacturing processes in our Sunnyvale facility were re-inspected by the FDB. We passed this audit and are awaiting issuance of our device manufacturing license renewal.

Foreign Regulation

In order for us to market our products in other countries, we must obtain regulatory approvals and comply with extensive safety and quality regulations in other countries. These regulations, including the requirements for approvals or clearance and the time required for regulatory review, vary from country to country. Failure to obtain regulatory approval in any foreign country in which we plan to market our products may harm our ability to generate revenue and harm our business.

Commercialization of medical devices in Europe is regulated by the European Union. The European Union presently requires that all medical products bear the CE mark, an international symbol of adherence to quality assurance standards and demonstrated clinical effectiveness. Compliance with the Medical Device Directive, as certified by a recognized European Notified Body, permits the manufacturer to affix the CE mark on its products. In January 1999, following an audit of our quality system and Mountain View facility, we received permission from DGM, our Notified Body and agent of the Danish Government, to affix the CE mark to our *da Vinci* Surgical System and EndoWrist instruments for general surgical use, Class II-b. Additional CE approvals for use of our *da Vinci* Surgical System and EndoWrist instruments in cardiac surgery were received in September 1999 and February 2000, Class III.

If we modify existing products or develop new products in the future, we will need to apply for permission to affix the CE mark to such products. In addition, we will be subject to annual regulatory audits in order to maintain the CE mark permissions we have already obtained. We cannot be certain that we will be able to obtain permission to affix the CE mark for new or modified products or that we will continue to meet the quality and safety standards required to maintain the permissions we have already received. If we are unable to maintain permission to affix the CE mark to our products, we will no longer be able to sell our products in member countries of the European Union.

The Ministry of Health and Welfare regulates commercialization and reimbursement of medical devices in Japan. We have developed a clinical trial strategy for laparoscopic surgical use of the *da Vinci* Surgical System and EndoWrist instruments with our commercial partner in Japan. In May 2001 the proposed clinical trial strategy was approved by the Ministry of Health and Welfare. We commenced this clinical trial in June 2001 and, if completed, we expect to submit appropriate documentation to the Ministry of Health and Welfare requesting permission to commercialize the *da Vinci* Surgical System for conduct of laparoscopic surgical procedures in Japan. We are currently in the process of developing a cardiothoracic surgical clinical strategy with our commercial partner to facilitate conduct of an evaluation ultimately permitting expansion of the intended use for *da Vinci* Surgical System to include various cardiothoracic surgical procedures. However, we cannot assure you that we will succeed in procuring the required approvals to market our products in Japan or elsewhere, even if we develop a strategy and ultimately apply for these approvals.

THIRD-PARTY REIMBURSEMENT

In the United States and international markets where we intend to sell our products, the government and health insurance companies together are responsible for hospital and surgeon reimbursement for virtually all surgical procedures. Governments and insurance companies generally reimburse hospitals and physicians for surgery when the procedures are considered non-experimental and non-cosmetic. In the United States, reimbursement for medical procedures under the Medicare and Medicaid programs is administered by Centers for Medicare & Medicaid Services. Generally speaking, procedure codes are assigned by the American Medical Association using the copyrighted Current Procedural Terminology codes, which are in turn incorporated in the Medicare and Medicaid programs coding system. Applications for new procedure codes may be submitted to the American Medical Association.

Governments and insurance companies carefully review and increasingly challenge the prices charged for medical products and services. Reimbursement rates from private companies vary depending on the procedure performed, the third-party involved, the insurance plan involved, and other factors. Medicare reimburses hospitals a prospectively determined fixed amount for the costs associated with an in-patient hospitalization based on the patient's discharge diagnosis, and reimburses physicians a prospectively determined fixed amount based on the procedure performed. This fixed amount is paid regardless of the actual costs incurred by the hospital or physician in furnishing the care and is unrelated to the specific devices used in that procedure. Thus, any reimbursements that hospitals obtain for performing surgery with our products will generally have to cover any additional costs that hospitals incur in purchasing our products.

Domestic institutions will typically bill the services performed with our products to various third-party payors, such as Medicare, Medicaid and other government programs and private insurance plans. Because the *da Vinci* Surgical System has been cleared for commercial distribution in the United States by the FDA, Medicare reimbursement is available for use of the device in laparoscopic and thoracoscopic procedures and procedures conducted under an approved investigational device exemption application. We believe that the additional procedures we intend to target are generally already reimbursable by government agencies and insurance companies. If hospitals do not obtain sufficient reimbursement from third-party payors for procedures performed with our products, or if governmental and private payors' policies do not permit reimbursement for surgical procedures performed using our products, we may not be able to generate the revenues necessary to support our business. In such circumstances, we may have to apply to the American Medical Association for a unique Current Procedural Terminology code covering computer-enhanced surgery. If an application for a unique code is required, reimbursement for any use of our products may be unavailable until an appropriate code is granted. The application process, from filing until adoption of a new code, can take two or more years.

In countries outside the United States, reimbursement is obtained from various sources, including governmental authorities, private health insurance plans, and labor unions. In most foreign countries, private insurance systems may also offer payments for some therapies. Additionally, health maintenance organizations are emerging in certain European countries. To effectively conduct our business, we may need to seek international reimbursement approvals, and we do not know if these required approvals will be obtained in a timely manner or at all.

Any regulatory or legislative developments in domestic or foreign markets that eliminate or reduce reimbursement rates for procedures performed with our products could harm our ability to sell our products or cause downward pressure on the prices of our products, either of which would affect our ability to generate the revenues necessary to support our business.

EMPLOYEES

As of December 31, 2001, we had 241 employees, 50 of whom were engaged directly in research and development, 81 in manufacturing and service and 110 in marketing, sales, and administrative activities. None of our employees are covered by a collective bargaining agreement, and we consider our relationship with our employees to be good.

ITEM 2: PROPERTIES

We leased approximately 50,000 square feet in Mountain View, California. The lease expired in February 2002 and was not renewed.

Effective January 2002, we lease approximately 83,000 square feet in Sunnyvale, California. The facility is leased through April 2007, and we have an option to extend the lease for an additional five-year term.

ITEM 3: LEGAL PROCEEDINGS

On May 10, 2000, Computer Motion, Inc. filed a lawsuit in United States District Court for the Central District of California (Case No. CV00-4988 CBM) alleging that by making, using, selling or offering for sale our *da Vinci* Surgical System, we are infringing United States Patent Numbers 5,524,180, 5,762,458, 5,815,640, 5,855,583, 5,878,193, 5,907,664, and 6,001,108, in willful disregard of Computer Motion's patent rights. On June 1, 2000, Computer Motion amended its lawsuit to allege that we also infringe U.S. Patent Number 6,063,095. On October 30, 2000, Computer Motion filed a motion seeking to add U.S. Patent Number 6,102,850 to the litigation. Each of these nine patents concerns methods and devices for conducting various aspects of robotic surgery. Until February 2001, the litigation was proceeding in the early stages of discovery, with no trial date set. In February 2001, in response to our request, the District Court stayed -- put on hold -- all proceedings in the litigation because of the declaration by the U.S. Patent and Trademark Office ("PTO") of three "interference" proceedings between a single SRI patent application exclusively licensed to us and three of Computer Motion's patents (see next paragraph). In February 2002, the District Court extended the stay through a status conference presently scheduled for late March 2002 at which the parties will discuss with the Court the propriety of further extending the stay through decisions by the PTO in the interferences. The Computer Motion action seeks damages based upon the making, using, selling and offering for sale of our products and processes, and seeks to enjoin our continued activities relating to these products. This action subjects us to potential liability for damages, including treble damages, and could require us to cease making, using or selling the affected products, or to obtain a license in order to continue to manufacture, use or sell the affected products. While we continue to believe we have multiple meritorious defenses to this action, we cannot assure you that we ultimately will prevail on any issue in the litigation or that we will be able to successfully defend Computer Motion's charges, nor can we provide assurance that any license required would be made available on commercially acceptable terms, if at all. Failure to successfully defend against the Computer Motion action could harm our business, financial condition and operating results. Due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of this matter at this time and, therefore, cannot estimate the range of possible loss.

On December 7 and 8, 2000, the PTO declared three interferences between a single SRI patent application exclusively licensed to Intuitive and three of Computer Motion's patents, Numbers 5,855,583, 5,878,193 and 5,907,664. An interference is a proceeding within the U.S. Patent Office to resolve questions regarding the patentability of inventions and who first invented subject matter claimed by two or more patents or patent applications. These three interferences resulted from requests for interference filed in May through July 1999. Because the SRI patent application licensed to Intuitive was filed in January 1992 and Computer Motion's three patents were filed no earlier than August 1992 and as late as February 1996, SRI/Intuitive is the "Senior Party" in each interference. As "Junior Party," Computer Motion bears the burden of proving that it is entitled to keep its patents. In papers filed with the PTO in March 2001, Computer Motion admitted that SRI/Intuitive filed for its involved patent application before Computer Motion thought of its inventions. We therefore anticipate that a second "priority" phase of each interference to determine which party invented the technology first will be unnecessary. During the first half of 2001, the parties filed over 20 motions in the three interferences. On October 10, 2001, the PTO held a hearing on all motions filed in all three interferences. Decisions regarding all of the motions are presently expected by the end of April 2002.

In September 2000, we filed a Notice of Opposition in the European Patent Office ("EPO") challenging European Patent No. 653,922, which was issued to Computer Motion in 1999 and is related to several of the patents now involved in the California litigation and the interference proceedings. An Opposition proceeding allows the EPO to determine whether the challenged patent should be revoked in its entirety, should be amended, or should remain unaltered. In its Notice of Opposition, Intuitive cited numerous prior art references not cited to the EPO during the '922 patent's original prosecution. A hearing is expected sometime in 2002.

On March 30, 2001, Intuitive and International Business Machines Corporation ("IBM") jointly filed suit against Computer Motion, Inc. in the U.S. District Court for the District of Delaware. The complaint alleges that by continuing to make, use, sell, and offer for sale its AESOP and ZEUS voice-controlled products, Computer Motion willfully infringes U.S. Patent No. 6,201,984. The '984 patent which concerns various aspects of voice control of surgical instruments issued to IBM in early March 2001 and is exclusively licensed to us. The '984 patent predates by several years Computer Motion's development of voice-controlled surgical robots. Because Computer Motion's voice-controlled HERMES product interfaces with the AESOP and ZEUS products, HERMES is also implicated in the patent infringement complaint. Trial is presently set for the third quarter of 2002. The Court so far has denied Computer Motion's request to add its own U.S. Patent No. 6,244,809 to this Delaware litigation and has refused to entertain Computer Motion's allegations that we infringe the '809 patent by making, using, selling and offering for sale our *da Vinci* Surgical System. The Delaware Court has also refused Computer Motion's request to transfer the litigation to California.

On September 1, 2000, Brookhill-Wilk 1, LLC ("Wilk") filed a lawsuit in the United States District Court for the Southern District of New York (Case No. 00 Civ. 6599 (NRB) alleging that by making, using, selling or offering for sale our *da Vinci* Surgical System, we are infringing U.S. Patent Nos. 5,217,003 and 5,368,015 in willful disregard of Wilk's patent rights. These patents concern methods and devices for "remote" surgery. In March 2001, Wilk withdrew its assertion of infringement of the '015 patent against Intuitive, leaving only the '003 patent at issue in the suit. On November 8, 2001, the District Court granted summary judgment of noninfringement of the '003 patent in our favor and dismissed Wilk's complaint in its entirety. Wilk has since filed a notice with the U.S. Court of Appeals for the Federal Circuit to appeal the summary judgment ruling. Briefing on the appeal should conclude in mid-2002, with a hearing date possible towards the end of 2002 or in early 2003. We believe the appellate court will uphold the summary judgment of noninfringement. If we lose Wilk's suit against us, it will hurt our competitive position, may be costly to us and may prevent us from selling our products. In addition, if we lose the patent suit, we may need to obtain from Wilk a license to this technology if we are to continue to market our products that have been found to infringe Wilk's patents. This license could be expensive, which could seriously harm our business. We believe that we have multiple meritorious defenses in this action. However, litigation is unpredictable and we may not prevail with any of these defenses. If Wilk is successful in its suit against us and is unwilling to grant us a license, we may be required to stop selling our products that are found to infringe Wilk's patents unless we can redesign them so they do not infringe Wilk's patents, which we may be unable to do. In addition, if we lose the patent suit, we could be required to pay Wilk damages, including treble damages, which could be substantial and harm our financial position.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

Our common stock has been traded on The Nasdaq Stock Market under the symbol "ISRG" since June 13, 2000. The following table sets forth the high and low sales prices of our Common Stock for the periods indicated and are as reported by Nasdaq.

QUARTER	HIGH	LOW
Year Ended December 31, 2001:		
First Quarter	$ 9.1250	$ 4.8750
Second Quarter	14.7800	3.0000
Third Quarter	14.1500	4.9900
Fourth Quarter	10.7500	6.0100
Year Ended December 31, 2000:		
Second Quarter	$ 11.1250	$ 7.8750
Third Quarter	19.0625	9.4375
Fourth Quarter	15.0625	5.3750

As of December 31, 2001, there were approximately 288 stockholders of record of our common stock, although we believe that there are a significantly larger number of beneficial owners of our common stock.

DIVIDEND POLICY

We have never declared or paid any cash dividends. We currently expect to retain earnings for use in the operation and expansion of our business, and therefore do not anticipate paying any cash dividends for at least the next three years.

ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to such consolidated statements and "Management's Discussion and Analysis of Financial Condition and

Results of Operations" included elsewhere in this Form 10-K. The selected data in this section is not intended to replace the consolidated financial statements.

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(In Thousands, Except Per Share Data)				
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Sales	$ 51,673	$ 26,624	$ 10,192	$ --	$ --
Cost of sales	28,218	18,031	9,273	--	--
Gross profit	23,455	8,593	919	--	--
Operating costs and expenses:					
Research and development	13,851	11,734	11,130	23,208	14,282
Selling, general and administrative	29,987	19,136	9,338	7,565	4,434
Technology license	--	--	--	--	6,000
Total operating expenses	43,838	30,870	20,468	30,773	24,716
Loss from operations	(20,383)	(22,277)	(19,549)	(30,773)	(24,716)
Interest income (expense), net	3,683	3,754	1,134	1,330	1,114
Net loss	$ (16,700)	$ (18,523)	$ (18,415)	$ (29,443)	$ (23,602)
Basic and diluted net loss per share	$ (0.47)	$ (0.78)	$ (3.81)	$ (8.14)	$ (11.24)
Shares used in computing basic and diluted net loss per share	35,815	23,796	4,837	3,619	2,100

	December 31,				
	2001	2000	1999	1998	1997
	(In Thousands)				
CONSOLIDATED BALANCE SHEET DATA:					
Cash, cash equivalents and short-term investments	$ 66,661	$ 89,441	$ 26,260	$ 23,220	$ 32,674
Working capital	67,922	83,836	22,023	19,817	25,424
Total assets	100,361	112,421	34,455	28,167	35,674
Notes payable, less current portion	771	1,861	2,521	2,438	897
Deferred compensation	(886)	(2,483)	(943)	(1,128)	(1,831)
Accumulated deficit	(110,370)	(93,670)	(75,147)	(56,732)	(27,289)
Total stockholders' equity	78,293	90,730	22,211	20,596	27,331

The consolidated statements of operations data for the years ended December 31, 2001, 2000, and 1999, and the consolidated balance sheet data at December 31, 2001 and 2000 are derived from our consolidated financial statements which have been audited by Ernst & Young LLP and included elsewhere in this Form 10-K. The consolidated statement of operations data for the years ended December 31, 1998 and 1997 and the consolidated balance sheet data at December 31, 1999, 1998, and 1997 are derived from our audited consolidated financial statements that are not included in this Form 10-K. Historical results are not indicative of the results to be expected in the future.

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

The following discussion and analysis should be read in conjunction with "Selected Consolidated Financial Data" and our consolidated financial statements and the related notes.

Except for historical information, the discussion in this report contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The cautionary statements made in this report should be read as applying to all related forward-looking statements wherever they appear in this report. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to these differences include those discussed in "-- Factors Affecting Operating Results" below as well as those discussed elsewhere.

OVERVIEW

We design, manufacture, and market the *da Vinci* Surgical System, an advanced surgical system that we believe represents a new generation of surgery. The *da Vinci* Surgical System consists of a surgeon's console, a patient-side cart, a high performance vision system and proprietary instruments. The *da Vinci* Surgical System seamlessly translates the surgeon's natural hand movements on instrument controls at a console into corresponding micro-movements of instruments positioned inside the patient through small puncture incisions, or ports. We believe that the *da Vinci* Surgical System is the only commercially available technology that can provide the surgeon with the intuitive control, range of motion, fine tissue manipulation capability and 3-D visualization characteristic of open surgery, while simultaneously allowing the surgeon to work through the small ports of minimally invasive surgery or MIS. By placing computer-enhanced technology between the surgeon and the patient, we believe that the *da Vinci* Surgical System enables surgeons to perform better surgery while giving patients the benefits of MIS surgery, including decreased trauma and postoperative pain, reduced surgical complications, shorter hospital stays and lower total treatment costs.

In 1999, we obtained permission from the European Union to affix the CE Mark to the *da Vinci* Surgical System and EndoWrist instruments for general surgical and cardiac surgical use. Based on this approval, we recognized revenue for the first time in the second quarter of 1999 for the sale of our products. In July 2000, we received clearance from the U.S. Food and Drug

Administration, the FDA, to begin commercialization of our *da Vinci* Surgical System in the United States for use in laparoscopic surgical procedures. In March 2001, we received clearance from the FDA for use of our *da Vinci* Surgical System in non-cardiac thoracoscopic surgical procedures. In May 2001, we received market clearance from the FDA to promote use of the *da Vinci* Surgical System for performance of laparoscopic radical prostatectomy procedures.

To date, the majority of our revenues have come from the sales of the *da Vinci* Surgical System, which are high revenue dollar items. A smaller percentage of revenues have come from sales of EndoWrist instruments and accessories, which are lower revenue dollar items. A small percentage of revenue also comes from ongoing service of installed *da Vinci* Surgical Systems. Although we expect the majority of our revenues to continue to come from the sale of *da Vinci* Surgical Systems over the next few years, the percentage of revenue from our EndoWrist instruments and service should continue to increase. Due to the high dollar revenue per system sold, small variations in system unit sales may cause revenue to vary significantly from quarter to quarter. During the useful life of each installed *da Vinci* Surgical System, we expect to generate recurring revenue through sales of the EndoWrist instruments and accessories and ongoing service.

RESULTS OF OPERATIONS

Sales. Sales for the fiscal year ended December 31, 2001 were $51.7 million, up 94% from $26.6 million for the fiscal year ended December 31, 2000. The sales increase was primarily due to an increase in the number of *da Vinci* Surgical Systems sold to 49 in 2001 from 28 in 2000. Fiscal year 2000 sales were up $16.4 million, or 161%, from $10.2 million for the fiscal year ended December 31, 1999. The sales increase was primarily due to an increase in the number of *da Vinci* Surgical Systems sold to 28 in 2000 from 12 in 1999.

Gross Profit. Gross profit for the fiscal year ended December 31, 2001 was $23.5 million, or 45% of sales, compared to $8.6 million, or 32% of sales in the previous fiscal year. The improvement in gross profit compared to the prior year resulted from sales growth and increased manufacturing efficiencies. Fiscal year 2001 and 2000 gross profit were both negatively impacted by a $1.0 million non-routine royalty charge that became due to IBM when Intuitive Surgical exceeded $50.0 million in annual revenue in 2001 and $25.0 million in 2000. Excluding the impact of this charge, fiscal year 2001 gross profit would have been $24.5 million, or 47% of sales, and fiscal year 2000 gross profit would have been $9.6 million or 36% of sales. The 2001 royalty payment represents the final royalty obligation under our agreement with IBM.

Fiscal year 1999 gross profit was $919,000, or 9%. Fiscal year 1999 was the first year in which revenue was recognized.

Research and Development Expenses. Fiscal year 2001 research and development costs were $13.9 million, up 18% from $11.7 million in fiscal year 2000. The increase was due to headcount increases and higher prototype material costs. Fiscal year 2000 research and development expenses of $11.7 million were up 5% from $11.1 million in 1999. The increase was primarily due to headcount increases, offset by a decrease caused by classifying manufacturing costs as cost of sales instead of research and development beginning in the second quarter of 1999, as sales were recorded for the first time, and lower fiscal year 2000 prototype materials costs.

Research and development expenses include costs associated with the design, development, testing and enhancement of our products. These enhancements represent significant improvements to our products. Research and development expenses also include expenditures for clinical trials and purchases of laboratory supplies. Research and development costs are expensed as incurred. We expect to continue to make substantial investments in research and development and anticipate that research and development expenses will continue to increase in the future.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for fiscal year 2001 were $30.0 million, up 57% from $19.1 million for fiscal year 2000. The year-over-year increase was due in large part to increases in headcount in the field service and sales functions to support increased revenue and a larger installed base of *da Vinci* Surgical Systems. Selling, general and administrative expenses for fiscal year 2000 were $9.8 million higher than fiscal 1999 expenses of $9.3 million. This increase was primarily due to headcount increases resulting from growing sales and marketing activities as the *da Vinci* Surgical System received US FDA clearance in fiscal year 2000.

Selling, general and administrative expenses include personnel costs for sales, marketing and administrative personnel, tradeshow expenses, legal expenses, regulatory fees and general corporate expenses. Selling, general and administrative expenses are expected to increase in the future to support our expanding business.

Deferred Compensation. We record deferred compensation as the difference between the exercise price of options granted and the fair value of our common stock at the time of grant for financial reporting purposes. Deferred compensation is amortized to research and development expenses and selling, general and administrative expenses. For the years ended December 31, 2001, 2000 and 1999, the Company recorded amortization of deferred stock compensation of $1.6 million, $2.5 million and $865,000, respectively. For fiscal years 2001, 2000 and 1999 non-cash deferred compensation expense included in research and development expenses was $1.0 million, $1.9 million and $653,000, respectively. For fiscal years 2001, 2000 and 1999 non-cash deferred compensation expense included in selling, general and administrative expenses was $560,000, $684,000 and $212,000, respectively. Deferred compensation recorded through December 31, 2001 was $8.9 million with accumulated amortization of $8.0 million. The remaining $886,000 will be amortized over the remaining vesting periods of the options, generally four years from the date of grant, using a graded-vesting method. Future amortization of deferred compensation at December 31, 2001 is as follows:

2002 -- $662,000; and 2003 -- $227,000. The amount of deferred compensation expense to be recorded in future periods may decrease if unvested options for which deferred compensation has been recorded are subsequently canceled.

Interest Income. Interest income decreased 8% to $3.9 million for the fiscal year ended December 31, 2001 from $4.3 million in fiscal 2000. The decrease resulted primarily from lower interest rates earned on cash and short-term investment balances in 2001. Fiscal year 2000 interest income was $2.8 higher than fiscal year 1999 resulting from higher cash and short-term investment balances, driven by the exercise of warrants to purchase preferred stock in March 2000, yielding approximately $34.8 million in net proceeds, and our initial public offering in June and July 2000, which raised net proceeds of approximately $46.8 million.

LIQUIDITY AND CAPITAL RESOURCES

Prior to our initial public offering, operations were financed primarily through sales of our preferred stock, yielding net proceeds of approximately $127.3 million, and equipment financing arrangements yielding approximately $7.5 million. In June and July 2000, we completed the initial public offering of 5,750,000 shares of our common stock and realized net proceeds of approximately $46.8 million.

As of December 31, 2001, we had cash, cash equivalents and short-term investments of $66.7 million, compared to $89.4 million at December 31, 2000 and $26.3 million at December 31, 1999. Working capital at December 31, 2001 was $67.9 million, compared to $83.8 million at December 31, 2000 and $22.0 million at December 31, 1999. The fiscal year 2001 decrease in cash and investments and working capital was primarily attributable to cash used to fund operating losses and to acquire fixed assets. The fiscal year 2000 increase in cash and investments and working capital was primarily due to proceeds from issuance of preferred stock of $34.8 million and initial public offering proceeds of $46.8 million, offset by cash used to fund operating losses.

Net cash used in operating activities was $18.6 million for the fiscal year ended December 31, 2001, compared to $12.8 million for the fiscal year ended December 31, 2000 and $15.9 for the fiscal year ended December 31, 1999. The increase in cash used in operations during 2001 compared to 2000 reflects higher working capital requirements in 2001, primarily caused by the growth in the Company's receivable balances. The accounts payable and other accrued liabilities remained relatively flat. The decrease in cash used in operations in 2000 compared to 1999 resulted primarily from a lower net loss for 2000 after adjusting for non-cash charges for depreciation and deferred compensation.

Net cash provided by investing activities was $11.2 million for the fiscal year ended December 31, 2001, compared to net cash used in investing activities of $50.8 million in 2000 and $10.3 million used in 1999. Fiscal year 2001 cash provided resulted from the net conversion of short-term investments into cash to support operations. The increase in cash used in investing activities between 2000 and 1999 is related to the purchase of short- term investments with the net proceeds from our initial public offering in June and July 2000 and from the exercise of warrants to purchase preferred stock in March 2000.

Net cash provided by financing activities was $771,000 for the fiscal year ended December 31, 2001, compared to $82.2 million for 2000 and $20.2 million for 1999. Fiscal year 2001 cash provided by financing resulted from proceeds from the issuance of common stock (resulting mainly from the employee stock purchase plan and the exercise of stock options) for $2.3 million, offset by the net repayment of long-term equipment financing debt of $1.5 million. Cash provided by investing activities in fiscal 2000 related primarily to our initial public offering in June and July 2000, yielding net proceeds of $46.8 million. Proceeds from the issuance of preferred stock were $34.8 million and $19.3 million in 2000 and 1999, respectively.

Our capital 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 devote substantial capital resources to continue our research and development efforts, to expand our customer support and product development activities and for other general corporate activities. We believe that our current cash and short-term investment balances, together with revenue to be derived from the sale of our products, will be sufficient to meet our liquidity requirements at least through 2003. During or after this period, if cash generated by operations is insufficient to satisfy our liquidity requirements, we may need to sell additional equity or debt securities or obtain additional credit arrangements. Additional financing may not be available on terms acceptable to us or at all. The sale of additional equity or convertible debt securities may result in additional dilution to our stockholders.

Contractual Obligations and Commercial Commitments. The following table summarizes all significant contractual payment obligations by payment due date:

Payments by Period ($ Millions)

Contractual Obligation	Total	Under 1 Year	1-3 Years	Over 4Years
Long-term Debt	$2.4	$1.6	$0.8	-
Non-Routine Royalty	$1.0	$1.0	-	-
Building Lease	$12.4	$1.3	$7.3	$3.8
Total	$15.8	$3.9	$8.1	$3.8

CRITICAL ACCOUNTING POLICIES

The Company believes the following represent its critical accounting policies:

Revenue Recognition. In certain cases, revenue from direct system sales is generated from multiple element arrangements which require judgement in the areas of delivery, customer acceptance, installation and collectibility. Revenue is recognized as specific elements indicated in sales contracts are executed. If an element is essential to the functionality of the system, revenue is deferred until that essential element is delivered. The fair value of each undelivered element that is not essential to the functionality of the system is deferred until performance occurs. The fair value of an undelivered element is based upon an estimate made by management. Amounts billed in excess of revenue recognized is recorded as deferred revenue on the balance sheet.

Warranties. We provide for the estimated costs of product warranties at the time revenue is recognized. The Company's estimate of costs to service its warranty obligations is based upon historical experience and expectation of future conditions. Should warranty claim activity and the costs associated with servicing those claims differ from the Company's estimates, revisions to the estimated warranty liability may be required.

Allowance for Doubtful Accounts. The allowance for doubtful accounts is based upon management estimates. Factors underlying these estimates include analysis of days outstanding, customer payment history and management judgement. The allowance is adjusted regularly to reflect current data and activity.

Inventory Reserves. We write our inventory down for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Intangible Assets. We have intangible assets on our balance sheet related to the acquisition of patents. The valuation and classification of these assets and the assignment of useful amortization lives involves judgments and the use of estimates. The testing of these intangibles for impairment under established accounting guidelines is required on an ongoing basis. Changes in business conditions could potentially require future adjustments to asset valuations.

Contingencies. We are subject to proceedings, lawsuits and other claims related to our products, patents and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is made after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters.

A complete description of all significant accounting policies is included in Note 1 in the Notes to the consolidated financial statements, in Item 14 of this Annual Report on Form 10-K.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). We adopted SFAS 133 effective January 1, 2001. This statement establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met. The adoption of SFAS 133, as amended, has not had a significant impact on our financial position or results of operations.

In July 2001, the FASB issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and that the use of the pooling-of-interest method is no longer allowed. Under SFAS No. 142 goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to an annual impairment test in accordance with the new standards. Other intangible assets will continue to be amortized over their respective useful lives. The Company will adopt SFAS No. 141 and SFAS No. 142 as of January 1, 2002. The Company does not currently believe that the adoption of SFAS No. 141 and SFAS No. 142 will have a significant impact on its financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", effective for fiscal years beginning after December 15, 2001. SFAS No. 144 addresses financial accounting and reporting for impairment or disposal of long-lived assets and supersedes SFAS 121. The Company will adopt SFAS No. 144 as of January 1, 2002. The Company does not currently believe that the adoption of SFAS No. 144 will have a significant impact on its financial position or results of operations.

FACTORS AFFECTING OPERATING RESULTS

OUR FUTURE OPERATING RESULTS MAY BE BELOW SECURITIES ANALYSTS' OR INVESTORS' EXPECTATIONS, WHICH COULD CAUSE OUR STOCK PRICE TO DECLINE.

Because of our limited operating history, we have limited insight into trends that may emerge in our market and affect our business. The revenue and income potential of our market are unproven, and we may be unable to generate significant commercial revenues.

In addition, our costs may be higher than we, securities analysts or investors expect. If we fail to generate sufficient revenues or our costs are higher than we expect, our results of operations will suffer, which in turn could cause our stock price to decline. Further, future revenue from sales of our products, if any, will be difficult to forecast because the market for new surgical technologies is still evolving. Our results of operations will depend upon numerous factors, including:

- the progress and results of clinical trials;
- actions relating to regulatory matters;
- the extent to which our products gain market acceptance;
- our timing and ability to develop our manufacturing and sales and marketing capabilities;
- demand for our products;
- the progress of surgical training in the use of our products;
- our ability to develop, introduce and market new or enhanced versions of our products on a timely basis;
- product quality problems;
- our ability to protect our proprietary rights;
- our ability to license additional intellectual property rights; and
- third-party payor reimbursement policies.

Our operating results in any particular period will not be a reliable indication of our future performance. It is likely that in some future quarters, our operating results will be below the expectations of securities analysts or investors. If this occurs, the price of our common stock, and the value of your investment, will likely decline.

WE HAVE A LARGE ACCUMULATED DEFICIT, WE EXPECT FUTURE LOSSES, AND WE MAY NOT ACHIEVE OR MAINTAIN PROFITABILITY.

We have incurred substantial losses since inception and we expect to incur substantial additional operating losses for at least the next two years, primarily as a result of expected increases in expenses for our manufacturing and sales and marketing capabilities, research and development activities, clinical trials and regulatory approval applications. The extent of our future losses and the timing of profitability are highly uncertain, and we may never achieve profitable operations. If the time required to generate significant revenues and achieve profitability is longer than anticipated, we may not be able to continue our operations. Our net loss for the year ended December 31, 2001, 2000, and 1999 were $16.7 million, $18.5 million, and $18.4 million, respectively. As of December 31, 2001, we had an accumulated deficit of $110.4 million.

WE EXPERIENCE LONG AND VARIABLE SALES CYCLES, WHICH COULD HAVE A NEGATIVE IMPACT ON OUR RESULTS OF OPERATIONS FOR ANY GIVEN QUARTER.

Our *da Vinci* Surgical System has a lengthy sales and purchase order cycle because it is a major capital item and generally requires the approval of senior management at purchasing institutions. These factors may contribute to substantial fluctuations in our quarterly operating results, particularly during the periods in which our sales volume is low. Because of these fluctuations, it is likely that in some future quarters, our operating results could fall below the expectations of securities analysts or investors. If that happens, the market price of our stock would likely decrease. These fluctuations also mean that you will not be able to rely upon our operating results in any particular period as an indication of future performance.

BECAUSE A SMALL NUMBER OF CUSTOMERS HAVE AND ARE LIKELY TO CONTINUE TO ACCOUNT FOR A SUBSTANTIAL PORTION OF OUR REVENUES, OUR REVENUES COULD DECLINE DUE TO THE LOSS OR DELAY OF A SINGLE CUSTOMER ORDER.

A relatively small number of customers account for a significant portion of our total revenues. In 1999, 2000, and 2001, the majority of our revenues came from the sales of *da Vinci* Surgical Systems, which are high revenue dollar items. Due to the high dollar revenue per system sold, small variations in system unit sales may cause revenue to vary significantly from quarter to quarter. For the year ended December 31, 1999, two customers, AB Medica SRL, located in Italy, and Marubeni America Corporation, located in New York, each accounted for 16% of our total sales. AB Medica SRL and Marubeni America Corporation are our Italian and Japanese distributors, respectively. For the year ended December 31, 2000, none of our customers accounted for 10% or greater of total sales. For the year ended December 31, 2001 AB Medica SRL accounted for 15% of total sales.

We expect that revenues from a limited number of new customers will account for a large percentage of total revenues in future quarters. Our ability to attract new customers will depend on a variety of factors, including the capability, safety, efficacy, ease of use, price, quality and reliability of our products and effective sales, support, training and service. The loss or delay of individual orders could have a significant impact on revenues and operating results. Our failure to add new customers that make significant purchases of our products would reduce our future revenues.

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

Our products represent a fundamentally new way of performing surgery. Achieving physician, patient and third-party payor acceptance of Intuitive surgery as a preferred method of performing surgery will be crucial to our success. If our products fail to achieve market acceptance, hospitals will not purchase our products and we will not be able to generate the revenue necessary to support our business. We believe that physicians' and third-party payors' acceptance of the benefits of procedures performed using our products will be essential for acceptance of our products by patients. Physicians will not recommend the use of our products unless we can demonstrate that they produce results comparable or superior to existing surgical techniques. Even if we can prove

the effectiveness of our products through clinical trials, surgeons may elect not to use our products for any number of other reasons. For example, cardiologists may continue to recommend conventional open heart surgery simply because such surgery is already so widely accepted. In addition, surgeons may be slow to adopt our products because of the perceived liability risks arising from the use of new products and the uncertainty of reimbursement from third-party payors.

We expect that there will be a learning process involved for surgical teams to become proficient in the use of our products. Broad use of our products will require training of surgical teams. Market acceptance could be delayed by the time required to complete this training. We may not be able to rapidly train surgical teams in numbers sufficient to generate adequate demand for our products. Although we are in the process of developing training programs for surgical teams, we cannot be certain that our training programs will be cost effective or sufficient to meet our customers' needs.

WE ARE INVOLVED IN INTELLECTUAL PROPERTY LITIGATION WITH COMPUTER MOTION AND BROOKHILL-WILK 1, LLC THAT MAY HURT OUR COMPETITIVE POSITION, MAY BE COSTLY TO US AND MAY PREVENT US FROM SELLING OUR PRODUCTS.

On May 10, 2000, Computer Motion, Inc. filed a lawsuit in United States District Court for the Central District of California (Case No. CV00-4988 CBM) alleging that by making, using, selling or offering for sale our *da Vinci* Surgical System, we are infringing United States Patent Numbers 5,524,180, 5,762,458, 5,815,640, 5,855,583, 5,878,193, 5,907,664 and 6,001,108, in willful disregard of Computer Motion's patent rights. On June 1, 2000, Computer Motion amended its lawsuit to allege that we also infringe U.S. Patent Number 6,063,095. On October 30, 2000, Computer Motion filed a motion seeking to add U.S. Patent Number 6,102,850 to the litigation. These patents concern methods and devices for conducting various aspects of robotic surgery. On December 7 and 8, 2000, the U.S. Patent and Trademark Office ("PTO") declared three interferences between a single SRI patent application exclusively licensed to us and three of Computer Motion's patents, Numbers 5,855,583, 5,878,193, and 5,907,664. In light of those declarations of interference, the District Court in February 2001 stayed -- put on hold -- all proceedings in the litigation for one year while the PTO conducts the interference proceedings. In February 2002, the District Court extended the stay through a late March 2002 status conference, at which time the parties and the Court will discuss the propriety of further extending the stay in light of the ongoing interferences.

In connection with our joint litigation with IBM Corporation against Computer Motion in Delaware, Computer Motion has alleged infringement of its U.S. Patent No. 6,244,809. Although the Delaware Court refused to allow Computer Motion to sue us on this '809 patent in Delaware, Computer Motion may attempt to assert this patent against us in California if the California litigation continues.

If the California litigation proceeds notwithstanding the interferences, and if we ultimately lose Computer Motion's suit against us, it will hurt our competitive position, may be costly to us and may prevent us from selling our products. In addition, if we lose the patent suit, we will need to obtain from Computer Motion a license to this technology if we are to continue to market our products that have been found to infringe Computer Motion's patents. This license could be expensive, or could require us to license to Computer Motion some of our technology which would result in a partial loss of our competitive advantage in the marketplace, each of which could seriously harm our business. If Computer Motion is successful in its suit against us and is unwilling to grant us a license, we will be required to stop selling our products that are found to infringe Computer Motion's patents unless we can redesign them so they do not infringe Computer Motion's patents, which we may be unable to do. In addition, if we lose the patent suit, we could be required to pay Computer Motion damages, including treble damages, which could be substantial and harm our financial position.

On September 1, 2000, Brookhill-Wilk 1, LLC ("Wilk") filed a lawsuit in the United States District Court for the Southern District of New York (Case No. 00 Civ. 6599 (NRB)) alleging that by making, using, selling or offering for sale our *da Vinci* Surgical System, we are infringing U.S. Patent Nos. 5,217,003 and 5,368,015 in willful disregard of Wilk's patent rights. These patents concern methods and devices for "remote" surgery. In March 2001, Wilk withdrew its assertion of the '015 patent against Intuitive. On November 8, 2001, the District Court granted summary judgment of noninfringement of the '003 patent in our favor and dismissed Wilk's complaint in its entirety without prejudice. Wilk has since filed a notice with the U.S. Court of Appeals for the Federal Circuit to appeal the summary judgment ruling. Briefing on the appeal should conclude in mid-2002, with a hearing date possible towards the end of 2002 or in early 2003. If we lose on appeal and ultimately also lose Wilk's suit against us, it will hurt our competitive position, may be costly to us and may prevent us from selling our products. If we lose the patent suit, we may need to obtain from Wilk a license to this technology if we are to continue to market our products that have been found to infringe Wilk's patents. This license could be expensive, which could seriously harm our business. If Wilk is successful in its suit against us and is unwilling to grant us a license, we may be required to stop selling our products that are found to infringe Wilk's patents unless we can redesign them so they do not infringe Wilk's patents, which we may be unable to do. In addition, if we lose the patent suit, we could be required to pay Wilk damages, including treble damages, which could be substantial and harm our financial position.

The foregoing proceedings, will be expensive to litigate, may be protracted and our confidential information may be compromised. Whether or not we are successful in this lawsuit, these proceedings could consume substantial amounts of our financial and managerial resources. At any time Computer Motion or Wilk may file additional claims against Intuitive Surgical, or we may file claims against Computer Motion or Wilk, which could increase the risk, expense and duration of the litigations. Further, because of the substantial amount of discovery often involved in connection with this type of litigation, there is a risk that some of our confidential information could be compromised by disclosure. For more information on our litigation with Computer Motion, see "Item 1: Business -- Legal Proceedings."

IF WE ARE UNABLE TO PROTECT THE INTELLECTUAL PROPERTY CONTAINED IN OUR PRODUCTS FROM USE BY THIRD PARTIES, OUR ABILITY TO COMPETE IN THE MARKET WILL BE HARMED.

Our commercial success will depend in part on obtaining patent and other intellectual property protection for the technologies contained in our products, and on successfully defending our patents and other intellectual property against third party challenges.

We will incur substantial costs in obtaining patents and, if necessary, defending our proprietary rights. The patent positions of medical device companies, including ours, can be highly uncertain and involve complex and evolving legal and factual questions. We cannot assure you that we will obtain the patent protection we seek, or that the protection we do obtain will be found valid and enforceable if challenged. We also cannot assure you that we will be able to develop additional patentable proprietary technologies. If we fail to obtain adequate protection of our intellectual property, or if any protection we obtain is reduced or eliminated, others could use our intellectual property without compensating us, resulting in harm to our business. We may also determine that it is in our best interests to voluntarily challenge a third party's products or patents in litigation or administrative proceedings, including patent interferences or reexaminations. Given the early priority dates of some of our licensed patents, we believe one or more patent proceedings may be in our best interests. In addition, the laws of certain foreign countries do not protect intellectual property rights to the same extent as do the laws of the United States.

OTHERS MAY ASSERT THAT OUR PRODUCTS INFRINGE THEIR INTELLECTUAL PROPERTY RIGHTS, WHICH MAY CAUSE US TO ENGAGE IN COSTLY DISPUTES AND, IF WE ARE NOT SUCCESSFUL IN DEFENDING OURSELVES, COULD ALSO CAUSE US TO PAY SUBSTANTIAL DAMAGES AND PROHIBIT US FROM SELLING OUR PRODUCTS.

We are aware of both United States and foreign patents issued to third parties that relate to computer-assisted surgery and minimally invasive surgery. Some of these patents on their face appear broad enough to cover one or more aspects of our present technology, and may cover aspects of our future technology. We do not know whether any of these patents, if challenged, would be held valid, enforceable and infringed. From time to time, we receive, and likely will continue to receive, letters from third parties inviting us to license their patents. We may be sued by, or become involved in an administrative proceeding because of one or more of these third parties, regardless of the merits or likely outcome of such suit or proceeding. We cannot assure you that a court or administrative body would agree with any arguments or defenses we have concerning invalidity, unenforceability or noninfringement of any third-party patent. In addition to the issued patents of which we are aware, other parties may have filed, and in the future are likely to file, patent applications covering surgical products that are similar or identical to ours. We cannot assure you that any patents issuing from applications filed by a third party will not cover our products or will not have priority over our patent applications.

The medical device industry has been characterized by extensive litigation and administrative proceedings regarding patents and other intellectual property rights, and companies have employed such actions to gain a competitive advantage. If third parties assert infringement or other intellectual property claims against us as Computer Motion and Brookhill-Wilk 1, LLC have done, our technical and management personnel will experience a significant diversion of time and effort and we will incur large expenses defending ourselves. If third parties in any patent action are successful, our patent portfolio may be damaged, we may have to pay substantial damages, including treble damages, and we may be required to stop selling our products or obtain a license which, if available at all, may require us to pay substantial royalties. We cannot be certain that we will have the financial resources or the substantive arguments to defend our patents from infringement or claims of invalidity or unenforceability, or to defend against allegations of infringement of third-party patents. In addition, any public announcements related to litigation or administrative proceedings initiated by us, or initiated or threatened against us, could cause our stock price to decline.

THE RIGHTS AND MEASURES WE RELY ON TO PROTECT THE INTELLECTUAL PROPERTY UNDERLYING OUR PRODUCTS MAY NOT BE ADEQUATE TO PREVENT THIRD PARTIES FROM USING OUR TECHNOLOGY WHICH COULD HARM OUR ABILITY TO COMPETE IN THE MARKET.

In addition to patents, we typically rely on a combination of trade secret, copyright and trademark laws, nondisclosure agreements and other contractual provisions and technical security measures to protect our intellectual property rights. Nevertheless, these measures may not be adequate to safeguard the technology underlying our products. If they do not protect our rights adequately, third parties could use our technology, and our ability to compete in the market would be reduced. In addition, employees, consultants and others who participate in developing our products may breach their agreements with us regarding our intellectual property, and we may not have adequate remedies for the breach. We also may not be able to effectively protect our intellectual property rights in some foreign countries. For a variety of reasons, we may decide not to file for patent, copyright or trademark protection outside the United States. We also realize that our trade secrets may become known through other means not currently foreseen by us. Notwithstanding our efforts to protect our intellectual property, our competitors may independently develop similar or alternative technologies or products that are equal or superior to our technology and products without infringing any of our intellectual property rights, or may design around our proprietary technologies. For further information on our intellectual property and the difficulties in protecting it, see "Item 1: Business -- Intellectual Property."

OUR PRODUCTS RELY ON LICENSES FROM THIRD PARTIES, AND IF WE LOSE ACCESS TO THESE TECHNOLOGIES, OUR REVENUES COULD DECLINE.

We rely on technology that we license from others, including technology that is integral to our products. We have entered into license agreements with SRI International, IBM Corporation, MIT, Olympus Optical Co., Ltd., and Heartport, Inc., now part of Johnson & Johnson. Any of these agreements may be terminated for breach. If any of these agreements is terminated, we may be unable to reacquire the necessary license on satisfactory terms, or at all. The loss or failure to maintain these licenses could prevent or delay further development or commercialization of our products. See "Item 1: Business -- Intellectual Property."

PUBLIC ANNOUNCEMENTS OF LITIGATION EVENTS MAY CAUSE OUR STOCK PRICE TO DECLINE.

During the course of our administrative proceedings and/or lawsuits with Computer Motion and Brookhill-Wilk 1, LLC, there may be public announcements of the results of hearings, motions, and other interim proceedings or developments in the litigation. If securities analysts or investors perceive these results to be negative, it could have a substantial negative effect on the trading price of our stock.

OUR PRODUCTS ARE SUBJECT TO A LENGTHY AND UNCERTAIN DOMESTIC REGULATORY PROCESS. IF WE DO NOT OBTAIN AND MAINTAIN THE NECESSARY DOMESTIC REGULATORY APPROVALS, WE WILL NOT BE ABLE TO MARKET AND SELL OUR PRODUCTS IN THE UNITED STATES.

Our products and operations are subject to extensive regulation in the United States by the U.S. Food and Drug Administration, or FDA. The FDA regulates the research, testing, manufacturing, safety, labeling, storage, recordkeeping, promotion, distribution, and production of medical devices in the United States to ensure that medical products distributed domestically are safe and effective for their intended uses. In order for us to market certain products for use in the United States, we generally must first obtain clearance from the FDA, pursuant to Section 510(k) of the Federal Food, Drug, and Cosmetic Act ("FFDCA"). Clearance under Section 510(k) requires demonstration that a new device is substantially equivalent to another legally marketed device. If we modify our products after they receive FDA clearance, the FDA may require us to submit a separate 510(k) or PMA for the modified product before we are permitted to market the products in the U.S. In addition, if we develop products in the future that are not considered to be substantially equivalent to a legally marketed device, we will be required to obtain FDA approval by submitting a premarket approval application ("PMA").

The FDA may not act favorably or quickly in its review of our 510(k) or PMA submissions, or we may encounter significant difficulties and costs in our efforts to obtain FDA clearance or approval, all of which could delay or preclude sale of new products in the United States. Furthermore, the FDA may request additional data, require us to conduct further testing, or compile more data, including clinical data, in support of a 510(k) submission. The FDA may also, instead of accepting a 510(k) submission, require us to submit a PMA, which is typically a much more complex application than a 510(k). To support a PMA, the FDA would likely require that we conduct one or more clinical studies to demonstrate that the device is safe and effective, rather than substantially equivalent to another legally marketed device. We may not be able to meet the requirements to obtain 510(k) clearance or PMA approval, or the FDA may not grant any necessary clearances or approvals. In addition, the FDA may place significant limitations upon the intended use of our products as a condition to a 510(k) clearance or PMA approval. Product applications can also be denied or withdrawn due to failure to comply with regulatory requirements or the occurrence of unforeseen problems following approval. Any delays or failure to obtain FDA clearance or approvals of new products we develop, any limitations imposed by the FDA on new product use or the costs of obtaining FDA clearance or approvals could have a material adverse effect on our business, financial condition and results of operations.

In order to conduct a clinical investigation involving human subjects for the purpose of demonstrating the safety and effectiveness of a device, a company must, among other things, apply for and obtain Institutional Review Board ("IRB") approval of the proposed investigation. In addition, if the clinical study involves a "significant risk" (as defined by the FDA) to human health, the sponsor of the investigation must also submit and obtain FDA approval of an investigational device exemption ("IDE") application. We may not be able to obtain FDA and/or IRB approval to undertake clinical trials in the U.S. for any new devices we intend to market in the United States in the future. If we obtain such approvals, we may not be able to comply with the IDE and other regulations governing clinical investigations or the data from any such trials may not support clearance or approval of the investigational device. Failure to obtain such approvals or to comply with such regulations could have a material adverse effect on our business, financial condition and results of operations. For additional information concerning regulatory approvals of our products, see "Item 1: Business -- Government Regulation."

OUR PRODUCTS ARE SUBJECT TO VARIOUS INTERNATIONAL REGULATORY PROCESSES AND APPROVAL REQUIREMENTS. IF WE DO NOT OBTAIN AND MAINTAIN THE NECESSARY INTERNATIONAL REGULATORY APPROVALS, WE WILL NOT BE ABLE TO MARKET AND SELL OUR PRODUCTS IN FOREIGN COUNTRIES.

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

The European Union requires that manufacturers of medical products obtain the right to affix the CE mark to their products before selling them in member countries of the European Union. The CE mark is an international symbol of adherence to quality assurance standards and compliance with applicable European medical device directives. In order to obtain the right to affix the CE mark to products, a manufacturer must obtain certification that its processes meet certain European quality standards. In January 1999, we received permission to affix the CE mark to our *da Vinci* Surgical System and EndoWrist instruments for general surgical use. We received additional CE approvals for use of our *da Vinci* Surgical System and EndoWrist instruments in cardiac surgery in September 1999 and February 2000.

If we modify existing products or develop new products in the future, including new instruments, we will need to apply for permission to affix the CE mark to such products. In addition, we will be subject to annual regulatory audits in order to maintain the CE mark permissions we have already obtained. We cannot be certain that we will be able to obtain permission to affix the CE mark for new or modified products or that we will continue to meet the quality and safety standards required to maintain the permissions we have already received. If we are unable to maintain permission to affix the CE mark to our products, we will no longer be able to sell our products in member countries of the European Union.

IF INSTITUTIONS OR SURGEONS ARE UNABLE TO OBTAIN REIMBURSEMENT FROM THIRD-PARTY PAYORS FOR PROCEDURES USING OUR PRODUCTS, OR IF REIMBURSEMENT IS INSUFFICIENT TO COVER THE COSTS OF PURCHASING OUR PRODUCTS, WE MAY BE UNABLE TO GENERATE SUFFICIENT SALES TO SUPPORT OUR BUSINESS.

Domestic institutions will typically bill the services performed with our products to various third-party payors, such as Medicare, Medicaid and other government programs and private insurance plans. If hospitals do not obtain sufficient reimbursement from third-party payors for procedures performed with our products, or if government and private payors' policies do not permit reimbursement for surgical procedures performed using our products, we may not be able to generate the revenues necessary to support our business. In such circumstances, we may have to apply to the American Medical Association for a unique Current Procedural Terminology code covering computer-enhanced surgery. If an application for a unique code is required, reimbursement for any use of our products may be unavailable until an appropriate code is granted. The application process, from filing until adoption of a new code, can take two or more years.

Our success in international markets also depends upon the eligibility of our products for reimbursement through government-sponsored health care payment systems and third-party payors. Reimbursement practices vary significantly by country. Many international markets have government-managed healthcare systems that control reimbursement for new products and procedures. Other foreign markets have both private insurance systems and government-managed systems that control reimbursement for new products and procedures. Market acceptance of our products may depend on the availability and level of reimbursement in any country within a particular time. In addition, health care cost containment efforts similar to those we face in the United States are prevalent in many of the other countries in which we intend to sell our products and these efforts are expected to continue. For further information on third-party reimbursement policies, see "Item 1: Business -- Third-Party Reimbursement."

BECAUSE OUR MARKETS ARE HIGHLY COMPETITIVE, CUSTOMERS MAY CHOOSE TO PURCHASE OUR COMPETITORS' PRODUCTS OR MAY NOT ACCEPT INTUITIVE SURGERY, WHICH WOULD RESULT IN REDUCED REVENUE AND LOSS OF MARKET SHARE.

Intuitive surgery is a new technology that must compete with established minimally invasive surgery and open surgery. These procedures are widely accepted in the medical community and in many cases have a long history of use. We also face competition from several companies that are developing new approaches and products for the minimally invasive surgery market. In addition, we presently face increasing competition from companies who are developing robotic and computer-assisted surgical systems. Our revenues may be reduced or eliminated if our competitors develop and market products that are more effective or less expensive than our products. If we are unable to compete successfully, our revenues will suffer. We may not be able to maintain or improve our competitive position against current or potential competitors, especially those with greater resources.

In many cases, the medical conditions that can be treated using our products can also be treated by pharmaceuticals or other medical devices and procedures. Many of these alternative treatments are also widely accepted in the medical community and have a long history of use. In addition, technological advances could make such treatments more effective or less expensive than using our products, which could render our products obsolete or unmarketable. We cannot be certain that physicians will use our products to replace or supplement established treatments or that our products will be competitive with current or future technologies.

IF SOFTWARE DEFECTS ARE DISCOVERED IN OUR PRODUCTS, WE MAY INCUR ADDITIONAL UNFORESEEN COSTS, HOSPITALS MAY NOT PURCHASE OUR PRODUCTS AND OUR REPUTATION MAY SUFFER.

Our products do incorporate computer software. Software can contains errors or failures, especially when first introduced. In addition, new products or enhancements may contain undetected errors or performance problems that, despite testing, are discovered only after commercial shipment. Because our products are designed to be used to perform complex surgical procedures, we expect that our customers will have an increased sensitivity to software defects. We cannot assure you that our software will not experience errors or performance problems in the future. If we experience software errors or performance problems, any of the following could occur:

- delays in product shipments;
- loss of revenue;
- delay in market acceptance;
- diversion of our resources;
- damage to our reputation;
- increased service or warranty costs; or
- product liability claims.

WE HAVE LIMITED EXPERIENCE IN MANUFACTURING OUR PRODUCTS AND MAY ENCOUNTER MANUFACTURING PROBLEMS OR DELAYS THAT COULD RESULT IN LOST REVENUE.

We have manufactured a limited number of our products for sales to customers. We may be unable to establish or maintain reliable, high-volume manufacturing capacity. Even if this capacity can be established and maintained, the cost of doing so may increase the cost of our products and reduce our ability to compete. We may encounter difficulties in scaling up production of our products, including:

- problems involving production yields;
- quality control and assurance;

- component supply shortages;
- shortages of qualified personnel; and
- compliance with state, federal and foreign regulations.

Manufacturing our products is a complex process. If demand for our products exceeds our manufacturing capacity, we could develop a substantial backlog of customer orders. If we are unable to establish and maintain larger-scale manufacturing capabilities, our ability to generate revenues will be limited and our reputation in the marketplace would be damaged.

IF OUR MANUFACTURING FACILITIES DO NOT CONTINUE TO MEET FEDERAL, STATE OR EUROPEAN MANUFACTURING STANDARDS, WE MAY BE REQUIRED TO TEMPORARILY CEASE ALL OR PART OF OUR MANUFACTURING OPERATIONS, WHICH WOULD RESULT IN PRODUCT DELIVERY DELAYS AND LOST REVENUE.

Our manufacturing facilities are subject to periodic inspection by regulatory authorities and our operations will continue to be regulated by the FDA for compliance with Good Manufacturing Practice requirements contained in the FDA's Quality System Regulations (QSR). We are also required to comply with the ISO 9000 series standards in order to produce products for sale in Europe. If we fail to continue to comply with Good Manufacturing Practice requirements or ISO 9000 series standards, we may be required to cease all or part of our operations until we comply with these regulations. We are currently in compliance with ISO 9000 series standards. In March 2000, the FDA inspected our Mountain View facility and the Good Manufacturing Practice issues raised during the inspection have been satisfactorily resolved with the FDA. Maintaining such compliance is difficult and costly. We cannot be certain that our facilities will be found to comply with Good Manufacturing Practice requirements or the ISO 9000 series standards in future audits by regulatory authorities.

The state of California also requires that we maintain a license to manufacture medical devices. Our facilities and manufacturing processes were inspected in February 1998. In March 1998, we passed the inspection and received a device manufacturing license from the California Department of Health Services. In March 2002, our facilities and manufacturing processes in our Sunnyvale facility were re-inspected by the FDB. We passed this audit and are awaiting issuance of our device manufacturing license renewal. We will be subject to periodic inspections by the California Department of Health Services and if we are unable to maintain this license following any future inspections, we will be unable to manufacture or ship any products.

OUR RELIANCE ON SOLE AND SINGLE SOURCE SUPPLIERS COULD HARM OUR ABILITY TO MEET DEMAND FOR OUR PRODUCTS IN A TIMELY MANNER OR WITHIN BUDGET.

Some of the components necessary for the assembly of our products are currently provided to us by sole source suppliers or single source suppliers. We purchase components through purchase orders rather than long-term supply agreements and generally do not maintain large volumes of inventory. The disruption or termination of the supply of components could cause a significant increase in the costs of these components, which could affect our profitability. A disruption or termination in the supply of components could also result in our inability to meet demand for our products, which could harm our ability to generate revenues, lead to customer dissatisfaction and damage our reputation. Furthermore, if we are required to change the manufacturer of a key component of our products, we may be required to verify that the new manufacturer maintains facilities and procedures that comply with quality standards and with all applicable regulations and guidelines. The delays associated with the verification of a new manufacturer could delay our ability to manufacture our products in a timely manner or within budget.

THE USE OF OUR PRODUCTS COULD RESULT IN PRODUCT LIABILITY CLAIMS THAT COULD BE EXPENSIVE, DIVERT MANAGEMENT'S ATTENTION AND HARM OUR BUSINESS.

Our business exposes us to significant risks of product liability claims. The medical device industry has historically been litigious, and we face financial exposure to product liability claims if the use of our products were to cause injury or death. There is also the possibility that defects in the design or manufacture of our products might necessitate a product recall. Although we maintain product liability insurance, the coverage limits of these policies may not be adequate to cover future claims. Particularly as sales of our products increase, we may be unable to maintain product liability insurance in the future at satisfactory rates or adequate amounts. A product liability claim, regardless of its merit or eventual outcome, could result in significant legal defense costs. A product liability claim or any product recalls could also harm our reputation or result in a decline in revenues.

OUR GROWTH WILL PLACE A SIGNIFICANT STRAIN ON OUR MANAGEMENT SYSTEMS AND RESOURCES AND, IF WE FAIL TO MANAGE OUR GROWTH, OUR ABILITY TO MARKET, SELL AND DEVELOP OUR PRODUCTS MAY BE HARMED.

In order to complete clinical trials, scale-up manufacturing, expand marketing and distribution capabilities and develop future products, we must expand our operations. We expect that future expansion will occur particularly in the areas of sales and marketing, manufacturing and research and development. This expansion will likely result in new and increased responsibilities for management personnel and place significant strain upon our management, operating and financial systems and resources. We plan to sell our products primarily through direct sales, and we currently have a small sales organization. Our products require a complex marketing and sales effort targeted at several levels within a prospective customer's organization. We will continue to expand our sales team over the next 12 months to achieve our sales growth goals. We will face significant challenges and risks in building and managing our sales team, including managing geographically dispersed sales efforts and adequately training our sales people in the use and benefits of our products. To accommodate our growth and compete effectively, we will be required to improve our information systems, create additional procedures and controls and expand, train, motivate and manage our work force. Our future success will depend in part on the ability of current and future management personnel to operate effectively, both

independently and as a group. We cannot be certain that our personnel, systems, procedures and controls will be adequate to support our future operations.

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

We are highly dependent on the principal members of our management and scientific staff. In order to pursue our product development, marketing and commercialization plans, we will need to hire additional qualified personnel with expertise in research and development, clinical testing, government regulation, manufacturing, sales and marketing, and finance. Our product development plans depend in part on our ability to attract and retain engineers with experience in mechanics, software and optics. Attracting and retaining qualified personnel will be critical to our success, and competition for qualified personnel is intense, particularly in Silicon Valley. We may not be able to attract and retain personnel on acceptable terms given the competition for such personnel among technology and healthcare companies, and universities. The loss of any of these persons or our inability to attract and retain qualified personnel could harm our business and our ability to compete.

INTERNATIONAL SALES OF OUR PRODUCTS ACCOUNT FOR A SIGNIFICANT PORTION OF OUR REVENUES, WHICH EXPOSES US TO RISKS INHERENT IN INTERNATIONAL OPERATIONS. OUR GROWTH MAY BE LIMITED IF WE ARE UNABLE TO SUCCESSFULLY MANAGE OUR INTERNATIONAL ACTIVITIES.

Our business currently depends in large part on our activities in Europe, and a component of our growth strategy is to expand our presence into additional foreign markets. Sales to markets outside of the United States accounted for approximately 34%, 36% and 91% of our sales for the year ended December 31, 2001, 2000, and 1999, respectively. We will be subject to a number of challenges that specifically relate to our international business activities. These challenges include:

- failure of local laws to provide the same degree of protection against infringement of our intellectual property;
- protectionist laws and business practices that favor local competitors, which could slow our growth in international markets;
- the risks associated with foreign currency exchange rate fluctuation;
- the expense of establishing facilities and operations in new foreign markets; and
- building an organization capable of supporting geographically dispersed operations.

Currently, a majority of our international sales are denominated in U.S. dollars. As a result, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. If we are unable to meet and overcome these challenges, our international operations may not be successful, which would limit the growth of our business.

FAILURE TO RAISE ADDITIONAL CAPITAL OR GENERATE THE SIGNIFICANT CAPITAL NECESSARY TO EXPAND OUR OPERATIONS AND INVEST IN NEW PRODUCTS COULD REDUCE OUR ABILITY TO COMPETE, RESULT IN LOWER REVENUES AND MAY PREVENT US FROM TAKING ADVANTAGE OF MARKET OPPORTUNITIES.

We expect that our existing capital resources and the revenue to be derived from the sale of our products will be sufficient to meet our working capital and capital expenditure needs at least through 2003. After that, we may need to raise additional funds and we cannot be certain that we will be able to obtain additional financing on favorable terms, or at all. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- develop or enhance our products and services;
- acquire technologies, products or businesses;
- expand operations in the United States or internationally;
- hire, train and retain employees; or
- respond to competitive pressures or unanticipated capital requirements.

Our failure to do any of these things could result in lower revenues and could harm our business.

SALES BY CURRENT STOCKHOLDERS COULD CAUSE OUR COMMON STOCK PRICE TO DECLINE.

The market price of our common stock could decline as a result of sales of a large number of shares in the market. These sales may also make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate to raise funds through future offerings of common stock. As of December 31, 2001, several entities beneficially owned more than 5% of the outstanding shares of our common stock, including Allan G. Lozier, Investor Guernsey Ltd. and PaTMarK Company, Inc.

On May 8, 2001, June 21, 2001, and October 29, 2001, Mayfield Fund distributed 1,734,176, 891,801, and 875,237 shares of Intuitive common stock to its Partners, respectively.

On December 14, 2001, Morgan Stanley Venture Investors III, LP distributed 37,231 shares of Intuitive common stock to its Partners and Morgan Stanley Venture Partners III, LP distributed 387,769 shares of Intuitive common stock to its Partners.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are not subject to any meaningful market risks related to currency, commodity prices or similar matters. We are sensitive to short-term interest rate fluctuations to the extent that such fluctuations impact the interest income we receive on the investment of

the remaining proceeds from our June 2000 initial public offering.

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we invest in may have market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents and short-term investments in a variety of securities. We classify our cash equivalents and marketable securities as "fixed-rate" if the rate of return on such instruments remains fixed over their term. These "fixed-rate" investments include commercial paper and government and non-government debt securities. We classify our cash equivalents and marketable securities as "variable-rate" if the rate of return on such investments varies based on the change in a predetermined index or set of indices during their term. These "variable-rate" investments primarily included money market accounts. The average duration of all of our investments as of December 2001 was approximately 1.5 years. At December 31, 2001, approximately 54% of our investment portfolio was composed of investments with original maturities of one year of less. The following table presents the amounts of our cash, cash equivalents and short-term investments that may be subject to interest rate risk and the weighted average interest rates by year of maturity ($ in thousands):

	2001	
	Weighted average Interest Rate	Fair Value
Cash Equivalents		
Variable rate.....	2.22 %	$ 1,147
Marketable securities		
Fixed rate (mature in 2002).	5.13 %	$ 32,400
Fixed rate (mature in 2004).	4.63 %	$ 8,828
Fixed rate (mature in 2005).	6.58 %	$ 10,300
Fixed rate (mature in 2006).	6.12 %	$ 4,646

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Annual Financial Statements: See Part Four, Item 14(a)(1) of this Form 10-K.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding directors is incorporated herein by reference from the section entitled "Election of Directors" of the Company's definitive Proxy Statement (the "Proxy Statement") to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, for registrants' annual meeting of Stockholders to be held on May 23, 2002. The Proxy Statement is anticipated to be filed within 120 days after the registrant's fiscal year end of December 31, 2001.

ITEM 11: EXECUTIVE COMPENSATION

Information regarding executive compensation is incorporated herein by reference from the section titled "Executive Compensation" of the Proxy Statement.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference from the section titled "Security Ownership Of Certain Beneficial Owners and Management" of the Proxy Statement.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Information regarding certain relationships and related party transactions is incorporated herein by reference from the section titled "Certain Transactions" of the Proxy Statement.

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

(1) Financial Statements -- See Index to Consolidated Financial Statements on page F-1 of this Report on Form 10-K.

(2) The following financial statement schedule of Intuitive Surgical, Inc. is filed as part of this Report and should be read in conjunction with the financial statements of Intuitive Surgical:

- Schedule II: Valuation and Qualifying Accounts.

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

(3) Exhibits

The exhibits filed as part of this report are listed under "Exhibits" at subsection (C) of this Item 14.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed for the quarter ended December 31, 2001.

(c) Exhibits

EXHIBIT INDEX

Exhibit Number	Description
3.2(1)	Amended and Restated Certificate of Incorporation of Registrant.(1)
3.3(1)	Bylaws of Registrant.
4.2(1)	Specimen Stock Certificate.
4.3(1)	Warrant to Purchase Shares of Common Stock, dated April 26, 2000.
10.1(1)	Form of Indemnity Agreement.
10.2(1)	2000 Equity Incentive Plan.
10.3(1)	2000 Non-Employee Directors' Stock Option Plan.
10.4(1)	2000 Employee Stock Purchase Plan.
10.5(1)	Amended and Restated Investor Rights Agreement dated March 31, 1999.
10.6(1)	Equipment Financing Agreement (No. 10809), dated April 2, 1997, between the Registrant and Lease Management Services, Inc., and related addendums.
10.7(1)	Security Agreement, dated May 20, 1999, between the Registrant and Heller Financial Leasing, Inc., and related amendments.
10.8(1)	License Agreement, dated December 20, 1995, between the Registrant and SRI International.
10.9(1)	License Agreement, dated December 29, 1997, between the Registrant and International Business Machines Corporation.
10.10(1)	License Agreement, dated April 1, 1999, between the Registrant and Massachusetts Institute of Technology.
10.11(1)	Lease, dated September 9, 1996, between the Registrant and Zappettini Investment Co.
10.12(1)	Lease, dated February 5, 1997, between the Registrant and Zappettini Investment Co.
10.13(1)	Employment Agreement, dated February 28, 1997, between the Registrant and Lonnie M. Smith.
10.14(2)	Lease, dated July 16, 2001, between the Registrant and RNM Technology Drive, L.P.
23.1(2)	Consent of Ernst & Young LLP, Independent Auditors.
24.1(2)	Power of Attorney (set forth on signature page).

(1) Incorporated by reference to exhibits filed with the Registrant's Registration Statement on Form S-1 (333-33016)

(2) Filed herewith

SIGNATURES

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

INTUITIVE SURGICAL, INC.
(Registrant)

By: /s/ LONNIE M. SMITH
Lonnie M. Smith
President and Chief Executive Officer

March 29, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ LONNIE M. SMITH Lonnie M. Smith	President, Chief Executive Officer and Director (Principal Executive Officer)	March 29, 2002
/s/ SUSAN K. BARNES Susan K. Barnes	Senior Vice President, Chief Financial Officer and Assistant Secretary (Principal Financial and Accounting Officer)	March 29, 2002
/s/ SCOTT S. HALSTED Scott S. Halsted	Director	March 29, 2002
/s/ RUSSELL C. HIRSCH, M.D., PH.D. Russell C. Hirsch, M.D., Ph.D.	Director	March 29, 2002
/s/ RICHARD J. KRAMER Richard J. Kramer	Director	March 29, 2002
/s/ JAMES A. LAWRENCE James A. Lawrence	Director	March 29, 2002
/s/ ALAN J. LEVY, PH.D. Alan J. Levy, Ph.D.	Director	March 29, 2002
/s/ FREDERIC H. MOLL, M.D. Frederic H. Moll, M.D.	Vice President, Medical Director and Director	March 29, 2002

INTUITIVE SURGICAL, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

Board of Directors and Stockholders
Intuitive Surgical, Inc.

We have audited the accompanying consolidated balance sheets of Intuitive Surgical, Inc. as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in the index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intuitive Surgical, Inc. at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

/s/ ERNST & YOUNG LLP

Palo Alto, California
February 1, 2002

INTUITIVE SURGICAL, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	December 31,	
	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,487	$ 22,657
Short-term investments	56,174	66,784
Accounts receivable, net of allowance for doubtful accounts of $446 and $192 at December 31, 2001 and 2000, respectively	13,248	6,444
Inventory, net	6,182	6,076
Prepaid and other assets	3,128	1,705
Total current assets	89,219	103,666
Property and equipment, net	7,834	4,669
Intangible and other assets	3,308	4,086
Total assets	$ 100,361	$ 112,421
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,300	$ 7,128
Accrued compensation and employee benefits	2,537	2,609
Warranty accrual	1,831	1,494
Accrued royalty expense	1,000	1,000
Other accrued liabilities	2,128	2,028
Deferred revenue	3,870	3,552
Current portion of notes payable	1,631	2,019
Total current liabilities	21,297	19,830
Long-term notes payable	771	1,861
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized, $0.001 par value, issuable in series; no shares issued and outstanding as of December 31, 2001 and 2000, respectively	--	--
Common stock, 200,000,000 shares authorized, $0.001 par value, 36,223,640 and 35,675,822 shares issued and outstanding as of December 31, 2001 and December 31, 2000, respectively	36	36
Additional paid-in capital	188,962	186,713
Deferred compensation	(886)	(2,483)
Accumulated deficit	(110,370)	(93,670)
Accumulated other comprehensive income	551	134
Total stockholders' equity	78,293	90,730
Total liabilities and stockholders' equity	$ 100,361	$ 112,421

See accompanying notes.

INTUITIVE SURGICAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Year Ended December 31,		
	2001	2000	1999
Sales	$ 51,673	$ 26,624	$ 10,192
Cost of sales	28,218	18,031	9,273
Gross profit	23,455	8,593	919

Operating costs and expenses:			
Research and development	13,851	11,734	11,130
Selling, general and administrative	29,987	19,136	9,338
Total operating costs and expenses	43,838	30,870	20,468
Loss from operations	(20,383)	(22,277)	(19,549)
Interest income	3,909	4,266	1,531
Interest expense	(268)	(404)	(406)
Other income/(expense)	42	(108)	9
Net loss	$ (16,700)	$ (18,523)	$ (18,415)
Basic and diluted net loss per common share	$ (0.47)	$ (0.78)	$ (3.81)
Shares used in computing basic and diluted net loss per common share	35,815	23,796	4,837

See accompanying notes.

INTUITIVE SURGICAL, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	Preferred Stock		Common Stock		Additiona Paid-in Capital	Deferred Compensation	Accumulated Deficit	Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount					
Balances at December 31, 1998	16,656,000	$ 17	6,773,494	$ 7	$ 78,386	$ (1,128)	$ (56,732)	$ 46	$ 20,596
Issuance of Series E convertible preferred stock, net of issuance costs of $544	2,478,375	2	--	--	19,281	--	--	--	19,283
Issuance of common stock	--	--	79,365	--	265	--	--	--	265
Repurchase of common stock	--	--	(171,011)	--	(43)	--	--	--	(43)
Deferred compensation	--	--	--	--	619	(619)	--	--	--
Amortization of deferred compensation	--	--	--	--	--	804	--	--	804
Comprehensive loss:									
Other comprehensive income (loss) - change in unrealized gain (loss) on available-for-sale securities	--	--	--	--	--	--	--	(279)	(279)
Net loss	--	--	--	--	--	--	(18,415)	--	(18,415)
Comprehensive loss	--	--	--	--	--	--	--	--	(18,694)
Balances at December 31, 1999	19,134,375	19	6,681,848	7	98,508	(943)	(75,147)	(233)	22,211
Issuance of Series F convertible preferred stock, net of issuance costs of $603	3,678,798	4	--	--	34,752	--	--	--	34,756
Conversion of preferred stock to common stock upon closing of IPO	(22,813,173)	(23)	22,813,173	23	--	--	--	--	--
Issuance of common stock upon closing of IPO, net of issuance costs of $4,972	--	--	5,750,000	6	46,778	--	--	--	46,784
Issuance of common stock upon exercise of options and warrants	--	--	467,770	--	912	--	--	--	912
Repurchase of common stock	--	--	(36,969)	--	(20)	--	--	--	(20)
Fair market value of warrants granted	--	--	--	--	1,720	--	--	--	1,720
Deferred compensation	--	--	--	--	4,063	(4,063)	--	--	--
Amortization of deferred compensation	--	--	--	--	--	2,523	--	--	2,523
Comprehensive loss:									
Other comprehensive income (loss) -- change in unrealized gain (loss) on available-for-sale securities	--	--	--	--	--	--	--	300	300
Unrealized gain (loss) on foreign exchange contracts	--	--	--	--	--	--	--	67	67
Net loss	--	--	--	--	--	--	(18,523)	--	(18,523)
Comprehensive loss	--	--	--	--	--	--	--	--	(18,156)
Balances at December 31, 2000	--	--	35,675,822	36	186,713	(2,483)	(93,670)	134	90,730
Issuance of common stock upon exercise of options and warrants	--	--	569,989	--	2,314	--	--	--	2,314
Repurchase of common stock	--	--	(22,171)	--	(65)	--	--	--	(65)
Amortization of deferred compensation	--	--	--	--	--	1,597	--	--	1,597
Comprehensive loss:									
Other comprehensive income									

(loss) -- change in unrealized gain (loss) on available-for-sale securities	--	--	--	--	--	--	--	560	560
Unrealized gain (loss) on foreign exchange contracts	--	--	--	--	--	--	--	(67)	(67)
Foreign currency translation adjustments	--	--	--	--	--	--	--	(76)	(76)
Net loss	--	--	--	--	--	--	(16,700)	--	(16,700)
Comprehensive loss	--	--	--	--	--	--	--	--	(16,283)
Balances at December 31, 2001	--	$ --	36,223,640	$ 36	$ 188,962	$ (886)	$ (110,370)	$ 551	$ 78,293

See accompanying notes.

INTUITIVE SURGICAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year Ended December 31,		
	2001	2000	1999
OPERATING ACTIVITIES:			
Net loss	$(16,700)	$(18,523)	$(18,415)
Adjustments to reconcile net loss to net cash used in in operating activities:			
Depreciation	2,337	1,595	1,439
Gain/loss on sales of fixed assets	(11)	--	--
Amortization of deferred compensation	1,597	2,573	804
Amortization of intangible and other assets	778	584	--
Issuance of common stock for technology	--	--	150
Foreign currency translation adjustment	(76)	--	--
Changes in operating assets and liabilities:			
Accounts receivable	(6,804)	(4,400)	(2,044)
Prepaid and other assets	(1,423)	(1,124)	(110)
Inventory	(106)	(3,215)	(1,602)
Accounts payable	1,172	4,406	466
Accrued compensation and employee benefits	(72)	1,284	763
Warranty accrual	337	682	812
Other accrued liabilities	100	912	445
Accrued royalty expense	--	1,000	--
Deferred revenue	318	1,422	1,365
Net cash used in operating activities	(18,553)	(12,804)	(15,927)
INVESTING ACTIVITIES:			
Acquisition of property and equipment	(5,527)	(3,555)	(931)
Disposition of property and equipment	36	--	--
Acquisition of patents	--	(3,000)	--
Purchase of short-term investments	(59,910)	(70,096)	(38,292)
Proceeds from sales of short-term investments	35,990	6,900	910
Proceeds from maturities of short-term investments	35,023	18,933	28,000
Net cash provided by (used in) investing activities	5,612	(50,818)	(10,313)
FINANCING ACTIVITIES:			
Proceeds from issuance of preferred stock, net	--	34,756	19,283
Proceeds from issuance of common stock, net	2,314	47,696	115
Repurchase of common stock	(65)	(20)	(43)
Proceeds from notes payable	550	1,500	2,000
Repayment of notes payable	(2,028)	(1,759)	(1,178)
Net cash provided by financing activities	771	82,173	20,177
Net increase (decrease) in cash and cash equivalents	(12,170)	18,551	(6,063)
Cash and cash equivalents, beginning of year	22,657	4,106	10,169

Cash and cash equivalents, end of year	$ 10,487	$ 22,657	$ 4,106
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid	$ 268	$ 404	$ 397
Issuance of warrants for license and services	$ --	$ 1,720	$ --

See accompanying notes

INTUITIVE SURGICAL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Intuitive Surgical, Inc. (the "Company") was incorporated in Delaware on November 9, 1995 and is engaged in the development, manufacture and marketing of products designed to provide the flexibility of open surgery while operating through ports. In 1999, the Company began to manufacture, market and sell its products in Europe and the United States. The Company expects to expend substantial additional funds and continue to incur significant operating losses for at least the next two years as it continues to fund clinical trials in support of regulatory approvals and expands research and development activities, manufacturing capabilities and sales and marketing activities.

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity from date of purchase of 90 days or less to be cash equivalents for the purpose of balance sheet and statement of cash flows presentation. The carrying value of cash and cash equivalents approximates market value at December 31, 2001 and 2000.

Short-Term Investments

All short-term investments are classified as available-for-sale and therefore carried at fair value. The Company views its available-for-sale portfolio as available for use in its current operations. Accordingly, all investments are classified as short-term, even though the stated maturity date may be one year or more beyond the current balance sheet date. Available-for-sale securities are stated at fair value based upon quoted market prices of the securities. Unrealized gains and losses on such securities, when material, are reported as a separate component of stockholders' equity. Realized gains and losses on available-for-sale securities are included in interest income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

Foreign Currency Translation

The functional currency of each foreign subsidiary is its local currency. Foreign assets and liabilities are translated into U.S. dollars at year-end exchange rates when appropriate, while components of the income statement are translated using average exchange rates in effect throughout the year. Gains and losses arising from foreign currency transactions are included in the consolidated statement of operations. Translation adjustments of balance sheet items are included as a component of stockholders' equity.

Concentrations of Risk

Financial instruments which subject the Company to potential risk consists of its cash equivalents, short-term investments, accounts receivable, and foreign exchange contracts. The counterparties to the agreements relating to the Company's investment securities and foreign exchange contracts consist of various major corporations and financial institutions of high credit standing. We believe the financial risks associated with these financial instruments are minimal. For the year ended December 31, 2001, one customer accounted for 15% of total sales. For the year ended December 31, 2000, none of our customers accounted for 10% or greater of total sales. The Company extends reasonably short collection terms but does not require collateral. The Company provides reserves for potential credit losses but has not experienced significant losses to date.

The Company's *da Vinci* Surgical System, related instruments and accessories and service have accounted for all of the Company's sales for the years ended December 31, 2001 and 2000. Purchases of key parts and components used to manufacture our products are from limited supply sources. The inability of any of these suppliers to fulfill our supply requirements may negatively impact future operating results.

Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market value.

Property and Equipment

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

Intangible and Other Assets

Purchased intangible assets represent patents which are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the expected useful life of six years. At December 31, 2001, gross intangible assets totaled $4.7 million and related accumulated amortization was $1.4 million. At December 31, 2000 gross intangible assets totaled $4.7 million and related accumulated amortization was $584,000.

Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," we evaluate long-lived assets, including intangible and other assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. The amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. There were no long-lived assets that were considered to be impaired during the periods presented.

Software Development Costs

We account for our software costs in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed". Software development costs are included in research and development and are generally expensed as incurred. The time periods involved and costs incurred between achieving technological feasibility and the general availability of our software enhancements are insignificant. Production and distribution costs are also minimal. Accordingly, we have not capitalized any software development costs to date.

Warranty Accrual

The Company's standard policy is to warrant all shipped systems against defects in design, materials and workmanship by replacing failed parts during the first year of ownership. The warranty accrual is reduced by the cost of the replacement parts and labor over the warranty period. Estimated expenses for warranty obligations are accrued at the time revenue is recognized and are included in cost of sales.

Other Financial Instruments

The Company uses forward foreign exchange contracts that are designated to reduce a portion of its exposure to foreign currency risk from operational and balance sheet exposures resulting from changes in foreign currency exchange rates. Such exposures result from sales denominated in foreign currencies. The forward contracts, which have only nominal intrinsic value at the time of purchase, are denominated in the same foreign currency in which the sales are denominated. The gains and losses on these forward contracts as well as the offsetting losses and gains on the hedged receivables are recognized depending on whether the derivative instrument is designated and qualifies as part of a hedging relationship and, if so, the nature of the hedging activity. During the year ended December 31, 2001, the Company did not designate and qualify any forward contracts as part of a hedging relationship. Accordingly, changes in the fair value of derivatives that do not qualify for hedge treatment, as well as the ineffective portion of a particular hedge, are recognized currently in earnings. All derivative instruments are recorded as either current assets or accrued liabilities in the balance sheet at fair value.

The Company does not use derivative financial instruments for speculative trading purposes, nor does it hold or issue leveraged derivative financial instruments. At December 31, 2001, the Company had no outstanding derivative instruments.

Research and Development

Research and development costs, which include clinical and regulatory costs, are expensed to operations as incurred in accordance with Statement of Financial Accounting Standards No. 2, "Accounting for Research and Development Costs."

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from these estimates.

Stock-Based Compensation

The Company has adopted the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). In accordance with the provisions of SFAS 123, the Company applies APB Opinion 25 ("APB 25"), "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock option grants to employees and directors with an exercise price equal to or in excess of the fair value of the shares at the date of grant. The Company accounts for stock awards granted to non-employees in accordance with SFAS 123 and related interpretations. (See Note 9, Stockholders' Equity.)

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or service has been rendered, the price is fixed or determinable and collectibility is reasonably assured.

Revenue from system sales is generally recognized upon installation for direct sales and upon shipment for sales to our distributors. If substantial contractual obligations exist after system installation, revenue is recognized after such obligations are fulfilled. In certain instances, contract terms may provide for customer acceptance and transfer of title to occur prior to installation for direct sales. In those instances, we account for the sale as a multiple element arrangement and defer revenue recognition on the fair value of any undelivered elements, including installation. The fair value of the undelivered elements are then recognized when the outstanding obligations are fulfilled.

Our distributors do not have price protection rights. One of our distributors has return rights under limited circumstances. Such rights are accounted for under the provisions of SFAS No. 48. To date, we have not had any returns of our systems.

Revenue from sales of instruments and accessories is recognized upon shipment. Revenue related to future commitments under service contracts is deferred and recognized ratably over the service period. Amounts billed in excess of revenue recognized are included as deferred revenue in the accompanying consolidated balance sheets.

Our *da Vinci* Surgical System contains a software component. We believe that the software element of our *da Vinci* Surgical System is an incidental part of the system. The software element within our product is not sold or marketed separately to customers and the software does not operate independently of the surgical system. Furthermore, the software development effort does not require a significant cost to the Company relative to the overall development cost of the product. As such, the software we provide is incidental to the surgical system as a whole and the software revenue guidance provided in SOP 97-2 is not applicable to our revenues.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2001, 2000, and 1999 were $1.5 million, $1.1 million and $448,000, respectively.

Shipping and Handling Costs

Shipping and handling costs are incurred by the Company and are recorded as cost of goods sold in the income statement.

Segment Disclosures

The Company operates in one segment, the development and marketing of products designed to The Company operates in one segment, the development and marketing of products designed to provide the flexibility of open surgery while operating through ports. For the year ended December 31, 2001, sales to the U.S. and Europe accounted for 69% and 31% of total sales, respectively. For the year ended December 31, 2000, sales to the U.S. and Europe accounted for 68% and 32% of total sales, respectively. For the year ended December 31, 1999, sales to the U.S. and Europe accounted for 25% and 75% of total sales, respectively. Sales in the U.S. included sales to the Company's Japanese distributor's U.S. subsidiary, which represented 3%, 4% and 16% of total sales for the years ended December 31, 2001, 2000 and 1999, respectively.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). We adopted SFAS 133 effective January 1, 2001. This statement establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met. The adoption of SFAS 133, as amended, has not had a significant impact on our financial position or results of operations.

In July 2001, the FASB issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and that the use of the pooling-of-interest method is no longer allowed. Under SFAS No. 142 goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to an annual impairment test in accordance with the new standards. Other intangible assets will continue to be amortized over their respective useful lives. The Company will adopt SFAS No. 141 and SFAS No. 142 as of January 1, 2002. The

Company does not currently believe that the adoption of SFAS No. 141 and SFAS No. 142 will have a significant impact on its financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", effective for fiscal years beginning after December 15, 2001. SFAS No. 144 addresses financial accounting and reporting for impairment or disposal of long-lived assets and supersedes SFAS 121. The Company will adopt SFAS No. 144 as of January 1, 2002. The Company does not currently believe that the adoption of SFAS No. 144 will have a significant impact on its financial position or results of operations.

2. NET LOSS PER SHARE

The following table presents the computation of basic and diluted net loss per share (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Numerator used for basic and diluted net loss per common share.....	$ (16,700)	$ (18,523)	$ (18,415)
Denominator used for basic and diluted net loss per common share:			
Weighted-average shares outstanding...	35,990,598	24,686,201	6,729,580
Less weighted-average shares subject to repurchase.....	(175,864)	(890,365)	(1,892,115)
Weighted-average shares used in computing basic and diluted net loss per common share.....	35,814,734	23,795,836	4,837,465
Basic and diluted net loss per common share.....	$ (0.47)	$ (0.78)	$ (3.81)
Potentially dilutive securities excluded from diluted net loss per share computation because they are anti-dilutive.....	3,432,226	2,381,449	26,940,981

3. AVAILABLE-FOR-SALE SECURITIES

The following table summarizes available-for-sale securities included in cash and cash equivalents and short-term investments as of the respective dates (in thousands):

	December 31, 2001				December 31, 2000			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. corporate debt.....	34,894	562	(6)	35,450	27,661	116	(28)	27,749
U.S. government debt.....	9,553	76	(5)	9,624	7,000	19	(36)	6,983
Municipal debt.....	5,500	--	--	5,500	26,050	--	--	26,050
Commercial paper.....	--	--	--	--	12,794	--	(4)	12,790
Other debt securities....	5,600	--	--	5,600	4,041	--	--	4,041
	$ 55,547	$ 638	$ (11)	$ 56,174	$ 77,546	$ 135	$ (68)	$ 77,613
Reported as:								
Cash equivalents.....	$ --	$ --	$ --	$ --	$ 10,829	$ --	$ --	$ 10,829
Short-term investments...	55,547	638	(11)	56,174	66,717	135	(68)	66,784
	$ 55,547	$ 638	$ (11)	$ 56,174	$ 77,546	$ 135	$ (68)	$ 77,613

The Company views its available-for-sale portfolio as available for use in its current operations. The following is a summary of the cost and estimated fair value of available-for-sale securities at December 31, 2001, by maturity date:

	2001	
	Amoritzed Cost	Fair Value
Mature in less than 1 year.....	$ 32,235	$ 32,400
Mature in one to five years....	23,312	23,774
Total.....	$ 55,547	$ 56,174

	=========	=========

Realized gains on available-for-sale securities were $59,000, $112,000, and $210,000 for the years ended December 31, 2001, 2000, and 1999, respectively. There were no realized losses on available-for-sale securities for the years ended December 31, 2001, 2000, and 1999.

4. INVENTORIES

Inventories consist of the following (in thousands):

	December 31,	
	2001	2000
Raw materials	$ 3,577	$ 2,650
Work-in-process	1,330	1,130
Finished goods	1,275	2,296
Total	$ 6,182	$ 6,076

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	December 31,	
	2001	2000
Computer equipment	$ 3,569	$ 2,827
Laboratory and manufacturing equipment	4,158	2,717
Office furniture and equipment	1,046	1,041
Leasehold improvements	2,532	1,407
Software	3,896	1,858
	15,201	9,850
Less accumulated depreciation and amortizatio	(7,367)	(5,181)
Property and equipment, net	$ 7,834	$ 4,669

6. EMPLOYEE BENEFIT PLAN

Effective May 1, 1996, the Company established a defined contribution retirement plan (the "Plan"). All U.S. employees who are at least 21 years of age are eligible to participate. Contributions of up to 15% of compensation may be made by employees to the Plan through salary withholdings. Employer contributions are made solely at the Company's discretion. No employer contributions were made to the Plan for the years ended December 31, 2001, 2000, and 1999.

7. COMMITMENTS AND CONTINGENCIES

Operating Leases

We leased approximately 50,000 square feet in Mountain View, California. The lease expired in February 2002 and was not renewed.

The Company entered into a lease arrangement for office space in Sunnyvale, California effective January 2002. The lease expires April 30, 2007. The lease includes a renewal option for one additional five-year term.

Future minimum rental commitments under the operating leases as of December 31, 2001 are as follows (in thousands):

2002	$ 1,328
2003	1,881
2004	2,681
2005	2,761
2006	2,844
Thereafter	976
Total	$ 12,471

Rent expense was approximately $936,000, $884,000, and $882,000 for the years ended December 31, 2001, 2000, and 1999, respectively. Rental income from a sublease was approximately $175,000 and $244,000 for the years ended December 31, 2000 and 1999, respectively. This sublease agreement expired in July 2000.

Contingencies

The arrangement entered into with IBM in December 1997 provides for two payments of $1.0 million each upon the Company reaching revenue milestones, as defined, of $25.0 million and $50.0 million, respectively. Each $1.0 million payment is due and payable after the end of the fiscal year in which the cumulative total of all sales of products and services in that year meet the revenue milestone. The Company reached the $25.0 million revenue milestone in fiscal year 2000 and therefore accrued a $1.0 million royalty payable at December 31, 2000. The Company reached the $50.0 million revenue milestone in fiscal year 2001 and therefore accrued a $1.0 million royalty payable at December 31, 2001. Other than described, no further payments are due under the IBM arrangement.

On May 10, 2000, Computer Motion, Inc. filed a lawsuit in United States District Court for the Central District of California (Case No. CV00-4988 CBM) alleging that by making, using, selling or offering for sale our *da Vinci* Surgical System, we are infringing United States Patent Numbers 5,524,180, 5,762,458, 5,815,640, 5,855,583, 5,878,193, 5,907,664 and 6,001,108 in willful disregard of Computer Motion's patent rights. On June 1, 2000, Computer Motion amended its lawsuit to allege that we also infringe U.S. Patent Number 6,063,095. On October 30, 2000, Computer Motion filed a motion seeking to add U.S. Patent Number 6,102,850 to the litigation. Each of these nine patents concerns methods and devices for conducting various aspects of robotic surgery. Until February 2001, the litigation was proceeding in the early stages of discovery, with no trial date set. In February 2001, in response to Intuitive's request, the District Court stayed -- put on hold -- all proceedings in the litigation because of the declaration by the U.S. Patent and Trademark Office ("PTO") of three "interferences" proceedings between a single SRI patent application exclusively licensed to us and three of Computer Motion's patents (see next paragraph). In February 2002, over Computer Motion's objection, the District Court extended the stay through a status conference presently scheduled for late March 2002. At that conference, Intuitive and Computer Motion will discuss with the Court the propriety of further extending the stay through decisions by the Patent Office in the interferences. The Computer Motion action seeks damages based upon the making, using, selling and offering for sale of our products and processes, and seeks to enjoin our continued activities relating to these products. This action subjects us to potential liability for damages, including treble damages, and could require us to cease making, using or selling the affected products, or to obtain a license in order to continue to manufacture, use or sell the affected products. While we continue to believe we have multiple meritorious defenses to this action, we cannot assure you that we ultimately will prevail on any issue in the litigation or that we will be able to successfully defend Computer Motion's charges, nor can we provide assurance that any license required would be made available on commercially acceptable terms, if at all. Failure to successfully defend against the Computer Motion action could harm our business, financial condition and operating results. Due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of this matter at this time and, therefore, cannot estimate the range of possible loss.

On December 7 and 8, 2000, the U.S. Patent Office formally declared three interference proceedings between a single SRI patent application licensed to Intuitive and three of Computer Motion's patents: Nos. 5,855,583, 5,878,193, and 5,907,664. An interference is a proceeding within the U.S. Patent Office to resolve questions regarding the patentability of inventions and who first invented subject matter claimed by two or more patents or patent applications. These three interferences resulted from requests for interference filed in May through July 1999. Because the SRI patent application licensed to Intuitive was filed in January 1992 and Computer Motion's three patents were filed no earlier than August 1992 and as late as February 1996, SRI/Intuitive will be the "Senior Party" in each interference. As "Junior Party," Computer Motion will bear the burden of proving that it is entitled to keep its patents. During the first half of 2001, the parties filed over 20 motions in the three interferences. On October 10, 2001, the PTO held a hearing on all motions filed in all three interferences. Decisions regarding all of the motions are presently expected by the end of April 2002.

In September 2000, we filed a Notice of Opposition in the European Patent Office ("EPO") challenging European Patent No. 653,922, which was issued to Computer Motion in 1999 and is related to several of the patents now involved in the U.S. litigation and the interference proceedings. An Opposition proceeding allows the EPO to determine whether the challenged patent should be revoked in its entirety, should be amended, or should remain unaltered. In its Notice of Opposition, Intuitive cited numerous prior art references not cited to the EPO during the '922 patent's original prosecution.

On March 30, 2001, Intuitive and International Business Machines Corporation ("IBM") jointly filed suit against Computer Motion, Inc. in the U.S. District Court for the District of Delaware. The complaint alleges that by continuing to make, use, sell, and offer for sale its AESOP and ZEUS voice-controlled products, Computer Motion willfully infringes U.S. Patent No. 6,201,984. The '984 patent which concerns various aspects of voice control of surgical instruments issued to IBM in early March 2001 and is exclusively licensed to us. The '984 patent predates by several years Computer Motion's development of voice-controlled surgical robots. Because Computer Motion's voice-controlled HERMES product interfaces with the AESOP and ZEUS products, HERMES is also implicated in the patent infringement complaint. Trial is presently set for the third quarter of 2002. The Court so far has denied Computer Motion's request to add its own U.S. Patent No. 6,244,809 to this Delaware litigation and has refused to entertain Computer Motion's allegations that we infringe the '809 patent by making, using, selling and offering for sale our *da Vinci* Surgical System. The Delaware Court has also refused Computer Motion's request to transfer the litigation to California.

On September 1, 2000, Brookhill-Wilk 1, LLC ("Wilk") filed a lawsuit in the United States District Court for the Southern District of New York (Case No. 00 Civ. 6599 (NRB)) alleging that by making, using, selling or offering for sale our *da Vinci* Surgical System, we are infringing U.S. Patent Nos. 5,217,003 and 5,368,015 in willful disregard of Wilk's patent rights. These patents concern methods and devices for "remote" surgery. In March 2001, Wilk withdrew its assertion of the "015 patent against Intuitive, leaving only the '003 patent at issue in the suit. On November 8, 2001, the District Court granted summary judgment of noninfringement of the '003 patent in our favor and dismissed Wilk's complaint in its entirety. Wilk has since filed a notice with the U.S. Court of Appeals for the Federal Circuit to appeal the summary judgment ruling. Briefing on the appeal should conclude in mid-2002, with a hearing date possible towards the end of 2002 or in early 2003. We believe the appellate court will uphold the summary judgment of noninfringement. However, if we lose the appeal and ultimately also lose Wilk's suit against us, it will hurt our competitive position, may be costly to us and may prevent us from selling our products. In addition, if we lose the patent suit, we may need to obtain from Wilk a license to this technology if we are to continue to market our products that have been found to infringe Wilk's patents. This license could be expensive, which could seriously harm our business. We believe that we have multiple meritorious defenses in this action. However, litigation is unpredictable and we may not prevail with any of these defenses. If Wilk is successful in its suit against us and is unwilling to grant us a license, we may be required to stop selling our products that are found to infringe Wilk's patents unless we can redesign them so they do not infringe Wilk's patents, which we may be unable to do. In addition, if we lose the patent suit, we could be required to pay Wilk damages, including treble damages, which could be substantial and harm our financial position.

The Company is subject to legal proceedings and claims that arise in the normal course of its business. We cannot assure that we will prevail in these matters nor can we assure that any remedy could be reached on commercially viable terms, if at all. Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of these matters at this time and, therefore, cannot estimate the range of possible loss.

8. NOTES PAYABLE

Notes payable consists of the following (in thousands):

	December 31,	
	2001	2000
Note payable, due in monthly installments through April 1, 2001 Interest rate of 13.8% at December 31, 2001	$ --	$ 201
Note payable, due in monthly installments through August 1, 2001 Interest rate of 12.1% at December 31, 2001	--	188
Note payable, due in monthly installments through June 1, 2002 Interest rate of 9.0% at December 31, 2001	264	502
Note payable, due in monthly installments through June 1, 2002 Interest rate of 9.0% at December 31, 2001	264	502
Note payable, due in monthly installments through June 1, 2002 Interest rate of 9.9% at December 31, 2001	280	803
Note payable, due in monthly installments through October 1, 2002 Interest rate of 10.2% at December 31, 2001	154	323
Note payable, due in monthly installments through April 1, 2003 Interest rate of LIBOR plus 3.75% which is 5.875% at December 31, 2001	222	361
Note payable, due in monthly installments through January 1, 2004 Interest rate of 9.0% at December 31, 2001	723	1,000
Note payable, due in monthly installments through August 1, 2004 Interest rate of 8.5% at December 31, 2001	495	--
	2,402	3,880
Less current portion	(1,631)	(2,019)
	$ 771	$ 1,861

Notes payable are collateralized by fixed assets specified under each agreement. Assets collateralized under these agreements total $7.2 million and $8.0 million at December 31, 2001 and 2000, respectively. Certain of the notes payable contain covenants pertaining to profitability levels and certain other financial ratios. As of December 31, 2001, the Company is in compliance with all covenants. Principal maturities of notes payable at December 31, 2001 are as follows: 2002 -- $1.63 million; 2003 -- $606,000; and 2004 -- $166,000.

The fair value of notes payable is estimated based on current interest rates available to the Company for debt instruments with similar terms, degrees of risk and remaining maturities. The carrying values of these obligations approximate their respective fair values as of December 31, 2001 and 2000.

9. STOCKHOLDERS' EQUITY

Convertible Preferred Stock

During the first quarter of the year ended December 31, 2000, the Company issued 3,593,875 shares of Series F convertible preferred stock, upon exercise of warrants at a weighted-average exercise price of $9.84 per share, for net proceeds of $34.8 million.

Each share of Series A, B, C, D and E convertible preferred stock then outstanding was converted automatically upon the closing of the Company's initial public offering on a one-for-one basis into 19,134,375 shares of common stock. Each share of Series F

convertible preferred stock was converted on a 1.02363638 basis into 3,678,798 shares of common stock.

On June 13, 2000, as part of the initial public offering of our common stock, we issued 5,000,000 shares of our common stock at an offering price of $9.00 per share. On July 13, 2000, the underwriters exercised in full their over-allotment option to purchase an additional 750,000 shares at $9.00 per share. Cash proceeds from the sale of the 5,750,000 shares of common stock, net of underwriters' discount and offering expenses, totaled approximately $46.8 million.

Common Stock

The Company has reserved the following shares of common stock for the exercise of warrants and the issuance of options and rights granted under the Company's stock option plans as follows:

	December 31,	
	2001	2000
Warrants	5,081	205,081
Stock option plans	10,230,024	7,030,726
	10,235,105	7,235,807

The Company has previously issued shares of common stock, which are subject to the Company's right to repurchase at the original issuance price upon the occurrence of certain events as defined in the agreements relating to the sale of such stock. As of December 31, 2001, 2000, and 1999 shares subject to repurchase were 34,561, 409,612, and 1,232,006, respectively.

Warrants

In April 1997, in connection with one of the notes payable discussed in Note 8, the Company issued a warrant to purchase 11,000 shares of common stock at an exercise price of $5.00 per share. In August 2000, this warrant was exercised under a net exercise provision resulting in the issuance of 7,774 shares of common stock.

In conjunction with the issuance of Series E convertible preferred stock, the Company issued to each purchaser a warrant to purchase shares in Series F convertible preferred stock at a price initially equal to $8.00 per preferred share. Warrants to purchase 5,096,875 shares of Series F convertible preferred stock were issued. The exercise price increased on every subsequent one-month anniversary of the issuance date by $0.1667 per month up to a maximum exercise price of $10.00 per preferred share. During the year ended December 31, 2000, warrants to purchase 3,593,875 shares of Series F convertible preferred stock were exercised at a weighted-average exercise price of $9.84 per share for net proceeds of $34.8 million. The unexercised warrants expired in March 2000.

In June 2000, the Company issued a warrant to purchase 5,081 shares of common stock at an exercise price of $9.00 per share to one company. The warrant, which was fully vested and immediately exercisable, expires in June 2010. The value of the warrant was estimated using the Black-Scholes option pricing model and was determined to be immaterial.

In April 2000, the Company entered into an agreement with Heartport, Inc. to exclusively license a number of Heartport's patents in exchange for cash of $3.0 million and a warrant to purchase 200,000 shares of common stock at an exercise price of $3.00 per share. In accordance with EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services," the value of the warrant was estimated using the Black-Scholes option pricing model with the following assumptions: stock price on the date of grant of $9.90 per share, risk-free interest rate of 6.5%, contractual life of 5 years, volatility of 0.75 and no dividend yield, resulting in a value of $1.7 million. As a result of this agreement, we capitalized approximately $4.7 million as intangible and other assets, which will be amortized over the estimated useful life of the patents which is approximately six years. The warrant, which was fully vested and immediately exercisable was exercised by Heartport, Inc. in June 2001.

Stock Option Plans

In January 1996, the Board of Directors adopted, and the stockholders approved, the 1996 Equity Incentive Plan (the "1996 Plan") under which employees, consultants and directors may be granted Incentive Stock Options ("ISOs") and Nonstatutory Stock Options ("NSOs") to purchase shares of the company's common stock. The 1996 Plan permits ISOs to be granted at an exercise price not less than the fair value on the date of grant and NSOs at an exercise price not less than 85% of the fair value on the date of grant. Options granted under the 1996 Plan generally expire 10 years from the date of grant and become exercisable upon grant subject to repurchase rights in favor of the Company until vested. Options generally vest 12.5% upon completion of 6 months service and 1/48 per month thereafter; however, options may be granted with different vesting terms as determined by the Board of Directors. A total of 4,840,000 shares of common stock have been authorized for issuance pursuant to the 1996 Plan as of December 31, 2001.

In March 2000, the Board of Directors adopted the 2000 Equity Incentive Plan, which took effect upon the closing of the Company's initial public offering. The Company has reserved an additional 5,160,000 shares under this plan. This plan is an amendment and restatement of the 1996 Plan. Also in March 2000, the Board of Directors adopted the 2000 Non-Employee Directors' Stock Option Plan and the 2000 Employee Stock Purchase Plan. The Company has reserved 300,000 and 1,000,000 shares for the issuances under these plans, respectively. These plans were also effective upon the closing of the Company's initial public offering. Each of these plans contains an evergreen provision whereas the authorized shares are automatically increased concurrent with the Company's annual meeting of shareholders. In May 2001, the Company reserved an additional 1,986,600 shares for the 2000 Equity Incentive Plan, 107,487 shares for the 2000 Non-Employee Directors' Stock Option Plan and 179,145 shares for the 2000 Employee Stock Purchase Plan.

Option activity under the 1996 and 2000 Plans was as follows:

	2001		2000		1999	
	Number of Shares Under Option	Weighted Average Exercise Price	Number of Shares Under Option	Weighted Average Exercise Price	Number of Shares Under Option	Weighted Average Exercise Price
Outstanding at January 1.....	1,766,756	3.27	1,466,725	$ 1.90	1,036,500	$ 1.21
Options granted.....	2,146,251	7.55	823,600	4.94	641,050	3.00
Options exercised.....	(188,915)	2.19	(459,996)	1.98	(29,365)	2.21
Options canceled.....	(331,508)	5.06	(63,573)	2.69	(181,460)	1.82
Outstanding at December 31....	3,392,584	5.85	1,766,756	3.27	1,466,725	1.90
Exercisable at December 31....	1,604,426	3.65	1,517,923	$ 2.31	1,434,814	$ 1.88

Additional information concerning options outstanding at December 31, 2001 is as follows:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$0.05 - 0.50.....	325,500	5.40	0.50	325,500	0.50
1.50 - 3.00.....	861,715	7.60	2.87	861,715	2.87
3.35 - 8.00.....	1,692,769	9.00	7.09	345,902	7.12
8.06 - 16.13.....	512,600	9.40	10.19	71,309	10.64
$0.05 - 16.13.....	3,392,584	8.40	5.85	1,604,426	3.65

Under the 1996 and 2000 Plans, the Company may also grant rights to purchase restricted stock. Terms and conditions of these rights are determined by the Board of Directors. However, no right shall be granted at an exercise price which is less than 85% of the fair value of the Company's common stock on the date of grant. Exercise of these share purchase rights are made pursuant to restricted stock purchase agreements containing provisions established by the Board of Directors. These provisions give the Company the right to repurchase the shares at the original purchase price of the stock. The right expires at a rate determined by the Board of Directors, generally at a rate of 12.5% after 6 months and 1/48 per month thereafter. For the years ended December 31, 2001, 2000, and 1999, the Company repurchased 22,171, 36,969, and 117,677 shares under the 1996 and 2000 Plans.

As of December 31, 2001, 2000, and 1999, 6,837,440, 5,263,970, and 203,997 shares were available for future grant under the 1996 and 2000 Plans.

For the years ended December 31, 2001, 2000, and 1999, the Company recorded deferred stock compensation of $0, $4.1 million, and $619,000, respectively, representing the difference between the exercise price and the fair value for accounting purposes of the Company's common stock on the date such options were granted. For the years ended December 31, 2001, 2000, and 1999, the Company recorded amortization of deferred stock compensation of $1.6 million, $2.5 million, and $800,000, respectively. As of December 31, 2001 and 2000, the Company had $886,000 and $2.5 million of remaining unamortized deferred compensation, respectively. Such amount is included as a reduction of stockholders' equity and is being amortized over the vesting period of the underlying options using the graded-vesting method. Future amortization of deferred compensation at December 31, 2001 is as follows: 2002 -- $662,000 and 2003 -- $227,000.

Stock-Based Compensation

Pro forma information regarding net loss is required by SFAS No. 123, as if the Company had accounted for its employee stock options under the fair value method of SFAS 123. Option valuation models require the input of highly subjective assumptions. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable measure of the fair value of its employee stock options.

The weighted-average estimated fair value of these options during fiscal 2001, 2000, and 1999 was $3.4, $1.07, and $1.37 per share, respectively. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model using the following weighted-average assumptions:

	Years Ended December 31		
	2001	2000	1999
Expected life (in years)	6.3	4.0	2.5
Risk-free interest rate	4.4 %	5.9 %	5.9 %
Volatility	0.96	0.85	0.75
Dividend yield	--	--	--

We have elected to follow APB 25 in accounting for our employee stock options. Under APB 25, we recognize no compensation expense in our financial statements except in connection with the grant of restricted stock for nominal consideration and unless the exercise price of our employee stock option is less than the market price of the underlying stock on the grant date.

We determined the following pro forma information regarding net income and earnings per share as if we had accounted for our employee stock options under the fair value method prescribed by SFAS 123. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting periods. The pro forma information is as follows (in thousands, except per share amounts):

	Years Ended December 31		
	2001	2000	1999
Pro forma net loss	$ (20,247)	$ (18,800)	$ (18,700)
Pro forma net loss per share:			
Basic	$ (0.57)	$ (0.79)	$ (3.87)
Diluted	$ (0.57)	$ (0.79)	$ (3.87)

10. INCOME TAXES

There is no provision for income taxes because the Company has incurred operating losses.

Deferred income taxes reflect tax carryforwards and the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amount used for income tax purposes. Significant components of the Company's deferred tax assets are as follows (in thousands):

	As of December 31,	
	2001	2000
Net operating loss carryforward	$ 25,800	$ 20,900
Research credits	4,460	3,400
Expenses deductible in later years for tax purpos	12,120	10,650
Deferred revenue	1,520	1,150
Total deferred tax assets	43,900	36,100
Valuation allowance for deferred tax assets	(43,900)	(36,100)
Net deferred tax assets	$ --	$ --

Realization of deferred tax assets is dependent upon future earnings; the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by $7.8 million and $7.0 million during the years ended December 31, 2001 and 2000, respectively. As of December 31, 2001, the Company had net operating loss carryforwards for federal tax purposes of approximately $72.0 million which expire in the years 2010 through 2021 and federal research and development tax credits of approximately $2.7 million which expire in the years 2011 through 2021. Utilization of the Company's net operating loss may be subject to a substantial annual limitation due to the ownership change

limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of the net operating loss before utilization.

11. OTHER FINANCIAL INSTRUMENTS

At December 31, the fair value of the Company's other financial instruments is as follows (in thousands):

	2001 Asset (Liability)		2000 Asset (Liability)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Forward foreign exchange contracts.	$ --	$ --	$ --	$ 67

At December 31, outstanding notional amounts for derivative financial instruments are as follows (in thousands):

	2001	2000
Forward foreign exchange contracts.	$ --	$ 781

While the contract or notional amounts provide one measure of the volume of these transactions, they do not represent the amount of the Company's exposure to credit risk. The amounts potentially subject to credit risk (arising from the possible inability of counterparties to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparties' obligations exceed the obligations of the Company. The Company controls credit risk through credit approvals, limits, and monitoring procedures. See additional information at "Other financial instruments" contained in Note 1.

At December 31, 2001 the Company did not hold any forward exchange contracts.

At December 31, 2000 the Company had forward foreign exchange contracts of approximately 2 months duration, to exchange euro and Belgian Francs for U.S. dollars in the total gross notional amount of $781,000. This notional amount represents forward contracts to sell foreign currency of $781,000.

12. OTHER COMPREHENSIVE INCOME (LOSS)

At December 31, the components of accumulated other comprehensive income, net of related taxes, are comprised of the following (in thousands):

	2001	2000
Unrealized gain on available-for-sale securities....	$ 627	$ 67
Unrealized gain on forward exchange contract.....	--	67
Foreign currency translation adjustments.....	(76)	--
Accumulated other comprehensive income	$ 551	$ 134

13. SELECTED QUARTERLY DATA (UNAUDITED)

	Fiscal 2001			
	Q1	Q2	Q3	Q4
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
Net sales.....	$ 12,079	12,720	10,861	16,013
Gross profit.....	5,516	6,061	5,111	6,767
Operating expenses.....	10,066	11,002	10,945	11,825

Operating loss	(4,550)	(4,941)	(5,834)	(5,058)
Other income/(expense)	1,143	697	1,036	807
Net loss	(3,407)	(4,244)	(4,798)	(4,251)
Net loss per share	$ (0.10)	$ (0.12)	$ (0.13)	$ (0.12)
Shares used in calculation of net loss per share	35,401	35,655	36,056	36,147

	Fiscal 2000			
	Q1	Q2	Q3	Q4
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
Net sales	$ 2,933	$ 5,127	$ 7,859	$ 10,706
Gross profit	401	1,624	3,151	3,417
Operating expenses	5,769	6,798	8,567	9,736
Operating loss	(5,368)	(5,174)	(5,416)	(6,319)
Other income/(expense)	336	684	1,396	1,337
Net loss	(5,032)	(4,490)	(4,020)	(4,982)
Net loss per share	$ (0.90)	$ (0.23)	$ (0.12)	$ (0.14)
Shares used in calculation of net loss per share	5,574	19,808	34,665	35,139

SCHEDULE II

INTUITIVE SURGICAL, INC.
VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

	Balance at Beginning of Year	Additions Charged to Cost and Expenses	Deductions	Balance at End of Year
Year ended December 31, 2001				
Deducted from asset accounts:				
Allowance for doubtful accounts and product returns	$ 192	254	--	$ 446
Year ended December 31, 2000				
Deducted from asset accounts:				
Allowance for doubtful accounts and product returns	$ 55	137	--	$ 192
Year ended December 31, 1999				
Deducted from asset accounts:				
Allowance for doubtful accounts and product returns	$ --	55	--	$ 55

EXHIBIT INDEX

Exhibit Number	Description

3.2(1)	Amended and Restated Certificate of Incorporation of Registrant.(1)
3.3(1)	Bylaws of Registrant.
4.2(1)	Specimen Stock Certificate.
4.3(1)	Warrant to Purchase Shares of Common Stock, dated April 26, 2000.
10.1(1)	Form of Indemnity Agreement.
10.2(1)	2000 Equity Incentive Plan.
10.3(1)	2000 Non-Employee Directors' Stock Option Plan.
10.4(1)	2000 Employee Stock Purchase Plan.
10.5(1)	Amended and Restated Investor Rights Agreement dated March 31, 1999.
10.6(1)	Equipment Financing Agreement (No. 10809), dated April 2, 1997, between the Registrant and Lease Management Services, Inc., and related addendums.
10.7(1)	Security Agreement, dated May 20, 1999, between the Registrant and Heller Financial Leasing, Inc., and related amendments.
10.8(1)	License Agreement, dated December 20, 1995, between the Registrant and SRI International.
10.9(1)	License Agreement, dated December 29, 1997, between the Registrant and International Business Machines Corporation.
10.10(1)	License Agreement, dated April 1, 1999, between the Registrant and Massachusetts Institute of Technology.
10.11(1)	Lease, dated September 9, 1996, between the Registrant and Zappettini Investment Co.
10.12(1)	Lease, dated February 5, 1997, between the Registrant and Zappettini Investment Co.
10.13(1)	Employment Agreement, dated February 28, 1997, between the Registrant and Lonnie M. Smith.
10.14(2)	Lease, dated July 16, 2001, between the Registrant and RNM Technology Drive, L.P.
23.1(2)	Consent of Ernst & Young LLP, Independent Auditors.
24.1(2)	Power of Attorney (set forth on signature page).

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(1) Incorporated by reference to exhibits filed with the Registrant's Registration Statement on Form S-1 (333-33016)

(2) Filed herewith

Exhibit 10.14

LEASE

between

RNM TECHNOLOGY DRIVE, L.P.,

a California limited partnership

as LANDLORD

and

INTUITIVE SURGICAL, INC.,

a Delaware corporation

as TENANT

July 16**, 2001**

EXHIBITS

LEASE

RNM Technology Drive, L.P., a California Limited Partnership ("***Landlord***"), and **Intuitive Surgical, Inc.**, a Delaware corporation ("***Tenant***"), agree as follows as of July 16, 2001.

1. **Summary and Definitions**. The following definitions and those in Exhibit A apply in this Lease:

    1. **Premises**.

        a. The space within the building located at 950 Kifer Road, Sunnyvale, California (the "Building"), comprised of approximately 82,988 square feet of Rentable Area and depicted as the Premises on Exhibit B. The Premises are part of a Project comprised of one (1) building, parking areas and Common Areas.

        b. The Premises shall be expanded to include the remaining approximately 22,297 square feet of Rentable Area within the Building (the "Expansion Space") on January 1, 2004, without the necessity of notice by either party, provided that possession of the Expansion Space has been delivered to Tenant and the Expansion Space is broom clean and in good condition and repair. Landlord covenants to deliver the Expansion Space in such condition on January 1, 2004, but in any event no later than April 1, 2004, and the date of such delivery is referred to herein as the "Expansion Date". Upon the Expansion Date, Base Rent, Tenant's Share of Operating Expenses, and other provisions of this Lease based upon the number of square feet of Rentable Area shall be adjusted to reflect the expansion of the Premises, and the Premises shall be deemed to consist of the 105,285 square feet of Rentable Area within the Building.

        c. The Rentable Areas set forth in this Lease shall be binding on the parties for purposes of this Lease.

    2. **Term**.

        a. The Term shall commence on January 1, 2002 (the "Commencement Date"). Notwithstanding the foregoing, Tenant shall have the right to early occupancy of the Premises commencing October 1, 2001, without the payment of rent or any other charges except as provided in Exhibit C, but subject to all other terms and conditions of this Lease.

        b. The Term shall end at 11:59 p.m. on April 30, 2007 (the "Termination Date"). The Termination Date shall not be in any way extended or advanced except pursuant to the provisions herein.

    3. **Base Rent**. Base Rent per month shall be $165,976 ($2.00 per square foot of Rentable Area per month) and shall increase by 3% on each January 1 commencing January 1, 2003. Notwithstanding the above, Tenant shall not be responsible to pay Base Rent accruing prior to April 1, 2002 (the "Rent Commencement Date") or to pay Base Rent for

the month of March 2003. The schedule of Base Rent payable hereunder shall be as follows assuming the Expansion Date is January 1, 2004:

Months	Base Rent
1/1/02 to 3/31/02	$ 0
4/1/02 to 12/31/02	$165,976.00
1/1/03 to 2/29/03	$170,955.28
3/1/03 to 3/31/03	$ 0
4/1/03 to 12/31/03	$170,955.28
1/1/04 to 12/31/04	$223,393.71
1/1/05 to 12/31/05	$230,095.52
1/1/06 to 12/31/06	$236,998.38
1/1/07 to 4/30/07	$244,108.33

4. **Tenant's Share**. 78.82% of the Building, increasing to 100% on the Expansion Date.

5. **Use**. The Premises shall be used and occupied only for the purpose of general office, research and development, laboratory, including laboratory demonstrations and training using robotic equipment on cadavers and animals, light manufacturing and distribution and for no other purpose whatsoever.

6. **Security Deposit**. Cash in an amount equal to $244,000.

7. **Brokers**. Grubb & Ellis as Landlord's representative and Equis Corporation as Tenant's representative.

8. **Exhibits**. Exhibits A, B, C, D, E, F, and G.

2. **Demise**. For the Term, Landlord leases the Premises to Tenant and Tenant leases the same from Landlord, all upon and subject to the terms, covenants and conditions of this Lease.

3. **Acceptance of Premises**. Landlord shall deliver the Premises and the Expansion Space to Tenant in broom-clean condition and with the HVAC system serving the Premises in good working order. Except for the foregoing, Tenant accepts the Premises (and the Expansion Space) in their current condition, AS-IS, and WITH ALL FAULTS. Tenant acknowledges the Premises are suitable for Tenant's purposes, and that the Building, the Common Areas and the Premises are in good and satisfactory condition. If Tenant fails to provide written notice to Landlord of any defect in the HVAC system serving the Premises within ninety (90) days following the Commencement Date (or the date of delivery of the Expansion Space, as applicable), then Tenant shall be deemed to have accepted the HVAC system and waived any defect therein.

4. **Rent**. All amounts due hereunder from Tenant to Landlord, whether designated as Base Rent, Additional Rent, late charges, interest or otherwise, shall be deemed "rent" hereunder. From the Rent Commencement Date, Tenant will pay Landlord, without prior notice, demand, offset or deduction (except as specifically set forth herein), the following rent:

    1. **Base Rent**. Subject to the provisions of Paragraph 25.10, Tenant will pay the Base Rent (prorated for any partial month) in advance on the first day of each month during the term hereof, except that Base Rent for the first full month of the Lease Term for which Base Rent is payable shall be due upon execution of the Lease.

    2. **Additional Rent**. Tenant shall pay Tenant's Share of Operating Expenses accruing on and after the Rent Commencement Date, subject to Tenant's obligations with respect to utility costs during the construction period as provided in **Exhibit C**. The terms "Tenant's Share" and "Operating Expenses" are defined in Exhibit A. For partial years, Operating Expenses will be calculated on a full-year basis, and then prorated. Tenant shall pay monthly installments of Additional Rent on the first day of each month, in amounts specified in good faith by Landlord from time to time, which, by the end of each calendar year (or by the Termination Date, if earlier), will total Landlord's estimate of Additional Rent paid for such year. As soon as is reasonably practicable after the end of each calendar year during which Tenant paid Additional Rent based on Landlord's estimates as provided above, Landlord will furnish Tenant a statement of Operating Expenses for such year. Any amounts owing for that year shall, within thirty (30) days, be paid by Tenant to Landlord. Any amounts overpaid shall, at Landlord's option, be credited against the next installment(s) of estimated Additional Rent due from Tenant, or be refunded to Tenant. Within ninety (90) days after receipt of Landlord's statement and provided an Event of Default with respect to the Tenant is not then occurring, Tenant shall have the right to audit at Landlord's local offices, at Tenant's expense, Landlord's accounts and records relating to Operating Expenses for the prior year. Such audit shall be conducted pursuant to a commercially reasonable

audit confidentiality agreement, and, if conducted by a third party, such third party shall not be compensated for such audit services on a contingency basis. If such audit reveals that Landlord has overcharged Tenant for Operating Expenses, the amount overcharged shall be paid to Tenant within thirty (30) days after the audit is concluded, together with interest thereon at the rate of 10% per annum, from the date the statement was delivered to Tenant until payment of the overcharge is made to Tenant. In addition, if the audit indicates that the statement exceeds the actual Operating Expenses which should have been charged to Tenant by more than 5%, the cost of the audit shall be paid by Landlord. The parties' obligations with respect to payment or refund of any deficiency or overpayment shall survive termination or expiration of this Lease.

5. **Security Deposit**. To secure its obligations under this Lease, Tenant will provide to Landlord the Security Deposit upon execution of this Lease. Tenant hereby grants to Landlord a security interest in and to the Security Deposit to secure Tenant's obligations under this Lease. In the event of Tenant's default as provided in Paragraph 18 of this Lease, Landlord may, but shall not be required to, use, apply or retain all or any part of the Security Deposit to the extent required to satisfy Tenant's obligations hereunder including without limitation the payment of any Base Rent, Additional Rent, interest, late charges or any other sum in default, or for the payment of any other amount which Landlord may reasonably spend or become obligated to spend by reason of Tenant's default or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default, including, without limitation, costs and attorneys' fees incurred by Landlord to recover possession of the Premises following a default by Tenant hereunder, all without prejudice to any other right or remedy Landlord may have against Tenant. If the Security Deposit or any portions thereof are so used, then Tenant shall within thirty (30) days after its receipt of a written demand from Landlord deposit cash in an amount sufficient to restore the cash Security Deposit to its original sum, and Tenant's failure to so restore the Security Deposit shall be deemed an event of default under Paragraph 18 of this Lease without further notice or cure period. Landlord may commingle the Security Deposit with Landlord's other funds. In the event of bankruptcy or other insolvency proceedings filed by or against Tenant, the Security Deposit shall be deemed to be applied first to the payment of Rent and other charges due Landlord for all periods prior to the effective date of such proceedings. At the termination of this Lease, Landlord shall return any remaining Security Deposit without interest upon receipt of Tenant's forwarding address, or as provided by law, whichever is later (but in no event later than thirty (30) days after the date of termination of this Lease). Tenant shall not assign or encumber the Security Deposit, or attempt to do so, and Landlord shall not be bound by any such assignment or encumbrance.

6. **Services and Utilities**. Tenant shall contract for, and pay for, janitorial services for the Premises using such janitorial contractor as Landlord shall approve, which approval shall not be unreasonably withheld, conditioned or delayed. If separately metered or provided, Tenant shall pay prior to delinquency for all water, gas, light, heat, power, electricity, telephone, janitorial service, trash pick-up, sewer charges, and all other services supplied to Tenant or consumed on the Premises, and all taxes and surcharges thereon. If such utilities are not separately metered, then Tenant's shall reimburse Landlord for the cost of such utilities based upon Landlord's good faith estimate taking into account historical usage by existing tenants of the Building. Tenant shall pay to Landlord Tenant's Share of the cost of all utilities supplied in connection with the operation of the Common Areas.. Tenant shall pay to Landlord, as part of Additional Rent, utility costs in arrears within thirty (30) days following invoices from Landlord.

7. **Use of Premises**. Tenant will use and occupy the Premises only for the uses set forth in Paragraph 1.5 and only to the extent such uses comply with Laws and otherwise conform to the provisions of this Lease. Tenant acknowledges that it is solely responsible for determining if applicable Laws permit Tenant's anticipated uses within the Premises and that it is not a condition to the effectiveness of this Lease that Tenant's uses are permitted by Laws. Tenant may not store or hold cadavers or animals (live or dead) within the Premises overnight. Tenant shall not permit any of its animals to be outside the Premises. Subject to the waiver set forth in Paragraph 15 and to the provisions of Paragraph 16, Tenant will pay for any damage to any part of the Premises or Building or Project caused by any negligence or willful act by Tenant or Tenant's employees, agents, contractors or invitees. Tenant will comply with the Building's Rules and Regulations as promulgated by Landlord from time to time, and Tenant will not cause anywhere in the Building or Project, or permit in the Premises, (i) any activity or thing contrary to applicable law, ordinance, regulation, restrictive covenant, or insurance regulation whether now in force or hereafter in force; or which is in any way extra-hazardous or could jeopardize the coverage of normal insurance policies or increase their cost; (ii) waste or nuisance, or any activity causing noise, vibration, or odors which disturbs or disrupts other tenants within the Building; (iii) cooking or heating food, except for incidental use, solely for Tenant's employees, of microwave ovens and beverage-brewing devices, provided that the foregoing do not use a flame and are approved by Underwriters Laboratories for residential use; (iv) overloading the floors or the structural or mechanical systems of the Building; or (v) obstruct or interfere with the rights of other tenants or users of the Building or the Project. Tenant shall not erect or place any item in or upon the Common Areas, except as expressly permitted herein. Tenant shall store its waste either inside the Premises or in its own dumpsters located within outside trash enclosures. Tenant shall not store, place or maintain any garbage, trash, rubbish, other refuse or Tenant's personal property in any area of the Common Area or exterior of the Premises at any time, except as provided in Paragraph 26. Tenant at its sole expense shall be responsible to maintain and keep the designated trash enclosures free of garbage, trash, rubbish, other refuse or personal property. Tenant shall at Tenant's sole cost and expense faithfully observe and promptly comply with all local, state and federal laws, statutes, ordinances and governmental resolutions, orders, rules, regulations and requirements (including, by way of example, building codes, Title 24, and the Americans With Disabilities Act of 1990) and with the requirements of any board of fire underwriters (or other similar body now or hereafter constituted) whether now in force or which may hereafter be in force with respect to Tenant's specific use, occupancy, modification or possession of the Premises, Tenant's business conducted in the Premises or the design, equipment condition, use or occupancy of the Premises by Tenant. Subject to the provisions of Paragraph 10.2(c), Tenant shall not be responsible for compliance with any laws, codes, ordinances or other governmental directives where such compliance is not related specifically to Tenant's specific use and occupancy of the Premises. For example, if any

governmental authority should require any portion of the Project or the Premises to be structurally strengthened against earthquake, or should require the removal of Hazardous Materials from the Premises, and such measures are imposed as a general requirement applicable to all tenants rather than as a condition to Tenant's specific use or occupancy of the Premises, such work shall be performed by Landlord, and the cost thereof shall be an Operating Expense, subject to the exclusions set forth in Exhibit A. Tenant shall also comply with any covenant, condition or restriction affecting the Building or the Project. Landlord represents and warrants that, to the best of its knowledge, as of the date of this Lease, there are no CC&Rs applicable to the Project.

8. **Brokers**. Landlord and Tenant warrant that they have had no dealing with any finder, broker or agent in connection with this Lease other than the Brokers. Tenant will indemnify, defend and hold Landlord harmless from and against any and all costs, expenses or liability for commissions or other compensation or charges claimed by any finder, broker or agent other than the Brokers based on dealings with Tenant with respect to this Lease. Landlord will be responsible for all commissions and fees payable to the Brokers, and shall indemnify, defend and hold Tenant harmless from and against any and all costs, expenses or liability for commissions or other compensation or charges claimed by any finder, broker or agent based on dealings with Landlord with respect to this Lease.

9. **Tenant's Taxes**. In addition to Tenant's obligations to pay Real Property Taxes as set forth in Section 4.2, Tenant shall be liable for and shall pay, before delinquency, all taxes levied or assessed against or attributable to any of Tenant's personal property, tenant improvements, or trade fixtures in the Premises. If any such taxes or value are included in Landlord's taxes, Landlord may pay them regardless of their validity (under proper protest, if requested by Tenant), and Tenant upon demand will reimburse Landlord. Landlord agrees to cooperate with Tenant with respect to any protest requested by Tenant, at Tenant's expense. As soon as practicable, Landlord agrees to cooperate with Tenant in pursuing a reassessment of the value of the Building for purposes of reducing the amount of Real Property Taxes on the Building.

10. **Alterations, Repairs and Maintenance**.

    1. **Repairs and Maintenance**.

        a. Landlord shall, as an Operating Expense (except as excluded herein), promptly repair and maintain in first class condition and repair the exterior roof, including the roof membrane, exterior walls, skylights, foundations and structural portions of the Building and the Project and the improvements within the Common Areas, and any sidewalks, landscaping (including but not limited to irrigation systems and backflow prevention devices), Parking Areas, fences and signs located in the areas which are adjacent to the Building, and the components of the Building's systems (plumbing, electrical, and HVAC) located outside the Building. Subject to the waivers set forth in Paragraph 15 and to the provisions of Paragraph 16, and except as otherwise covered by insurance, to the extent any such maintenance and repairs are caused by the negligent act, neglect or omission of any duty by Tenant or Tenant's employees, agents, contractors or invitees, then Tenant shall pay to Landlord, as Additional Rent, the entire cost of such maintenance and repairs. Landlord shall not, however, be obligated to paint the interior surface of exterior walls, ceiling or doors, nor shall Landlord be required to maintain, repair or replace windows, doors, or plate glass. Tenant shall promptly notify Landlord in writing of any repair required to be made by Landlord within the Premises. Landlord shall have no obligation to alter, remodel, improve, repair (other than repair of structural or load-bearing walls), decorate or paint the interior walls of the Premises. Unless otherwise provided herein, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements in or to any portion of the Building, the Premises or parking areas or in or to fixtures, appurtenances and equipment therein. Tenant expressly waives the benefits of any statute (including, without limitation, the provisions of subsection 1 of Section 1932, Section 1941 and Section 1942 of the California Civil Code and any similar law, statute or ordinance now or hereafter in effect) which would otherwise afford Tenant the right to make repairs at Landlord's expense (or to deduct the cost of such repairs from rent due hereunder) or to terminate this Lease because of Landlord's failure to keep the Premises in good order, condition and repair.

        b. In all other regards, Tenant, at Tenant's sole cost and expense, shall keep, maintain and preserve the Premises in first class condition and repair and shall, promptly make all non-structural repairs and replacements to the Premises and every part thereof, including but not limited to floors, ceilings, windows and doors (with any replacements of the same quality, specifications and finish as the existing windows and doors), interior walls, and the interior surfaces of the exterior walls, plumbing, heating, air conditioning and ventilating equipment within the Premises, telecommunications equipment and intrabuilding network cabling, fire/life safety systems, interior electrical and lighting facilities and equipment including circuit breakers and exterior lighting attached to the Premises. In the event Tenant fails to perform Tenant's obligations under this Section, Landlord shall give Tenant notice to do such acts as Landlord deems are reasonably required to so maintain the Premises. If Tenant, within fifteen (15) days after notice from Landlord, fails to commence to do the work and diligently prosecute it to completion, then Landlord shall have the right (but not the obligation) to do such acts and expend such funds at the expense of Tenant as are reasonably required to perform such work. Any amount so expensed by Landlord shall be paid by Tenant promptly after demand as Additional Rent.

2. **Alterations**.

a. Tenant will not make or permit alterations, improvements or additions in or to the Premises (collectively "Alterations") without Landlord's prior, written consent, which shall not be unreasonably withheld, delayed or conditioned. Notwithstanding the foregoing, Tenant shall be allowed to make Alterations to the Premises with estimated costs not to exceed $25,000 without such consent, provided only that such Alterations do not effect the exterior or structural portions of the Premises, do not adversely effect the building systems and are made in compliance with all Laws. Additionally, Landlord hereby consents to construction of the Tenant Improvements, subject to the provisions of Exhibit C. Tenant's request for any required consent shall be in writing, accompanied by proposed plans and specifications. With respect to any proposed Alterations with a estimated cost in excess of the Security Deposit then held by Landlord, Landlord may require Tenant to provide Landlord, at Tenant's cost and expense, a payment and performance bond, in an amount equal to the estimated cost of such Alterations in excess of the Security Deposit then held by Landlord, to insure Landlord against any liability for any mechanic's and materialmen's liens and to insure completion of the work. Alterations will be performed at Tenant's cost and expense. Any and all plans must be submitted to Landlord for approval, and building permits must be obtained prior to commencement of any construction remodeling. All alterations, additions and improvements constructed by Tenant shall remain the property of Tenant during the Lease Term and may be further altered or removed during the term of this Lease, subject to the provisions herein with respect to Alterations. Subject to Paragraph 23, at the expiration or sooner termination of the Lease Term, all alterations, additions, or improvements shall be surrendered to Landlord as a part of the realty and shall then become Landlord's property. Tenant will promptly notify Landlord of the value thereof for insurance and tax purposes. Notwithstanding the foregoing, Tenant shall be entitled to remove, in addition to its furniture, trade fixtures, equipment and other personal property, the following items: operating room lighting, laboratory benches and casework. Should Tenant make any Alterations in violation of such approval or the requirements of this Paragraph 10.2, Landlord may, at any time during the Term, either remove any part or all of the same on Tenant's behalf and at Tenant's expense, or require that Tenant do so.

b. Tenant shall give Landlord written notice not less than ten (10) days prior to the commencement of any work in the Premises by or on behalf of Tenant, and Landlord shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. All Alterations, repairs and replacements by Tenant shall be made, constructed and installed in accordance with all applicable laws, rules and ordinances (and Tenant shall perform all work necessary to comply fully with all laws, ordinances and regulations necessitated by the Alterations, whether structural or non-structural, within or without the Premises) and the requirements of any insurance carrier, and shall be of a quality and class at least equal to the original work, performed in a good and workmanlike manner using grades of materials of a quality that is not less than that currently installed within the Premises. Tenant shall ensure that all work is performed in a manner that does not obstruct access to or through the Building or its common areas and that does not interfere either with other tenants' use of their premises or with any other work being undertaken in the Building. Before construction begins, Tenant shall deliver to Landlord reasonable evidence that damage to, or destruction of, the Alterations during construction will be covered either by the policies that Tenant is required to carry under Paragraph 14 or by a policy of builder's insurance in an amount reasonably acceptable to Landlord. If Landlord requires Tenant to provide builder's "all-risk" insurance for the proposed Alterations, Tenant shall provide to Landlord a copy of the policy, any endorsements, and an original certificate of insurance that complies with Paragraph 14. Tenant shall cause each contractor and subcontractor to maintain all workers' compensation insurance required by law and liability insurance (including property damage) in amounts reasonably required by Landlord. Tenant shall provide evidence of insurance to Landlord before construction begins Tenant will provide Landlord the opportunity to monitor all work. Tenant shall provide Landlord with permit drawings, job cards, as built sepia drawings (but only for work with a cost in excess of $25,000) and temporary certificates of occupancy for all Alterations promptly upon their completion. Should Tenant make any Alterations without Landlord's prior written approval as required herein, or in violation of such approval or the requirements of this Paragraph 10.2, Landlord may, at any time during the Term, either remove any part or all of the same on Tenant's behalf and at Tenant's expense, or require that Tenant do so.

c. If during the term of this Lease, any Alteration, whether structural or otherwise to all or any portion of the Premises or Building is required by Law (including, but not limited to, alterations required by the Americans with Disabilities Act of 1990 or any amendments thereto or any regulations prorogated thereunder (collectively the "ADA") solely because of (i) Tenant's unique use or occupancy of the Premises or change of use or occupancy of the Premises, (ii) Tenant's application for any permit or governmental approval, (iii) Tenant's construction or installation of any leasehold improvements, trade fixtures or Alterations, (iv) any violation by Tenant of any Law (including any requirement of the ADA), (v) any special use of the Premises or any part thereof by Tenant or any subtenant or assignee of Tenant (including, but not limited to any use for a facility which constitutes, or if open to the public would generally constitute a "place of public accommodation" under the ADA requirements), or (vi) any special needs of the employees of Tenant or any assignee or subtenant of Tenant, then Tenant shall promptly make the same at its sole cost and expense. Within ten (10) days after receipt, Tenant shall notify Landlord in writing and provide Landlord with copies of (i) any notices alleging any violation of any Law relating to

the Premises or Tenant's occupancy or use of the Premises, including any notices alleging violation of the Project or the ADA to any portion of the Project or the Premises; (ii) any claims made or threatened in writing regarding non-compliance with the ADA or any Law relating to the Project or the Premises; or (iii) any governmental or regulatory actions or investigations instituted or threatened regarding non-compliance with the ADA or any Law relating to any portion of the Project or the Premises.

11. **Liens**. Tenant shall not permit any lien on any part of the Premises, Building or the Project allegedly resulting from any work or materials furnished or obligations incurred by or for Tenant. Tenant shall discharge any such lien of record immediately upon its filing or shall provide an adequate bond to protect Landlord's interest. Neither this Lease, nor any request or consent of Landlord to the labor, materials or obligations, is a consent to such a lien. Landlord may keep posted on the Premises any notices it deems necessary for protection from such liens. In the event Tenant fails to discharge any such lien or provide an adequate bond as required herein within thirty (30) days following Landlord's written demand, then Landlord may cause such liens to be released by any means it deems proper, including payment, at Tenant's expense and without affecting Landlord's rights.

12. **Entry**. Subject to Tenant's reasonable security requirements, and upon not less than twenty-four (24) hours prior notice, Landlord may enter the Premises (or in any emergency or suspected emergency, at any time, without notice), to (a) inspect, test, maintain or make repairs, alterations and additions to the Building or the Premises as Landlord is required to perform hereunder, (b) provide any service which Landlord is now or hereafter obligated to furnish to tenants of the Building or the Project, or (c) show the Premises to prospective lenders, purchasers or tenants and, if they are vacated, to prepare them for reoccupancy. Tenant hereby waives any claim for abatement of rent or for damages for any injury, inconvenience to or interference, loss of occupancy or quiet enjoyment caused by Landlord's entry in compliance with this provision. Landlord shall at all times have keys to all doors to or in the Premises.

13. **Indemnification and Exculpation**.

    a. Tenant will indemnify, defend and hold and save Landlord and its officers, directors, shareholders, partners and agents (each an "Indemnitee") harmless from all fines, suits, losses, costs, expenses, liabilities, claims, demands, actions, damages and judgments ("Liabilities") suffered by or recovered from the Indemnitee, of every kind and character, resulting from (i) the operation, condition, maintenance, use or occupancy of the Premises, (ii) any bodily injury, death or property damage occurring in or about the Premises, (iii) Tenant's or Tenant's agent's negligence or willful misconduct, or (iv) any breach or default in the performance in a timely manner of any obligation on Tenant's part to be performed under this Lease. Tenant, as a material part of the consideration to Landlord, hereby assumes all risk of damage to property or injury to persons, in, upon or about the Premises arising from any cause, and Tenant hereby waives all claims in respect thereof against Landlord; provided, however, that Tenant does not assume the risk of and does not waive any claims for Liabilities resulting from Landlord's negligence or willful misconduct, or from any breach or default by Landlord in its obligations under this Lease.

    b. If any proceeding is brought wherein Tenant is required to indemnify and defend an Indemniteee, Tenant shall retain counsel reasonably satisfactory to the indemnified party to defend the indemnified party at the indemnifying party's sole cost and expense. All such costs and expenses, including attorneys' fees and court costs, shall be a demand obligation owing by the indemnifying party to the indemnified party. The indemnifying party's obligations under this Paragraph 13 shall survive the termination or expiration of this Lease.

    c. Landlord shall indemnify, defend and hold and save Tenant and its, officers, directors, shareholders, partners and agents (each a "Tenant Indemnitee") harmless from all fines, suits, losses, costs, expenses, liabilities, claims, demands, actions, damages and judgments, suffered by or recovered from the Tenant Indemnitees, or every kind and character, resulting from (i) Landlord's breach or default in the performance in a timely manner of any of Landlord's obligations hereunder, and (ii) Landlord's or Landlord's agent's negligence or willful misconduct.

14. **Insurance**. Tenant, during the term and any other period of occupancy, will, at its expense, maintain the following insurance coverage:

    a. Commercial General Liability insurance with a general aggregate limit of not less than $2,000,000.00, and an each occurrence limit of $1,000,000.00, for personal injury or death and property damage occurring in or about or related to the use of the Premises or Tenant's (or its agents, employees or representatives) use of the Building, Common Areas and Project and Tenant's indemnification obligations under Paragraph 13 above.

    b. "All Risk" insurance for the full replacement cost of all Tenant's property on the Premises and all fixtures and leasehold improvements in the Premises. Unless this Lease is terminated upon damage or destruction, the proceeds of such insurance will be used to restore the foregoing.

    c. Workers' Compensation (as required by state law), and Employer's Liability insurance in the amount of not less than $500,000.00.

d. Business Interruption insurance to protect against any interruption or disturbance to Tenant's business conducted in the Premises for at least three (3) months.

All policies required hereunder will be issued by carriers rated A-VII or better by Best's Key Rating Guide and licensed to do business in the State of California. The policies shall name Landlord, Landlord's partners and managing agent and any other person or entity that Landlord may designate from time to time as additional insureds, with primary coverage non-contributing to and not in excess of any insurance Landlord may carry, and shall provide that coverage cannot be cancelled except upon thirty (30) days prior written notice to Landlord. At least thirty (30) days prior to expiration of such policies, and promptly upon any other request by Landlord, Tenant shall furnish Landlord with copies of policies, or evidence of insurance, evidencing maintenance and renewal of the required coverage. In the event Tenant does not maintain said insurance, Landlord may, in its sole discretion and without waiving any other remedies hereunder, procure said insurance and Tenant shall pay to Landlord as Additional Rent the cost of said insurance plus a five percent (5%) administrative fee. If Landlord's lender, insurance advisor or counsel reasonably determines at any time that the amount of such coverage is not adequate and such determination is reasonably confirmed by Tenant's third-party insurance advisor, then Tenant shall increase such coverage to such amount as Landlord's lender, insurance advisor or counsel reasonably deems adequate. The limit of such insurance shall not limit the liability of Tenant.

During the Term, Landlord shall insure the Building (excluding any property which Tenant is obligated to insure) against damage with "All-Risk" insurance (including earthquake as commercially reasonable) and commercial general liability insurance with combined single limits not less than $2,000,000 and with such deductibles as Landlord considers reasonably appropriate. Landlord may, but shall not be obligated to, obtain and carry any other form or forms of insurance as it or its Mortgagees may determine advisable.

If the acts or omissions of Tenant or Tenant's employees, agents, contractors or invitees, whether or not Landlord has consented to the same, increase the cost of Landlord's insurance, Tenant will pay the full cost of any such increase as additional rent.

15. **No Subrogation**. The parties shall use their best commercial efforts to obtain property insurance policies affecting the Premises which include a clause or endorsement denying the insurer any rights of subrogation against the other party. Landlord and Tenant waive any rights or recovery against the other for any actually insured injury or loss and any injury or loss required to be insured against hereunder.

16. **Damage or Destruction**. If the Premises or any part thereof are damaged by fire or other casualty, Tenant will promptly notify Landlord.

    1. **Cancellation of Lease; Restoration of Building**. If the Building or the Premises are damaged by fire or other casualty to the extent that substantial alteration or reconstruction with an estimated cost in excess of thirty-five percent (35%) of the replacement cost of the Building, Landlord may terminate this Lease by notifying Tenant within sixty (60) days after the later of the date the damage occurs, or the date Landlord is so notified by any holder ("Mortgagee") of a mortgage or deed of trust (blanket or otherwise) covering any part of the Building ("Mortgage"). In the event Landlord elects to terminate this Lease, Tenant shall have the right within ten (10) days of receipt of the required notice to notify Landlord of Tenant's election to continue the Lease in full force and effect, and Tenant, at its expense (to the extent not covered by available insurance proceeds), shall proceed to make such repairs as soon as reasonably possible or Landlord may elect, in its sole discretion, to require Tenant to furnish evidence, within ten (10) days following Landlord's demand, reasonably satisfactory to Landlord of Tenant's ability to fund that portion of the cost of such repair or restoration which is not covered by insurance proceeds received, in which event Landlord shall proceed to make such repairs. If Tenant does not give such notice or provide such evidence within the ten (10) day period, this Lease shall be cancelled and terminated as of the date of the occurrence of such damage. All insurance proceeds available from the fire and property damage insurance carried by Landlord pursuant to Paragraph 14 shall be paid to and become the property of Landlord in the event the Lease is terminated. If this Lease is not terminated, then within seventy-five (75) days after the fire or other casualty, Landlord will commence to repair and restore the Premises and any portion of the Building required for access to the Premises, and will diligently complete the same, but Landlord is not required (a) to expend more for such repair of the Premises than the net insurance proceeds (after any payment required under any Mortgage) reasonably allocable to the Premises, or (b) to rebuild, repair or replace any of Tenant's furniture, furnishings, fixtures or equipment removable by Tenant under the provisions of this Lease or which Tenant has insured or is required to insure under the provisions of this Lease. Within sixty (60) days following such substantial damage to the Building or Premises, Landlord shall notify Tenant whether or not such repair or restoration can reasonably be completed within one hundred eighty (180) days following such damage, and if Landlord notifies Tenant that it cannot be completed within such one hundred eighty (180) days, Tenant shall have thirty (30) days within which to provide written notice of termination of the Lease. If neither party terminates the Lease, pursuant to this Section 16.1 as a result of substantial casualty, Landlord will expeditiously obtain any necessary permits and approvals for repair or restoration and will promptly commence and diligently proceed with repair or restoration, and complete it as expeditiously as reasonably possible. In the event that Landlord fails to repair and restore the Premises within one hundred eighty (180) days following the date such damage is incurred, the Tenant may terminate the Lease by delivering written notice to Landlord within thirty (30) days following the expiration of said 180-day period.

    2. **Abatement of Rent**. Following any damage or destruction to the Premises, rent shall be abated while and to the extent the Premises are unfit for occupancy due to such damage or destruction. Except as expressly provided to the contrary

in this Lease, this Lease will not terminate, and Tenant will not be entitled to damages or to any abatement of rent or other charges, as a result of a fire or other casualty, repair or restoration Tenant hereby waives the provisions of California Civil Code Sections 1932(2) and 1933(4) which permit termination of a lease upon destruction of Premises, and any other present or future statute that may so permit.

17. **Condemnation**. If all or substantially all of the Building or of the Premises is taken for any public or quasi-public use under any governmental law, ordinance or regulation or by right of eminent domain or is sold to the condemning authority in lieu of condemnation, then this Lease will terminate when physical possession is taken by the condemning authority. If a lesser but material portion of the Premises is thus taken or sold (, either party may terminate this Lease by notice to the other within sixty (60) days after the taking or sale, in which event this Lease will terminate when physical possession of the applicable portion of the Building or the Premises is taken by the condemning authority. If the Lease is not terminated, rent payable will be reduced by the amount allocable to any portion of the Premises so taken or sold, and Landlord, at its sole expense, will restore the affected portion of the Building to substantially its former condition as far as commercially feasible, but not beyond the work done by Landlord in originally constructing the affected portion of the Building and installing tenant improvements in the Premises. Landlord shall be entitled to receive all of the compensation awarded upon a taking of any part or all of the Building or Premises, including any award for any unexpired term of this Lease. Tenant may seek an award in separate proceedings for its personal property, trade fixtures and moving expenses.

    In the event of such taking or sale of the Premises or any part thereof for temporary use of not more than six (6) months, this Lease shall remain unaffected and rent shall not abate, and Tenant shall be entitled to such portion or portions of any award made for such use with respect to the period of the taking which is within the Term, *provided that*, if such taking shall remain in force at the expiration or earlier termination of this Lease, Tenant shall then pay to Landlord a sum equal to the reasonable cost of performing Tenant's obligations with respect to surrender of the Premises.

    To the extent that it is inconsistent with the provisions of this Paragraph 17, each party hereto hereby waives the provisions of Section 1265.130 of the California Code of Civil Procedure allowing either party to petition a court to terminate this Lease in the event of a partial taking of the Premises.

18. **Defaults and Remedies**.

    1. **Events of Default**. The occurrence of one or more of the following events shall constitute an "Event of Default" and breach hereunder by Tenant:

        1. Tenant fails to make a payment within three (3) days after written notice of delinquency hereunder provided, however, that no Event of Default shall accrue under this subparagraph 18.1.1 until the tenth (10th) day following the date the payment was due hereunder; or

        2. Tenant fails to comply with any other obligation under this Lease and does not cure such failure within thirty (30) days after written notice; except that any failure to perform under Paragraph 20 or 21 of this Lease within the time period provided therein shall be deemed an Event of Default hereunder without further notice or cure period; or

        3. Tenant attempts any Assignment (as defined in Paragraph 19) prohibited by Paragraph 19; or

        4. Tenant or any Guarantor becomes insolvent, makes a transfer in fraud of creditors or an assignment for the benefit of creditors, admits in writing its inability to pay its debts as they become due, or files a petition under any Section or Chapter of the United States Bankruptcy Code or any similar law or statute; or an order for relief is entered with respect to Tenant or any Guarantor in any bankruptcy, reorganization or insolvency proceedings; or a pleading seeking such an order is not discharged or denied within sixty (60) days after its filing; or the taking of any action at the corporate or partnership level by Tenant to authorize any of the foregoing actions on behalf of Tenant; or a receiver or trustee is appointed for all or substantially all assets of Tenant or any guarantor or of the Premises or any of Tenant's property located thereon in any proceedings brought by Tenant or Guarantor, or any receiver or trustee is appointed in any proceeding brought against Tenant or Guarantor and not discharged within sixty (60) days after appointment or Tenant or Guarantor does not contest such appointment; or any part of Tenant's estate under this Lease is taken by process of law in any action against Tenant (but in the event that any provision of this Paragraph 18.1.4 is contrary to any applicable law, such provision shall be of no force or effect); or

        5. Tenant abandons the Premises; or

        6. Three (3) times within a year, Tenant fails to fulfill a material obligation under this Lease following notice by Landlord, even though Tenant may thereafter cure such failure within the time provided.

    Any notice specified above shall serve as, and not be in addition to, any notice required under California Code of Civil Procedure Section 1161 or otherwise regarding unlawful detainer actions.

    2. **Remedies**. On an Event of Default, Landlord may terminate this Lease by notice to Tenant, or continue this Lease in full force and effect, and/or perform Tenant's obligations on Tenant's behalf and at Tenant's expense.

1. If and when this Lease is so terminated, all rights of Tenant and those claiming under it will terminate. In such event, Landlord may immediately recover from Tenant:

    a. The worth at the time of award of any unpaid rent which had been earned at the time of such termination; plus

    b. The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

    c. The worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

    d. Any other amount reasonably necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease or which in the ordinary course of things would be likely to result therefrom.

    As used in Subsections (a) and (b) above, the "worth at the time of award" is computed by allowing interest at the Prime Rate, plus four percent (4%) per annum (or at the maximum rate permitted by law, whichever is less). As used in Subsection (c) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). Until Tenant confirms in writing that this Lease is terminated, Landlord's failure to relet the Premises shall not constitute a failure to mitigate damages.

2. Landlord shall have the remedy described in California Civil Code Section 1951.4 (Landlord may continue this Lease in effect after Tenant's breach, even if Tenant has abandoned the Premises, and enforce all of Landlord's rights and remedies under this Lease, including the right to recover rent as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations).

3. Upon an Event of Default or when Tenant is no longer entitled to possession, Landlord may enter the Premises and dispose of Tenant's property as herein provided, and may perform Tenant's obligations hereunder on Tenant's behalf. Tenant will reimburse Landlord on demand for Landlord's attorneys' fees and other expenses in doing so. This Paragraph 18.2.3 shall survive expiration or termination of this Lease.

3. **Continuing Liability**. No repossession, re-entering or reletting of the Premises or any part thereof by Landlord shall relieve Tenant or any Guarantor of its liabilities and obligations under this Lease except as provided by law.

4. **Remedies Cumulative**. All rights and remedies of Landlord under this Lease will be non-exclusive of and in addition to any other remedies available to Landlord at law or in equity.

5. **No Waiver**. Either party's failure to insist on strict compliance with any terms hereof or to exercise any right or remedy does not waive the same. Waiver of any agreement regarding any breach does not affect any subsequent or other breach, unless so stated. A receipt by Landlord of any rent with knowledge of the breach of any covenant or agreement contained in this Lease shall not be a waiver of the breach, and no waiver by Landlord of any violation or provision of this Lease shall be effective unless expressed in writing and signed by Landlord. Payment by Tenant or receipt by Landlord of a lesser amount than due under this Lease may be applied to such of Tenant's obligations as Landlord elects. No endorsement or statement on any check, and no accompanying letter, shall make the same an accord and satisfaction, and Landlord may accept any check or payment without prejudice to Landlord's right to recover the balance of the rent or pursue any other remedy provided in this Lease.

19. **Encumbrances, Assignment and Subletting**. Except upon Landlord's written consent, which shall not be unreasonably withheld, delayed, or conditioned or as otherwise permitted herein, Tenant may not assign, transfer, or encumber this Lease or any estate or interest herein, or permit the same to occur, or sublet or grant any right of occupancy for any part of the Premises, or permit such occupancy by any other parties other than Tenant and Tenant's employees or modify any agreement providing for any of the foregoing (the foregoing collectively referred to as "Transfer," and the other party thereto the "Transferee"). Any prohibited Transfer is voidable by Landlord.

    1. **Conditions of Transfer**. Landlord's consent to a Transfer may, without limitation, be conditioned on Landlord's determination that the Transferee's financial condition shall be sufficient to allow such Transferee to comply with the obligations of Tenant hereunder. Consent by Landlord to any Transfer shall not be a waiver of Landlord's rights as to any subsequent Transfers. Any approved Transfer shall be expressly subject to the terms and conditions of this Lease. If Tenant's obligations under this Lease have been guaranteed by third parties (herein called "Guarantors"), then Landlord's consent to the Transfer may be conditioned upon Landlord's receipt of the written consent of each Guarantor to such Transfer and the terms thereof. In the event of any Transfer, each transferor and all Guarantors will remain fully responsible and liable for all of Tenant's obligations under this Lease, and the Transferee will automatically be jointly and severally liable to the extent of the transferred portion of the Premises. Upon an Event of Default, as herein defined, while a Transfer is in effect, Landlord may collect directly from the Transferee all sums becoming due to Tenant under the Transfer and apply this amount against any sums due Landlord by Tenant, and Tenant authorizes and directs any Transferee to make payments directly to Landlord upon notice from Landlord. No

direct collection by Landlord from any Transferee shall constitute a novation or release of Tenant or any Guarantor, a consent to the Transfer or a waiver of the covenant prohibiting Transfers. Landlord, as Tenant's agent, may endorse any check, draft or other instrument payable to Tenant for sums due under a Transfer, and apply the proceeds in accordance with this Lease; this agency is coupled with an interest and is irrevocable.

2. **Request to Assign or Sublet; Cancellation**. With any request for consent to a Transfer, Tenant will submit a copy of the proposed Transfer document to Landlord and notify Landlord of the proposed effective date of the Transfer, the name of the proposed Transferee (accompanied by evidence of the nature, and financial condition of the Transferee and its business), and all terms and conditions (including rental) of or relating to the Transfer. Notwithstanding anything to the contrary in this Paragraph 19, within fifteen (15) days of a request for Landlord's consent to any Transfer involving (a) an assignment of the Lease or (b) a sublease for all or substantially all the Premises for all or substantially all the then remaining Term of the Lease, or any time, if Tenant enters into any Transfer without obtaining the consent of Landlord, Landlord, by notice to Tenant, may terminate this Lease as of the proposed effective date of the Transfer as if that were the original Termination Date (or immediately, if Tenant enters into the Transfer without obtaining the consent of Landlord). If Landlord so elects to terminate, Landlord shall have the right to relet the Premises or any portion thereof to anyone (including the proposed Transferee) on any terms, and Tenant shall not be entitled to any portion of any profit Landlord may realize as a result of any such reletting.

3. **Excess Rent**. If the consideration Tenant receives for any Transfer exceeds the rent (Base Rent, Operating Expenses and Additional Rent) payable under this Lease for the same period and portion of the Premises, after deducting from such consideration any broker's commissions, legal fees and advertising costs actually paid by Tenant in connection with the Transfer, all amortized over the term of the sublease if applicable, then 50% of the excess shall be immediately due and payable by Tenant to Landlord as Additional Rent under this Lease. Further Tenant may deduct from such excess consideration the monthly amortization of the Cost of Improvements paid by Tenant with respect to the Premises (or portion of the Premises) which is subject to the Transfer. As used herein, the term "consideration" for the transfer shall not include any payment received by Tenant from a subtenant or transferee for services or costs not included in Base Rent hereunder (for example, utility costs, janitorial services, insurance or maintenance costs, property taxes and the like).

4. **Transfers to Related or Successor Entities**. "Transfer" within the meaning of this Paragraph 19 shall not include any sublease or assignment of all or a portion of the Premises to any person, corporation or partnership which controls, is controlled by or is under common control with Tenant, if such affiliated entity assumes Tenant's obligations hereunder. For purposes of this Paragraph 19.4, "control" shall mean ownership of at least 50% of all classes of stock of a corporation, all memberships in a limited liability company or all classes of partners in a partnership. Additionally, "Transfer" shall not include any transfer of the Lease in connection with the merger, consolidation or acquisition of Tenant with or by another entity or any transfer of this Lease in connection with the acquisition of all or substantially all of the assets of Tenant. Notwithstanding the above, no transfer shall be excluded from the definition of Transfer hereunder if it is a "sham" transaction which has the effect of avoiding Tenant's liability hereunder. Tenant shall notify Landlord of any transfer to a related or successor entity prior to or immediately following its consummation. Any transactions excluded from the meaning of "Transfer" pursuant to this Paragraph 19.4 shall be referred to as an "Excluded Transfer."

20. **Subordination**. This Lease and all rights of Tenant under this Lease are subordinate to any of the following, and any modifications thereof, which may now or hereafter affect any portion of the Building: any Mortgage, or any ground or underlying lease covering any part of the Building. On sale by foreclosure of a Mortgage or sale in lieu of foreclosure, Tenant will attorn to the purchaser if requested by such purchaser, and recognize the purchaser as the Landlord under this Lease, provided that such purchaser recognizes this Lease. These provisions are self- operative and no further instrument is required to effect them; however, upon demand from time to time, Tenant shall execute, acknowledge and deliver to Landlord any instruments necessary or proper to evidence such subordination and/or attornment or, if Landlord so elects, to render any of the foregoing subordinate to this Lease or to any or all rights of Tenant hereunder. Tenant further waives the provisions of any current or future statute, rule or law which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect this Lease and the obligations of Tenant hereunder in the event of any such foreclosure proceeding or sale, and agrees that this Lease shall not be affected in any way whatsoever by any such proceeding or sale unless the Mortgagee, or the purchaser, shall declare otherwise. Notwithstanding the foregoing, Tenant shall not be required to subordinate its interest under this Lease unless (a) such subordination does not materially increase Tenant's obligations, or materially decrease its rights under this Lease, and (b) Landlord first obtains from the holder of the mortgage, deed of trust, or other instrument of security to which this Lease is to become subordinated a written agreement that provides substantially that as long as Tenant performs its obligations under this Lease, no foreclosure of, deed given in lieu of foreclosure of, or sale under the encumbrance, and no steps or procedures taken under the encumbrance, shall affect Tenant's rights hereunder.

21. **Estoppel Certificate**. Upon Landlord's written request from time to time, Tenant will execute and deliver to Landlord, within twenty (20) days after Tenant's receipt of Landlord's written request, certificates, an example of which is attached hereto as Exhibit E, certifying: (i) the date of commencement of this Lease; (ii) the fact that this Lease is unmodified (except as the certificate specifies) and in full force and effect; (iii) the date to which the sums payable under this Lease have been paid; (iv) that there are no current defaults under this Lease by either Landlord or Tenant except as specified; and (v) such other matters as Landlord reasonably requests. This certification may be relied upon by any actual or prospective Mortgagee or purchaser of all or part of the Building or any interest therein or in Landlord. Failure to so execute and deliver said certificate will be conclusive upon Tenant (i) that this Lease is in full force and effect, without modification except as may be

represented by Landlord, (ii) that there are no uncured defaults in Landlord's performance, and (iii) that no more than one (1) month's rental has been paid in advance.

22. **Signs**. Tenant shall be permitted to post a sign of standard size and materials on the existing sign monument outside the Project commensurate with its share of the Project and to maintain a sign on or immediately adjacent to its entrance, at Tenant's sole cost and expense, subject to compliance with any applicable law, ordinance, regulation, or restriction, and subject to Landlord's prior, written consent as to size, design and content, which shall not be unreasonably withheld. Tenant shall not place, maintain, or permit on any exterior door, wall, or window of the Premises, or the Building, any other sign, awning, canopy, marquee, or other advertising without the prior written consent of Landlord in Landlord's sole reasonable discretion. If Landlord consents to any sign, awning, canopy, marquee, decoration, or advertising matter, Tenant shall maintain it in good appearance and repair at all times during this Lease. If at the end of the Term, any of the items mentioned in this Section are not removed from the Premises by Tenant, that item may, without damage or liability, be removed and disposed of by Landlord at Tenant's expense.

23. **Surrender of Premises**. As soon as its right to possession ends, Tenant will surrender the Premises to Landlord in as good repair and condition as on the Rent Commencement Date, except for reasonable wear and tear, and for damage or destruction by fire or other casualty for which Tenant is not otherwise responsible. Notwithstanding anything to the contrary herein, (a) Tenant shall not be required to remove (i) any of the initial Tenant Improvements constructed by or on behalf of Tenant, and (ii) any alterations or additions for which Tenant has obtained Landlord's consent unless Landlord has indicated, at the time of granting such consent, that such removal will be required. Tenant will concurrently deliver to Landlord all keys to the Premises, and restore any locks which it has changed to the system which existed at the commencement of the Term.

    1. **Leasehold Improvements and Fixtures**. Except as otherwise set forth herein, at the expiration or termination of the Term, Landlord may require the removal of any or all personal property and equipment from the Premises, and the restoration of the Premises to its condition as when Tenant first occupied, except for reasonable wear and tear, at Tenant's expense. All personal property and equipment on or about the Premises, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises or the Building, shall be removed from the Premises by Tenant (if it is not in default) at the expiration or termination of the Term. All removals by Tenant will be accomplished in a good and workmanlike manner so as not to damage any portion of the Premises or Building, and Tenant will promptly repair and restore all damage done. If Tenant does not so remove any property which it has the right or duty to remove, Landlord may immediately either claim it as abandoned property, or remove, store and dispose of it in any manner Landlord may choose, at Tenant's cost and without liability to Tenant or any other party.

    2. **Holding Over**. If Tenant does not surrender the Premises as required and holds over after its right to possession ends, Tenant shall become a tenant at sufferance only, at a monthly rental rate equal to one hundred fifty percent (150%) of the total rent payable in the last prior full month, or the then existing fair market rental, whichever is greater, without renewal, extension or expansion rights, and otherwise subject to the terms, covenants and conditions herein specified, so far as applicable. Nothing other than a fully executed written agreement of the parties creates any other relationship. Tenant is liable for Landlord's loss, costs and damage from such holding over, including, without limitation, those from Landlord's delay in delivering possession to other parties. These provisions are in addition to other rights of Landlord hereunder and as provided by law.

24. **Professional Fees**. In any dispute between the parties (whether or not litigated) arising hereunder or out of Tenant's use or occupancy of the Premises, the prevailing party's reasonable costs and expenses (including fees of attorneys and experts) will be paid or reimbursed by the unsuccessful party.

25. **General Provisions**.

    1. **Mortgagee Protection**. Tenant shall not sue Landlord for damages or exercise any right to terminate until (a) it gives written notice to any Mortgagee whose name and address have been furnished to Tenant, and (b) a reasonable time for remedying the act or omission giving rise to such suit has elapsed following the giving of the notice, without the same being remedied. During that time, Landlord shall not be considered in default, and Landlord and/or any Mortgagee and/or their employees, agents or contractors may enter the Premises and do therein whatever may be necessary to remedy the act or omission.

    2. **Transfer of Landlord's Interest**. Landlord may transfer, assign or convey any or all of its interest in the Building or its rights under this Lease. Upon transfer of its rights under this Lease, Landlord is freed and relieved of all then future obligations under this Lease, the transferee shall be deemed to have assumed those obligations, and Tenant will look solely to the successor to Landlord. This Lease shall inure to the benefit of and bind all parties hereto and their respective successors and assigns.

    3. **Waiver**. Tenant waives any right it may now or hereafter have (i) to redeem the Premises or to have a continuance of this Lease after termination of the Lease, Tenant's right of occupancy or the Term (ii) for exemption of property from liability for debt or for distress for rent, (iii) relating to notice or delay in levy of execution in case of eviction for nonpayment of rent. The parties agree that in any litigation under this Lease or the relationship it creates, the judge, rather than the jury, shall determine any matters of fact relating to Transfers, bankruptcy or similar matters or to the structural or mechanical systems of the Building.

4. **Identification of Tenant**. If there is more than one party constituting Tenant or any Guarantor, their obligations are joint and several, and Landlord may proceed against any one or more of them before proceeding against the others, nor shall any party constituting Tenant or Guarantor be released for any reason whatsoever, including, without limitation, any amendment of this Lease, any forbearance by Landlord or waiver of any of Landlord's rights, the failure to give any party constituting Tenant or Guarantor any notices, or the release of any party liable for the payment of Tenant's obligations. If there is more than one party constituting Tenant, any of them acts for all others in every regard with respect to this Lease (including but not limited to any renewal, extension, expiration, termination or modification).

5. **Interpretation of Lease**. Tenant acquires no rights by implication from this Lease, and is not a beneficiary of any past, current or future agreements between Landlord and third parties. Surrender or cancellation of this Lease shall not work a merger, and shall, at Landlord's option, assign to it all subleases or subtenancies. The delivery of keys to Landlord or Landlord's managing agent is not a termination of this Lease or a surrender of the Premises. Headings in this Lease are for convenience only, and do not affect the meaning of the text. Unless context indicates otherwise, words of any gender or grammatical number include all genders and numbers. Where context conflicts with the definition of any term, context will control, but only for that use and related uses. If any provision of this Lease or any application thereof is invalid, void or illegal, no other provision or application shall be affected. Time is of the essence of every provision of this Lease. California law governs this Lease. Neither party may record this Lease or a copy or memorandum thereof. Submission of this Lease to Tenant is not an offer, and Tenant will have no rights hereunder until each party executes a counterpart and delivers it to the other party.

6. **Limitation on Liability**. The parties' rights hereunder are solely for the benefit of such party, and neither party has a duty to exercise them for the benefit of the other party or others. Any liability of Landlord to Tenant under this Lease, or arising from the relationship under it, is limited to fifty percent (50%) of the value of the Building but in no event in an amount less than $5,000,000, and Landlord and Landlord's employees, officers, directors, shareholders, partners and agents shall not be personally liable for any deficiency; but this does not limit or deny any remedies which do not involve personal liability. Neither party shall name the other party's employees, officers, directors, shareholders, partners and agents as a defendant in any action seeking to impose personal liability on any one or more of them. If Tenant proposes any action which requires Landlord's consent and such consent is impermissibly withheld, denied or delayed, Tenant may seek an injunction or specific performance, in addition to any other remedies to which it may be entitled under applicable law

7. **Financial Statements**. Tenant represents, warrants and covenants that financial statements heretofore or hereafter furnished to Landlord, in connection with this Lease, are accurate and are not materially misleading. At any time during the Term, Tenant shall, upon ten (10) days prior written notice, provide Landlord with a current financial statement and financial statements of the two (2) years prior to the current financial statement year, and prepared in accordance with generally accepted accounting principles and, if such is Tenant's normal practice, audited by an independent certified public accountant.

8. **Quiet Enjoyment**. If Tenant pays all sums and performs all its other obligations under this Lease, Tenant shall and may peaceably and quietly have, hold and enjoy the Premises, subject to this Lease.

9. **Payments and Notices**. Any notice or document shall be considered received when personally delivered or when delivered by mail, messenger or overnight courier, addressed to the parties hereto at the respective addresses set forth on the signature page of this Lease, or to Tenant at the Premises, or at such other address as they may specify from time to time by written notice delivered in accordance with this Paragraph 25.9, except that if such day is not a business day, the notice or document will be considered delivered on the next business day. If any delivery is refused or cannot be delivered at the last known address of the party being given notice, such notice shall be deemed delivered one (1) business day following dispatch by overnight courier or three (3) business days after dispatch by mail as provided herein. All payments required to be made by Tenant to Landlord are to be paid, without prior demand except as may be specified and without any setoff, deduction or counterclaim whatsoever, in legal tender of the United States of America at the address set forth on the invoice or, if no invoice is submitted or no address is set forth, at the address for the Landlord set forth on this Lease or at any other address as Landlord may specify from time to time by written notice in accordance with this Paragraph 25.9.

10. **Late Payments**. If any amounts due hereunder from Tenant are not received by Landlord within seven (7) business days after said amounts are due, Tenant shall also pay to Landlord a late charge of five percent (5%) of all such past due amounts for which the parties agree is a fair and reasonable estimate of the extra costs (including, without limitation, processing and accounting charges) Landlord will incur by reason of the late payment. Notwithstanding the above, Landlord agrees to waive the late charge one time within any twelve (12) month period if Tenant pays in full all amounts due within five (5) days after written notice of delinquency from Landlord. Landlord shall provide Tenant with notice of the imposition of any late charge within thirty (30) days following the date it accrues hereunder. Acceptance of any late charge shall not constitute a waiver of Tenant's default with respect to any amount otherwise overdue hereunder, nor prevent Landlord from exercising any of its other rights and remedies. Any amounts overdue from Tenant hereunder shall accrue interest from the date due at the Prime Rate per annum, provided however, that no interest shall accrue until after ten (10) days following the due date of such amounts.

11. **Rules and Regulations**. Tenant shall comply with the Rules and Regulations (as changed from time to time as therein provided) attached hereto as Exhibit F. In the event of any conflict between the terms of the Rules and Regulations and

the provisions of the text of this Lease, the provisions of this Lease shall control and prevail.

12. **Rights Reserved by Landlord**. In addition to other rights retained or reserved, Landlord reserves the following rights, exercisable without notice and without liability to Tenant and without effecting an eviction, constructive or actual, or in any way diminishing Tenant's obligations: (a) to change the name or street address of the Building or Project; (b) to install and maintain, modify or remove any signs on the exterior of the Building or Project; (c) to keep, and to use in appropriate instances, keys to all doors within and into the Premises (no locks shall be changed or added without the prior, written consent of Landlord); (d) to close any part of the Common Areas to the extent necessary in Landlord's opinion to prevent the accrual of any prescriptive rights, to temporarily close any part of the Common Areas to repair and maintain them or for any other reasonable purpose, or to change the nature of the Common Areas, including without limitation changes in the location, size, shape, and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, and walkways; and (e) to take all reasonable measures Landlord considers advisable for the security of the Project and its occupants. Notwithstanding the foregoing, Landlord shall not be entitled to take any action pursuant to such rights, if such action will materially interfere with Tenant's use and enjoyment of the Premises pursuant hereto.

13. **Responsibility for Others**. Where either party waives rights against the other party, it also waives the same rights against the other party's employees, officers, directors, shareholders, partners, agents, contractors and invitees. The waiver shall be considered a waiver on behalf of the party making it, of all that party's employees, officers, directors, shareholders, partners and agents, and of anyone claiming under any of them, including insurers and creditors. Wherever in this Lease Tenant agrees not to do a particular thing, Tenant also agrees not to permit its employees, agents, contractors or invitees to do so.

14. **Landlord's Costs**. Where Tenant is required to pay or reimburse Landlord for the costs of any item, the cost shall be the reasonable and customary charge established by Landlord from time to time. Failure to pay any reimbursable cost shall be treated as a failure to pay rent. In connection with any request by Tenant for the consent of Landlord to an Alteration, Transfer or other act proposed by Tenant under this Lease, Tenant shall pay Landlord's reasonable, third party costs and expenses incurred in connection therewith, including attorneys', architects', engineers' and other consultants' fees.

15. **Invoices**. Tenant will promptly notify Landlord of any dispute it may have regarding Landlord's invoices.

16. **Force Majeure**. When a period of time is herein prescribed for action to be taken by either party, such party shall not be liable or responsible for, and there is excluded from the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations or restrictions or any other cause of any kind whatsoever which are beyond the control of such party. Subject to the preceding sentence, time is of the essence of every part of this Lease.

17. **Lender Modification**. Tenant agrees to make such reasonable, minor modifications to this Lease as may reasonably be required in connection with the obtaining of normal financing or refinancing of the Building, provided no such modification increases the rent or materially impairs or adversely affects the economic benefits to the Tenant under this Lease or impairs Tenant's use or enjoyment of the Premises or increases Tenant's obligations hereunder.

18. **Negotiated Transaction**. The parties mutually acknowledge that this Lease has been negotiated at arm's length. The provisions of this Lease shall be deemed to have been drafted by all of the parties and this Lease shall not be interpreted or constructed against any party solely by virtue of the fact that such party or its counsel was responsible for its preparation.

THIS LEASE CONTAINS ALL AGREEMENTS OF THE PARTIES CONCERNING THIS SUBJECT MATTER, SUPERSEDING ANY SUCH PRIOR AGREEMENTS, REPRESENTATIONS OR WARRANTIES, AND MAY BE AMENDED OR MODIFIED ONLY BY A WRITTEN AGREEMENT SIGNED BY BOTH PARTIES.

In Witness Whereof, the parties hereto have executed this Lease as of the date first above written.

Landlord's Address:

c/o RNM Properties

135 Main Street, Suite 1140

San Francisco, CA 94105

Attention: Roy Bukstein

Landlord and the person executing this Lease on Landlord's behalf represent and warrant that they are duly authorized and empowered so to execute and deliver this Lease.

Landlord:

RNM Technology Drive, L.P., a California Limited Partnership

By: **RNM Technology, Inc.**, a California corporation, its Managing General Partner

By: /s/ ROY BUKSTEIN

Its: CFO

Date: 07/16/01

Tenant's Address:

950 Kifer Road

Sunnyvale, CA 94086

Attention: Benjamin Gong

Tenant and the person executing this Lease on Tenant's behalf represent and warrant that they are duly authorized and empowered so to execute and deliver this Lease.

Tenant:

Intuitive Surgical, Inc.,
a Delaware corporation

By: /s/ BENJAMIN GONG

(signature)

Benjamin Gong

Its: Vice President, Treasurer and Corporate Controller

Date: 07/16/01

ADDENDUM

TO LEASE

This Addendum is made and entered into by and between RNM Technology Drive, L.P., a California limited partnership, as Landlord, and Intuitive Surgical, Inc., a Delaware corporation, as Tenant, and is dated as of the date set forth on the first page of the Lease between Landlord and Tenant to which this Addendum is attached (the "***Lease***"). The promises, covenants, agreements and declarations made and set forth herein are intended to and shall have the same force and effect as if set forth at length in the body of the Lease. To the extent that the provisions of this Addendum are inconsistent with the terms and conditions of the Lease, the terms of this Addendum shall control.

26. **Parking**. Tenant shall be entitled to the non-exclusive use of up to three and one-half unreserved and unassigned parking spaces per one thousand square feet of Rentable Area within the Premises in accordance with Landlord's rules and regulations as may be amended from time to time. Tenant shall not park any vehicle other than ordinary passenger vehicles in the Common Areas, except for loading purposes. Tenant shall be allowed reasonable storage in the form of trailers in the parking area; provided such trailers are stored in a non- conspicuous area in the back or sides of the Building, and for so long as there are any other tenants in the Building, Tenant stores no more than four (4) trailers in the Common Areas at any one time. Tenant shall not at any time park or permit the parking of Tenant's vehicles or trucks, or the vehicles or trucks of Tenant, its employees, invitees, suppliers or others, in any portion of the Common Area not designated by Landlord for such use by Tenant. Tenant shall not abandon any inoperative vehicles or equipment on any portion of the Common Area, nor shall Tenant, its employees, invitees, suppliers or others park or store any vehicle (permitted size or otherwise), other than the trailers described above, on any portion of the Common Area, including designated parking areas, unattended for any period longer than twenty-four (24) hours. Vehicles parked in violation of this Section shall be subject to towing at Tenant's expense.

27. **Tenant's Extension Option**.

    1. **Grant of Option**. Tenant shall have the right and option (the "Extension Option") to extend the Term of this Lease for one additional period of five (5) years (the "Extension Term"), commencing immediately upon expiration of the initial Lease term (the "Adjustment Date"), upon and subject to the terms, conditions and provisions below.

    2. **Exercise of Extension Option**. To exercise Tenant's Extension Option to extend the term of this Lease for the Extension Term, Tenant must deliver written notice of Tenant's irrevocable and unconditional exercise of the Extension Option to Landlord not earlier than fifteen (15) months and not later than six (6) months prior to the Adjustment Date. If Landlord does not receive such notice from Tenant by that time, then Tenant's Extension Option shall forever lapse unexercised and be of no further force or effect whatsoever.

    3. **Effect of Exercise of Extension Option**. If Tenant timely exercises Tenant's Extension Option as provided herein, the term of this Lease shall (by delivery of Tenant's notice of exercise to Landlord and without further action by Landlord or Tenant) be extended for the Extension Term, upon and subject to all of the terms, conditions and provisions set forth in this Lease, except as provided below, and except that: the Base Rent for the Extension Term shall equal to the Market Rate (determined as provided below); Tenant shall have no further option to extend or renew; the provisions of Exhibit C shall not apply to any Extension Term, and Landlord's right to terminate the Lease upon Tenant's request for consent to a Transfer shall apply with respect to any Transfer other than an Excluded Transfer. Notwithstanding anything in this Lease to the contrary, Base Rent during any Extension Term shall in no event be less than the sum of Base Rent and Additional Rent payable in the month prior to the Adjustment Date.

    4. **Definition of Market Rate**. As used in this Lease, the "Market Rate" shall be the net effective fair market rental rate (taking into account free rent, if any) as of the Adjustment Date, for comparable lease transactions in the Sunnyvale area, all based on the best information available at the time of determination of the Market Rate. The Market Rate shall be based on prevailing rentals then being charged to new tenants for space of equivalent quality, size and location (or adjusting the rental rate as appropriate for differences therein), taking into such account the size, nature and stature of the tenant, the length of the Extension Option period during which such rate will apply, and differences in terms and

provisions of the applicable leases, such as pass- throughs of operating expenses and taxes. The Market Rate shall not be reduced on account of any differences in leasing commissions or tenant improvements or improvement allowances.

5. **Determination of Market Rate**.

    1. Agreement on Market Rate. As provided in Paragraph 27.2, if Tenant timely exercises Tenant's Extension Option, then, during the thirty (30) day period following Landlord's receipt of Tenant's notice of exercise of Tenant's Extension Option, then Landlord and Tenant shall endeavor in good faith to agree upon the Market Rate.

    2. Appointment of Appraisers. If Landlord and Tenant are unable to agree upon the Market Rate prior to the expiration of the thirty (30) day period referred to in Paragraph 27.5.1, then Landlord and Tenant shall each appoint, by written notice delivered to the other prior to (5) days after the expiration of such thirty (30) day period, a real estate broker (each an "Appraiser") who has significant current experience appraising rental rates for commercial real property in the Sunnyvale area to participate in the determination of the Market Rate. If either Landlord or Tenant fails timely to appoint a qualified Appraiser as proved above, and such failure continues for fifteen (15) days after the party which has appointed an Appraiser gives notice to the other party of such appointment and makes demand for the appointment of a qualified Appraiser by the other party, then the determination of Market Rate to be made hereunder shall be made solely by such sole Appraiser as may have theretofore been appointed, and such determination of the Market Rate by such sole Appraiser shall be binding upon both Landlord and Tenant. Otherwise the two Appraisers appointed by Landlord and Tenant shall appoint, within twenty (20) days after they have been appointed, a third Appraiser who is similarly qualified. If the two Appraisers appointed by Landlord and Tenant cannot agree on the appointment of a third Appraiser within the time period provided, either Landlord or Tenant may seek the appointment of the same by the presiding judge for the Superior Court in the City and County of Santa Clara County. The Appraisers shall work together and share information in their efforts to determine and agree upon the Market Rate. The Market Rate shall be determined as provided below.

    3. Determination of Market Rate by Appraisers. Landlord and Tenant shall each state in writing what it contends to be the Market Rate, including whatever support for such contention it wishes to have considered by the Appraisers. The third Appraiser shall arrange for simultaneous exchange of such written contentions and for presentation of such additional evidence, rebuttals, or other matters as the parties may wish to present and the Appraisers may elect to hear or otherwise receive. The role of the Appraisers shall be to select from the two contended Market Rates submitted by the parties the one which is closest to the actual Market Rate as determined by the Appraisers. The Appraisers shall have no power to adopt a compromise or "middle ground" between the contended Market Rates submitted by the parties or to adopt any Market Rate other than the contended Market Rate submitted by the party which is closest to the Appraisers' determinations as to actual Market Rate. If the Appraisers do not agree upon the actual Market Rate, then each Appraiser shall determine which of the two contended Market Rates submitted by the parties is closest to the actual Market Rate determined by such Appraiser and the contended Market Rate so selected by at least two of the Appraisers shall be the Market Rate. The Market Rate as so determined by the Appraisers as provided herein shall be binding upon both Landlord and Tenant as the Market Rate.

    4. Payments Pending Determination; Costs. Landlord and Tenant will use all reasonable diligence to cause the Appraisers to perform in good faith and in a timely manner in order to make the determination for the Market Rate on or before the Adjustment Date. If the Appraisers do not make such determination prior to the Adjustment Date, the Lease shall nevertheless continue in full force and effect until such determination is made, and, commencing as of the date of a demand by Landlord for such payment. Tenant shall pay Base Rent during such period based on the amount asserted by Landlord to be the Market Rate. Upon the determination by the Appraisers of the Market Rate, the excess of the amount paid to Landlord by Tenant as provided above over the Base Rent as so determined hereunder applicable to the period from the Adjustment Date to the date on which the Market Rate was so determined shall be credited by Landlord against the Base Rent next due from Tenant hereunder. The payment by Tenant of Base Rent based on the Market Rate as so determined shall commence on the first day of the month following the date of such determination, and, in addition to such monthly installment of Base Rent, Tenant shall pay to Landlord the deficiency, if any, in the amount earlier paid by Tenant as Base Rent based on Landlord's asserted Market Rate in relation to the amount ultimately determined hereunder as the Market Rate. Landlord and Tenant shall each advance one half of any fees and expenses of the Appraisers required to be paid prior to the Appraisers' decision, but the party submitting the position adopted as the Market Rate in accordance with the procedure set forth above shall be entitled to reimbursement from the other party of all such fees and expenses advanced by the prevailing party and the non-prevailing party shall pay (or reimburse the prevailing party for) all such fees and expenses on demand; the attorneys' fees and expenses of counsel for the respective parties shall be paid and borne by the party engaging such counsel.

6. **Limitations on Extension Option**. Time is of the essence as to the exercise of Tenant's Extension Option. If Landlord does not timely receive delivery of Tenant's notice of exercise of Tenant's Extension Option, the option shall expire, lapse unexercised and be of no further force or effect whatsoever, and Tenant shall have no further option to extend. Tenant's Extension Option is conditioned upon there being then no default (beyond any applicable cure period) by Tenant at the time Tenant delivers a notice of exercise of Tenant's Extension Option. Any election to exercise any

extension option shall be null and void at the option of Landlord (A) if Tenant is in default (beyond any applicable cure period) hereunder at the time of such notice or at the Adjustment Date, or (B) if the named Tenant hereunder (or a transferee pursuant to an Excluded Transfer) has not, at both the time of exercise of the option to extend and the Adjustment Date, assigned its interest in the Lease or subleased the Premises (it being the intent of the parties to this Lease that such extension option is personal to the original Tenant hereunder, and shall not be assignable to or exercisable by or for the benefit of any assignee or other transferee of the original Tenant hereunder). Transfer of all or any portion of Tenant's rights under this Paragraph 26 separate from the Lease is absolutely prohibited.

28. **Hazardous Material**.

1. **Use Restrictions**. Tenant shall not use, generate, manufacture, produce, store, release, discharge or dispose of, on, under or about the Premises, or transport to or from the Premises, any Hazardous Materials or allow its employees, Agents, contractors, invitees or any other person or entity to do so except in full compliance with all Federal, state and local laws, regulations and ordinances and this Agreement. The term "Hazardous Materials" shall include without limitation: (1) Those substances included within the definitions of "hazardous substances", "hazardous materials", "toxic substances" or "solid waste" under CERCLA, RCRA and the Hazardous Materials Transportation Act, 49 U.S.C. Sections 1801, et seq. and in the regulations promulgated pursuant to said Laws; (2) Those substances defined as "hazardous wastes" in Section 25117 of the California Health & Safety Code, or as "hazardous substances" in Section 25316 of the California Health & Safety Code, and in the regulations promulgated pursuant to said Laws; (3) Those substances listed in the United States Department of Transportation Table (49 CFR 172.101 and amendments thereto) or designated by the Environmental Protection Agency (or any successor agency) as hazardous substances; (4) Such other substances, materials and wastes which are or become regulated under applicable local, state or federal Law or the United States government, or which are or become classified as hazardous or toxic under federal, state or local Laws or regulations; and (5) Any material, waste or substance which is (i) petroleum, (ii) asbestos, (iii) polychlorinated biphenyls, (iv) designated as a "hazardous substance" pursuant to Section 311 of the Clean Water Act of 1977, 33 U.S.C. Sections 1251, et seq. (33 U.S.C. Section 1321) or listed pursuant to Section 307 of the Clean Water Act of 1977 (33 U.S.C. Section 1317), (v) flammable explosives, or (vi) radioactive materials.

2. **Tenant's Indemnity**. Tenant shall be liable to Landlord for and indemnify and hold Landlord harmless against all damages (including investigation and remedial costs), liabilities, losses (including diminution of value of the Premises), fines, penalties, fees, and claims arising out of Tenant's and Tenant's agents' activities associated with Hazardous Materials, including all costs and expenses incurred by Landlord in remediating, cleaning up, investigating or responding to any governmental or third party claims, demands, orders or enforcement actions. Tenant shall be responsible for remediation of any release by Tenant and/or Tenant's agents' of any Hazardous Materials on or adjacent to the Premises, the Building or the Project, and Tenant shall promptly commence investigation and remedial activities to deal with such release in accordance with all Laws. If appropriate or required by law, these activities shall be conducted in conjunction with Federal, state and local oversight and approvals. If any action of any kind is required or requested to be taken by any governmental authority to clean-up, remove remediate or monitor any Hazardous Materials (the presence of which is the result of the acts or omissions of Tenant or its Agents) and such action is not completed prior to the expiration or earlier termination of the Lease, the Lease shall be extended until such time as such required action is completed, and Landlord shall be entitled to all damages directly or indirectly incurred in connection with such extension, including, without limitation, damages occasioned by the inability to re-let the Premises or a reduction of the fair market and/or rental value of the Premises.

3. **Assignment and Subletting**. It shall not be unreasonable for Landlord to withhold its consent to any proposed assignment or subletting if (i) the proposed assignee's or subtenant's anticipated use of the Premises involves the storage, generation, discharge, transport, use or disposal of any Hazardous Material in a greater intensity and scope than Tenant's then-existing use, or (ii) the proposed assignee or subtenant has been required by any prior landlord, Lender or governmental authority to "clean-up" or remediate any Hazardous Material and has failed to do so, or (iii) the proposed assignee or subtenant is subject to a criminal investigation or enforcement order or proceeding by any government authority in connection with the use, generation, discharge, transport, disposal or storage of any Hazardous Material.

4. **List of Hazardous Materials**. Upon request of Landlord, Tenant shall provide Landlord with a list of Hazardous Materials (and the quantities thereof) which Tenant uses or stores (or intends to use or store) on the Premises, which list shall be attached to this Lease as Exhibit G.

    a. Prior to Tenant using, handling, transporting or storing any Hazardous Material at or about the Premises, Tenant shall submit to Landlord a Hazardous Materials Management Plan ("HMMP") for Landlord's review and approval, which approval shall not be unreasonably withheld. The HMMP shall describe: (aa) the quantities of each material to be used, (bb) the purpose for which each material is to be used, (cc) the method of storage of each material, (dd) the method of transporting each material to and from the Premises and within the Premises (ee) the methods Tenant will employ to monitor the use of the material and to detect any leaks or potential hazards, and (ff) any other information any department of any governmental entity (city, state or federal) requires prior to the issuance of any required permit for the Premises or during Tenant's occupancy of the Premises. Landlord may, but shall have no obligation to review and approve the foregoing information and HMMP, and such review and approval or failure to review and approve shall not act as an estoppel or otherwise waive Landlord's rights under this Lease or

relieve Tenant of its obligations under this Lease. If Landlord determines in good faith by inspection of the Premises or review of the HMMP that the methods in use or described by Tenant are not adequate in Landlord's good faith judgment to prevent or eliminate the existence of environmental hazards, then Tenant shall not use, handle, transport, or store such Hazardous Materials at or about the Premises unless and until such methods are approved by Landlord in good faith and added to an approved HMMP. Once approved by Landlord, Tenant shall strictly comply with the HMMP and shall not change its use, operations or procedures with respect to Hazardous Materials without submitting an amended HMMP for Landlord's review and approval as provided above.

b. Tenant shall pay to Landlord the amount of all actual out-of-pocket costs incurred by Landlord for consultants' fees in connection with Landlord's review of the HMMP. Landlord shall have no obligation to consider a request for consent to a proposed HMMP unless and until Tenant has agreed to pay all such costs and expenses to Landlord irrespective of whether Landlord consent to such proposed HMMP.. Tenant shall immediately notify Landlord or any inquiry, test, investigation, enforcement proceeding by or against Tenant or the Premises concerning any Hazardous Material. Any remediation plan prepared by or on behalf of Tenant must be submitted to Landlord prior to conducing any work pursuant to such plan and prior to submittal to any applicable government authority and shall be subject to Landlord's consent. Tenant acknowledges that Landlord, as the owner of the Property, at its election, shall have the sole right to negotiate, defend, approve and appeal any action taken or order issued with regard to any Hazardous Material by any applicable governmental authority. Landlord shall have the right to appoint a consultant to conduct an investigation to determine whether any Hazardous Material is being used, generated, discharged, transported to or from, stored or disposed of in, on, over, through, or about the Premises, in an appropriate and lawful manner and in compliance with the requirements of this Lease. Tenant, at its expense, shall comply with all reasonable recommendations of the consultant required to conform Tenant's use, storage or disposal of Hazardous Materials to the requirements of applicable Law or to fulfill the obligations of Tenant hereunder.

5. **Landlord's Indemnity**. Landlord shall be liable to Tenant for and indemnify and hold Tenant harmless against all damages (including investigation and remedial costs), liabilities and claims arising out of Landlord's and Landlord's agents' activities associated with Hazardous Materials, and arising out of any Hazardous Materials existing on or under the Building as of the Commencement Date, including all costs and expenses incurred by Tenant in remediating, cleaning up, investigating or responding to any governmental or third party claims, demands, orders or enforcement actions.

6. **Provisions Survive Termination**. Upon the expiration or earlier termination of the Lease, Tenant, at its sole cost, shall remove all Hazardous Materials from the Premises that Tenant or its Agents introduced to the Premises. The provisions of this Section 28 shall survive the expiration or termination of this Lease.

29. **Common Areas**.

a. Landlord hereby grants to Tenant, for the benefit of Tenant and its employees, suppliers, shippers, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Landlord under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Project. Except as otherwise provided herein, under no circumstances shall the right herein granted to use the Common Area be deemed to include the right to store any property, temporarily or permanently, in the Common Area or to construct or install any improvements in the Common Area. Any such storage shall be permitted only by the prior written consent of Landlord or Landlord's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur, the Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Tenant, which cost shall be immediately payable by Tenant to Landlord upon demand by Landlord.

b. Landlord or such other person(s) as Landlord may appoint, shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations with respect thereto. Tenant agrees to abide by and conform to all such rules and regulations, as well as any private conditions, covenants, and restrictions of public record now or hereafter affecting the Premises and any amendment thereof, and to cause its employees, suppliers, shippers, customers and invitees to abide and conform. Landlord shall not be responsible to Tenant for the non-compliance with said rules and regulations by other tenants or authorized users of the Project. Any failure by Tenant or its agents, employees or representatives to observe and comply with the rules and regulations established by Landlord with respect to the Common Areas shall be a default by Tenant hereunder.

c. Landlord shall have the right in Landlord's sole discretion, from time to time: (i) to make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways; (ii) to close temporarily any of the Common Areas for

maintenance purposes, so long as reasonable access to the Premises remains available; (iii) to designate other land outside the boundaries of the Project to be a part of the Common Areas; (iv) to add additional buildings and improvements to the Common Areas; (v) to use the Common Areas while engaged in making additional improvements, repairs or alterations to the Project, or any portion thereof; (vi) to close, at reasonable times, all or any portion of the parking areas for any reasonable purpose, including without limitation, the prevention of a dedication thereof, or the accrual of the rights of any person or public therein; and, (vii) to do and perform such other acts and make such other changes in, to or with respect to the Common Areas and the Project as Landlord may, in the exercise of sound business judgment, deem to be appropriate. Notwithstanding the foregoing, Landlord shall not be entitled to take any action pursuant to this Paragraph, if such action will materially interfere with Tenant's use and enjoyment of the Premises pursuant hereto.

Exhibit A

LEASE DEFINITIONS

Building means the building in which the Premises are located, identified as 950 Kifer Road, Sunnyvale, California. The total Rentable Area of the Building is 105,285 square feet.

Business days means Monday through Friday, except holidays; "holidays" means those holidays specified by the laws of the United States or State of California, and all holidays to which maintenance employees of the Building are entitled from time to time under their union contract or other agreement.

CC&Rs means all restrictions of public record affecting the Building, Project or Tenant's use of the Premises.

Common Areas means all areas within the Building and the Project which are not designated for the exclusive use of Tenant, Landlord or any other tenant, including but not limited to parking areas, loading and unloading areas and docks, platforms, trash areas, roadways, sidewalks, landscaping, ramps, driveways, recreations areas, greenbelts, common entrances, restrooms and accessways, and the common pipes, conduits, wires and appurtenant equipment serving the Premises, and similar areas and facilities appurtenant to the Building and the Project.

Guarantor means any guarantor of any of Tenant's obligations under this Lease.

Law or Laws means governmental laws, rules, regulations, orders, decrees, ordinances and directives as are applicable to the conduct or condition referenced in this Lease.

Lease Years means successive periods of twelve (12) full calendar months, beginning on the Commencement Date. If the Commencement Date is not the first day of a month, then the first Lease Year also includes the partial month in which the Commencement Date occurs.

Mortgage means any mortgage or Deed of Trust, blanket or otherwise, covering any part of the Building.

Mortgagee means the holder of a Mortgage.

Operating Expenses means any and all costs, expenses and disbursements of every kind and character which Landlord incurs, pays or becomes obligated to pay at any time during the Term in connection with its ownership interest in the Building, Common Areas and Project and associated land and parking, or the operation, maintenance, management, repair, replacement, and security thereof; plus, with respect to such costs, expenses, and disbursements for the Project which do not exclusively pertain to a single building, the portion which Landlord reasonably allocates to the Building. Operating Expenses shall be reasonably consistent with those expended by prudent landlords of comparable buildings in Sunnyvale, California. Operating Expenses shall include, without limitation, Real Property Taxes, any and all assessments Landlord must pay pursuant to any covenants, conditions or restrictions, reciprocal easement agreements, tenancy-in-common agreements or similar restrictions and agreements affecting the Building or the Project; rent taxes, gross receipt taxes (whether assessed against Landlord or assessed against Tenant and paid by Landlord, or both); water and sewer charges; accounting, legal and other consulting fees; the net cost and expense of insurance, including loss of rents coverage, for which Landlord is responsible hereunder or which Landlord or any Mortgagee reasonably deems necessary or desirable; utilities not paid directly by Tenant; security; labor; utilities surcharges, or any other costs levied, assessed or imposed by, or at the direction of, or resulting from statutes or regulations or interpretations thereof, promulgated by any federal, state, regional, municipal or local government authority in connection with the use or occupancy of the Building, the Project or the Common Areas; the cost of any equipment used in connection in operations and of any capital improvements; air conditioning; waste disposal; heating, ventilating; elevator maintenance and supplies; materials; equipment; tools; repair and maintenance of the Building, including the structural portion of the Building, and the plumbing, heating, ventilating, air conditioning, electrical and building management systems installed or furnished by Landlord; maintenance costs, including utilities and payroll expenses, rental

of personal property used in maintenance, gardening and landscaping, repaving and all other upkeep of all Common Areas; maintenance of signs (other than Tenant's signs); personal property taxes levied on or attributable to personal property used in connection with the entire Building or Project, including the Common Areas; reasonable audit or verification fees; costs and expenses of repairs, resurfacing, repairing, maintenance, painting, lighting, cleaning, refuse removal, security and similar items, including appropriate reserves; and costs reasonably incurred to reduce or contest Real Property Taxes and other Operating Expenses. Operating Expenses shall also include costs incurred in the management of Building, including supplies, wages and salaries of employees used in the management, operation, repair and maintenance of the Building, and payroll taxes and similar governmental charges with respect thereto, management office rental, and a management fee, not to exceed two percent (2%) of the Rent and Additional Rent hereunder excluding therefrom the management fee. Variable Operating Expenses paid or incurred by Landlord during any calendar year of the Lease term during which the occupancy rate in the Project is less than ninety-five percent (95%) shall be adjusted upward to reflect (i) a ninety-five percent (95%) occupancy rate for the Project, and (ii) assuming a tax appraisal of the Project as though it were completed and fully-occupied. As to the costs of capital improvements, replacements, repairs, equipment and other capital costs, all such costs shall be included in Operating Expenses but shall be amortized over the reasonable useful life of such improvement, replacement, repair or equipment in accordance with generally accepted accounting principles together with interest at the Prime Rate on the unamortized balance. Any expenditure incurred by Landlord and not covered by insurance as a result of an insurance deductible shall be included in Operating Expenses, subject to the exclusion and amortization provisions herein applicable to the item for which such expenditure was applied.

Exclusions from Operating Expenses: Notwithstanding the above, Operating Expenses shall not include the following:

(i) Interest, principal and other lender costs and closing costs on any mortgage or mortgages, ground lease payments, or other debt instrument encumbering the Building or Project;

(ii) Any bad debt loss, rent loss, or reserves for bad debt or rent loss;

(iii) Interest or penalties resulting from late payment of any Operating Expense by Landlord due to Landlord's negligence or willful misconduct (unless Landlord in good faith disputes a charge and subsequently loses or settles that dispute);

(iv) Costs associated with operation of the business of the ownership of the Building or Project or entity that constitutes Landlord or Landlord's property manager, as distinguished from the cost of Building operations, including Landlord's income taxes, excess profit taxes, franchise taxes or similar taxes on Landlord's business; preparation of income tax returns; corporation, partnership or other business form organizational expenses; franchise taxes; filing fees; or other such expenses; the costs of partnership or corporate accounting and legal matters; defending or prosecuting any lawsuit with any mortgagee, lender, ground lessor, broker, tenant, occupant, or prospective tenant or occupant; selling or syndicating any of Landlord's interest in the Building or Project; and disputes between Landlord and Landlord's property manager;

(v) Landlord's general corporate or partnership overhead and general administrative expenses, including the salaries of management personnel who are not directly related to the Building or Project and primarily engaged in the operation, maintenance, and repair of the Building or Project, except to the extent that those costs and expenses are included in the management fees;

(vi) Advertising, promotional expenditures and leasing expenses primarily directed toward leasing tenant space in the Project;

(vii) Leasing commissions, space-planning costs, attorney fees and costs, disbursements, and other expenses incurred in connection with leasing, other negotiations, or disputes with tenants, occupants, prospective tenants, or other prospective occupants of the Project, or associated with the enforcement of any leases;

(viii) Charitable or political contributions;

(ix) Costs for which Landlord is entitled to be reimbursed;

(x) Damage or loss results from any casualty which Landlord has covenanted to insure against, except to the extent of deductibles which shall be included in Operating Expenses;

i. Any costs or expenses that are incurred directly or indirectly with respect to Landlord's indemnity obligations under this Lease;

ii. Fees paid to any affiliate or party related to Landlord to the extent such fees exceed the charges for comparable services rendered by unaffiliated third parties of comparable skill, stature and reputation in the same market;

iii. the cost of redecorating or special cleaning or similar services to individual tenant spaces, not provided on a regular basis to other tenants of the Building;

iv. any charge for depreciation or interest paid or incurred by Landlord;

v. any costs incurred in cleaning up any environment hazard or condition in violation of any environmental law (except to the extent caused by Tenant); and any cost to remedy any breach of a representation or warranty or covenant concerning the condition of the Premises as of the Commencement Date;

vi. any items to the extent such items are required to be reimbursed to Landlord by Tenant (other than through Tenant's additional rent), or by other tenants or occupants of the Building or by third parties;

vii. brokerage commissions, origination fees, points, mortgage recording taxes, title charges and other costs or fees incurred in connection with any financing or refinancing or transfer of the Building;

viii. cost of repairs or replacements occasioned by fire, windstorm or other casualty, the costs of which are covered by insurance or reimbursed by governmental authorities in eminent domain, but not excluding from Operating Expenses any deductibles; and

ix. penalties, fines, legal expenses, or late payment interest incurred by Landlord due to violation by Landlord, or Landlord's agents, contractors or employees, of either the payment terms and conditions of any lease or service contract covering space in the Building or Landlord's obligations as owner of the Building (such as late payment penalties and interest on real estate taxes, late payment of utility bills).

Premises means the approximate area shown on Exhibit B. Landlord hereby reserves for its sole and exclusive use, the roof; facilities serving parts of the Building or Project other than the Premises; and any other area not shown on Exhibit B as being part of the Premises.

Prime Rate means the rate of interest designated as the rate of interest charged to its most credit-worthy customers as in effect from time to time by Wells Fargo Bank N.A.

Project means the Building, the Common Areas, and any other buildings or facilities owned by Landlord and operated together with the Building.

Real Property Taxes means any form of general or special assessment, license fee, license tax, business license fee, any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Building, the Project or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, sanitary, fire, street, drainage or other improvement district, or any other governmental entity or public corporation, as against (a) any legal or equitable interest of Landlord in the Building, the Project or any portion thereof, (b) Landlord's right to rent or other income therefrom, (c) the square footage thereof, (d) the act of entering into any lease, (e) the occupancy of tenant or tenants generally, or (f) Landlord's business of leasing the Building, the Project or any portion thereof. The term "real property taxes" shall also include any tax, fee, levy, assessment or charge including, without limitation, any so-called value added tax, (i) which is in the nature of, in substitution for or in addition to any tax, fee, levy, assessment or charge hereinbefore included within the definition of "real property taxes," (ii) which is imposed for a service or right not charged for prior to June 1, 1978, or if previously charged for, which has been increased since June 1, 1978, (iii) which is imposed or added to any tax or charge hereinbefore included within the definition of real property taxes as a result of a "change in ownership" of the Building, the Project or any portion thereof, as defined by applicable statutes and regulations, for property tax purposes, or (iv) which is imposed by reason of this transaction, any modification or change hereto or any transfer hereof.

Tenant's Share means the percentage of the cost of Operating Expenses for which Tenant is obligated to reimburse Landlord pursuant to this Lease. Landlord shall determine Tenant's Share of the cost of Operating Expenses using the following methods: (a) by multiplying the cost of all Operating Expenses by a fraction, the numerator of which is the number of square feet of Rentable Area in the Premises and the denominator of which is the number of square feet of Rentable Area in all buildings in the Project; or (b) (i) with respect to an Operating Expense attributable solely to the Building, requiring Tenant to pay that portion of the cost of the Operating Expense that is obtained by multiplying such cost by a fraction, the numerator of which is the number of square feet of Rentable Area in the Premises and the denominator of which is the number of square feet of Rentable Area in the entire Building, (ii) with respect to an Operating Expense attributable to the Common Areas of the Project, but not any particular building in the Project, requiring Tenant to pay that portion of the cost of the Operating Expense that is obtained by multiplying such cost by a fraction, the numerator of which is the number of square feet of Rentable Area in the Premises and the denominator of which is the number of square feet of Rentable Area in all buildings in the Project.

Year or ***year*** means a calendar year.

EXHIBIT B

PICTURES OF PREMISES

EXHIBIT C

TENANT IMPROVEMENT CONSTRUCTION AGREEMENT

In consideration of the mutual covenants contained in the Lease attached to and entered to concurrently with this "Construction Agreement", and the mutual covenants contained in this Construction Agreement, Landlord and Tenant agree as follows:

1. DEFINITIONS.

   "Approved Plans" shall be the working drawings and specifications prepared by Space Planner and approved pursuant to Section 2 below.

   "Cost of Improvements" shall mean the total of all hard and soft costs associated with or caused by the construction of the Tenant Improvements in accordance with the Approved Plans, including, but not limited to:

   i. All architectural and engineering fees and expenses;

   ii. The cost of all drawings and plans;

   iii. All contractor and construction manager costs and fees;

   iv. All governmental fees and taxes (including plan check, license and permit fees);

   v. Costs of performing any alterations to other portions of the Building that are required as a result of Tenant's construction of the Tenant Improvements, including both structural alterations or system modifications that are necessary to accommodate the Tenant Improvements;

   vi. Costs of utilities, trash removal, excess janitorial and other services used or consumed during construction; and

   vii. Ordinary and reasonable out-of-pocket costs incurred by Landlord for third-party consultants hired by Landlord to inspect and monitor the construction of the Tenant Improvements.

   "Space Planner" shall mean WHL Architects or such other California licensed architect selected by Tenant and approved by Landlord, which approval shall not be unreasonably withheld, conditioned or delayed.

   "Tenant Improvements" shall mean the improvements to be constructed by Tenant in the Premises pursuant to the Approved Plans.

   "Tenant Allowance." $200.000.

   Other terms are defined in this Construction Agreement. In addition, terms defined in the Lease have the same meanings where used herein, unless the context otherwise requires.

2. SCHEDULE. Tenant shall engage the Space Planner to prepare the preliminary space plan, the final space plan and the Approved Plans. Tenant shall submit the preliminary space plan, the final space plan, and construction drawings to Landlord for its review. Landlord shall approve said plans or give its reasons for not approving within five (5) Business days of the date such plans are submitted to Landlord. Landlord shall not unreasonably withhold or delay its approval of the preliminary space plan, the final space plan and construction drawings. Upon approval, final construction drawings shall be deemed the Approved Plans. Landlord and Tenant shall, within five (5) Business days after receipt of written request from the other party, confer and negotiate in good faith to resolve any dispute over any grounds for disapproval specified by Landlord with respect to any such plans, including any changes for Additional Tenant Work (as defined below).

3. TENANT CHANGE ORDERS. If Tenant desires any change in the Approved Plans or any work in addition to the Tenant Improvements in accordance with the Approved Plans to be performed in the Premises other than minor field adjustments ("Additional Tenant Work"), Tenant, at Tenant's expense, shall cause plans and specifications for such work to be prepared by Space Planner. All plans and specifications for Additional Tenant Work shall be subject to review and approval by Landlord (which shall not be unreasonably withheld, and which will be deemed disapproved if Landlord has not provided written notice of approval or disapproval (specifying the grounds for disapproval) within five (5) Business days following receipt) to ensure, among other things, that the work is compatible with all other construction and all electrical and mechanical systems

within the Building. Landlord may charge Tenant all reasonable out-of-pocket, third-party costs actually and reasonably incurred by Landlord in connection with Landlord's review and processing of Tenant's change request (including, without limitation, space planners, architects, engineers), regardless of whether the requested change is ultimately approved by Landlord.

4. TENANT IMPROVEMENTS CONSTRUCTION.

    1. Tenant shall construct the Tenant Improvements and shall complete such construction as soon as practicable. All Tenant Improvements to be constructed or installed in the Premises shall be performed by a general contractor ("Contractor") approved by Landlord (which approval shall not be unreasonably withheld, conditioned or delayed) in accordance with the Approved Plans (subject to such changes as may be required by any governmental agency) and in compliance with all applicable laws and building codes. Tenant anticipates using Advance Construction Services, Inc, of Hayward, California, as the Contractor.

    2. All work to be performed by Tenant and its contractors in connection with the construction of the Tenant Improvements shall be performed in a good and workmanlike manner, and shall be consistent with the quality of the Building. Landlord reserves the right to require Tenant to include Landlord's HVAC contractor as a bidding subcontractor for any HVAC work to be included in the Tenant Improvements, and the parties agree to consult with each other with respect to choosing an HVAC subcontractor. All such work shall be subject to Landlord's reasonable property management requirements and shall be conducted in such a manner as not to interfere unreasonably with or delay any other operations in the Building. Landlord shall afford Tenant's contractors reasonable and timely access to the Premises. Prior to commencing construction, Tenant shall provide Landlord with certificates of insurance evidencing that Tenant's contractor is covered by liability insurance, with carriers and in amounts reasonably acceptable to Landlord, and with Landlord, its partners and its managing agent named as additional insureds.

    3. Landlord shall give Tenant and its contractors and subcontractors access and entry to the Premises and sufficient opportunity and time during each work day and reasonable use of facilities, without separate charge therefor, to enable Tenant to construct the Tenant Improvements. Any such entry by Tenant or its contractors or subcontractors shall be subject to all of the applicable terms and conditions of the Lease except the payment of rental and other charges, which shall commence on the Rent Commencement Date.

    4. Tenant shall reimburse Landlord for any and all expenses incurred by Landlord by reason of faulty construction work by Tenant or damage to any portion of the Building caused by Tenant's contractor; provided that Landlord has delivered to Tenant written notice of such faulty work or damage and Tenant has failed to cure the same within a reasonable period following such notice.

    5. Landlord provide Tenant with copies of building plans and specifications in Landlord's possession, but does not warrant the accuracy of any plans or specifications. It shall be Tenant's responsibility to verify existing field conditions and measurements of the Premises. Tenant's failure to verify the existing conditions and measurements of the Premises shall not relieve Tenant of any expenses or responsibilities resulting from such failure, nor shall Landlord have any liability or obligations to Tenant arising from such failure.

    6. Tenant shall, prior to commencement of Tenant Improvements, obtain all required building and other permits at Tenant's expense and post said permits at the Premises as required.

    7. All Tenant Improvements performed by Tenant during its construction period, or otherwise during the Term, shall be performed so as not to cause unreasonable interference with other tenants and the operation of the Building, and Landlord shall have the right to impose reasonable requirements with respect to timing and performance of the Tenant Improvements in order to minimize such interference Tenant shall take all precautionary steps to protect its facilities and the facilities of others affected by the Tenant Improvements and shall police same properly.

    8. Tenant and/or Tenant's Contractors shall take commercially reasonable precautions to protect adjacent tenants, tenants on common air distribution systems, and common areas from airborne dust, dirt and contaminants, VOC's (volatile organic compounds such as paint thinner or varnish vapor) including, if necessary, isolating or otherwise protecting Landlord's central air distribution and return air systems and lobby and other common areas (including return air plenum) from entry of these potential contaminants. Tenant shall provide Landlord with not less than one business days notice of any work which may involve VOC's and other potentially hazardous or noxious materials.

    9. Tenant shall be responsible for paying the entire Cost of Improvements. Any improvements to or installations in the Premises desired by Tenant and approved by Landlord that are outside the scope of the Approved Plans and are therefore not part of the Tenant Improvements, including, without limitation, personal property and interior design elements, shall be furnished and installed by or on behalf of Tenant at Tenant's sole expense. All work performed by or on behalf of Tenant shall be subject to the provisions of Article 10 of the Lease, and Landlord may record and post at the Premises any and all notices of nonresponsibility reasonably deemed necessary by Landlord.

    10. Landlord shall provide Tenant with the Tenant Allowance. The Tenant Allowance shall be applied only to the hard costs of construction. Landlord shall disburse the Tenant Allowance, in proportion to the completion of the Tenant Improvements, within fifteen (15) days after satisfaction of the following conditions:

(i) The Approved Plans shall have been completed and approved.

(ii) Tenant shall have obtained and be in compliance with all applicable permits relating to construction of the Tenant Improvements.

(iii) Tenant shall submit a request for payment to Landlord, certified as correct by Tenant, setting forth such information and accompanied by such supporting documentation as shall be reasonably requested by Landlord, which may include a copy of the Contractor's Application for Payment (AIA Form G-702) and accompanying documents, with the Schedule of Values and AIA Form G-703, showing which Tenant Improvements have been completed and paid for by Tenant, and unconditional lien waivers on forms specified by law from all subcontractors with respect to work covered by Contractor's Application for Payment.

11. Tenant acknowledges that the provisions of Paragraph 11 of the Lease shall apply to the construction of the Tenant Improvements by Tenant.

12. Except as provided in the Lease, existing improvements in the Premises, if any, may be used or incorporated in the Tenant Improvements on a strictly AS-IS and with all faults basis and without warranty of any kind, express or implied. Tenant shall not commence work until the Approved Plans are filed with the governmental agencies having jurisdiction thereof and all required building permits have been obtained.

13. Commencing on the date Tenant enters the Premises for purposes of constructing the Tenant Improvements, Tenant shall reimburse Landlord for electrical usage within the Premises based upon Landlord's good faith, reasonable estimates of Tenant's usage. At Tenant's request Landlord shall provide to Tenant the basis of its estimate of such costs.

5. GENERAL.

1. Subject to any contrary provisions herein or in the Lease, all drawings, CAD drawings, space plans, plans and specifications for any improvements or installations in the Premises are expressly subject to Landlord's prior written approval, which approval shall not be unreasonably withheld. Any approval by Landlord or Landlord's architects or engineers of any drawings, plans or specifications prepared on behalf of Tenant shall not in any way bind Landlord or constitute a representation or warranty by Landlord as to the adequacy or sufficiency of such drawings, plans or specifications, or the improvement to which they relate, but such approval shall merely evidence the consent of Landlord to Tenant's drawings, plans or specifications. Upon completion of construction of the Tenant Improvements, Tenant shall deliver to Landlord two (2) complete sets of as-built drawings and CAD drawings of the Tenant Improvements, a copy of Tenant's HVAC balance report, a copy of all manufacturers' manuals, warranties and specifications, and a copy of signed permits.

2. Any failure by Tenant to pay any amounts due hereunder shall have the same effect under the Lease as a failure to pay rent. Any such failure, or failure by Landlord or Tenant to perform any of its other obligations hereunder (within the applicable notice and cure periods under the Lease or this Construction Agreement, whichever are longer, with respect to a Default), shall constitute an event of default under Paragraph 18 of the Lease.

Exhibit D

SAMPLE FORM OF

OPENING/CLOSING CERTIFICATE

Re: _____

_____, CA

This is to certify that _____

TENANT NAME

_____ has opened/closed on _____.

DATE

Billing Address:	RENTABLE AREA
TENANT NAME	INITIAL BASE RENT: $

ADDRESS	TENANT'S SHARE percent (%)
CITY, STATE, ZIP	LEASE COMMENCEMENT DATE
	LEASE EXPIRATION DATE
	RENTAL PAYMENT COMMENCEMENT
ATTN:	DATE
	PREPAID RENT RECEIVED
By: AUTHORIZED AGENT FOR TENANT	INSURANCE CERTIFICATE SUBMITTED (Y/N)
	SECURITY DEPOSIT RECEIVED
	PARKING SPACES
	By: AUTHORIZED AGENT FOR LANDLORD

Exhibit E

SAMPLE FORM OF

TENANT ESTOPPEL CERTIFICATE

_____ ("***Tenant***") hereby certifies to _____ as follows:

1. Attached hereto is a true, correct and complete copy of a lease dated _____, 200_, between RNM Technology Drive, L.P. ("***Landlord***") and Tenant (the "***Lease***"), which demised premises located at _____, _____ California (the "***Property***"). The Lease is now in full force and effect and has been amended, modified, supplemented, extended, renewed or assigned by and only by the following described agreements, copies of which are attached hereto (if none, so indicate), all of which (together with the Lease) are hereby ratified:

_____
_____ _____

2. The term of this Lease commenced on _____, 20__ and will expire on _____, 20__.

3. Tenant has accepted and is now in possession of said premises.

4. Tenant and Landlord acknowledge that the Lease will be assigned to _____ and that no modification, adjustment, revision or cancellation of the Lease or amendments thereto shall be effective unless written consent of _____ is obtained, and that until further notice, payments under the Lease may continue as heretofore.

5. The amount of fixed monthly rent is $_____. Tenant is paying in full lease rental which has been paid in full as of the date hereof. No rent under the Lease has been paid for more than thirty (30) days in advance of its due date.

6. The amount of security deposits (if any) is $_____. No other security deposits have been made.

7. All work required to be performed by Landlord or Tenant under the Lease has been performed, except for the following (if none, so indicate) _____
_____

8. There are no defaults on the part of the Landlord or Tenant under the Lease, except for the following (if none, so indicate) _____
_____

9. Tenant has no defense as to its obligations under the Lease and claims no setoff or counterclaim against Landlord, except for the following (if none, so indicate) _____
_____

10. Tenant has no right to any concession (rental or otherwise) or similar compensation in connection with renting the space it occupies except as provided in the Lease, except for the following (if none, so indicate) _____
_____

The foregoing certification is made with the knowledge that _____ is about to (fund a loan to) (purchase the Property from) Landlord and that said party is relying upon the representations herein made in (funding such loan) (making such purchase).

Dated: _____, 20___.

Tenant:

By:

Its:

Exhibit F

RULES AND REGULATIONS

1. The sidewalks, passages, exits, entrances of the Building and the other Common Areas shall not be obstructed by Tenant or used by it for any purpose other than for ingress to and egress from the Premises. Landlord retains the right to control and prevent access to the Common Areas of all persons whose presence in the judgement of the Landlord would be prejudicial to the safety of the Project and its tenants, or who it believes are engaged in illegal activities.

2. Except for signage authorized in the Lease, no sign, placard, picture, name, advertisement or notice visible from the exterior of the Building or Premises shall be inscribed, painted, affixed or otherwise displayed by Tenant on any part of the Building or in any area outside the Premises and any such sign, placard, picture, name, advertisement or notice may be removed by Landlord without notice to and at the expense of Tenant.

3. With the exception of typical catering and food warming activities, no cooking shall be done or permitted by Tenant on the Premises, except that use by Tenant of Underwriters' Laboratory-approved portable equipment for brewing coffee, tea, hot chocolate and similar beverages shall be permitted, as shall the use of similarly-approved microwave ovens for personal use by Tenant's employees, *provided that* such use is in accordance with all applicable federal, state, and local laws, codes, ordinances, rules and regulations. Tenant's employees may prepare food items solely for their own personal consumption and for guests, and shall not prepare or sell, or permit to be prepared or sold, any consumable items whatsoever in the Premises or in the Building. In the event pest control is required within the Premises as a result of food preparation or other activities by Tenant, Tenant shall contract and pay for such services.

4. Landlord will initially furnish to Tenant, free of charge, two keys per lockset to the Premises, and Landlord may make a reasonable charge for additional keys. No additional locking devices shall be installed in the Premises by Tenant, nor shall any locking device be changed or altered in any respect without the prior written consent of Landlord. Landlord may make reasonable charge for any additional lock or any bolt (including labor) installed on any door of the Premises. All locks installed in the Premises shall be identified in writing to Landlord. The installation of such vaults, safes or other secured areas by Tenant will be subject to Landlord's prior written approval, which shall not be unreasonably withheld. Tenant, upon the termination of its tenancy, shall deliver to Landlord all keys to doors in the Premises and all access cards and I.D. cards, if any, to the Building.

5. Tenant shall not bring or permit to be brought into the Building any firearm.

6. Tenant shall use reasonable procedures to see that the doors of the Premises are closed and locked and that all water faucets, water apparatus, light switches, cooking facilities and office equipment (excluding office equipment required to be operative at all times) are shut off before Tenant or Tenant's employees leave the Premises, so as to prevent waste or damage. Tenant shall at all times comply with any rules or orders of the fire department or any other government agency with respect to ingress and egress.

7. The toilets, urinals, wash bowls and other restroom facilities shall not be used for any purpose other than that for which they are constructed, no foreign substance of any kind whatsoever shall be placed therein, and the expense of repairing any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the tenant whose employees or invitees shall have caused it.

8. Tenant shall not install any radio or television antenna, loudspeaker, or other device on or about the Common Areas or the roof or exterior walls of the Building without Landlord's prior, written consent. No television, radio or other audio or visual apparatus shall be used in the Premises in such a manner as to cause a nuisance to any other Project tenant or to interfere with any frequencies used in connection with Building operations.

9. Canvassing, soliciting, peddling, or distribution by Tenant to other Project tenants or visitors of handbills or any other written material in the Project is prohibited, and Tenant shall not permit such activities by its employees or invitees. Tenant shall cooperate in reporting to Landlord any such activities of solicitors in the Building.

10. Tenant shall immediately, upon written request from Landlord (which request need not be in writing), reduce its lighting in the Premises for temporary periods designated by Landlord, when required in a temporary emergency situation caused by earthquake or other force majeure event to prevent overloading of the mechanical or electrical systems of the Building.

11. Tenant shall not place any load on the floors of the Premises or the Building exceeding the live load capacity thereof as determined by Landlord. Tenant shall not use electricity for lighting, machines or equipment in excess of the consumption load of the Premises as determined by Landlord. Except as permitted in accordance with the Lease, Tenant shall not alter any of the Building systems, including but not limited to heating, air conditioning, and other mechanical or electrical systems, without the prior written consent of Landlord.

12. Landlord reserves the right to exclude or expel from the Project any person who is, in the judgement of Landlord, intoxicated or under the influence of alcohol or other drug, or acting in a violent or disruptive manner, or who shall in any manner do any act in violation of any of the Rules and Regulations of the Building.

13. No animals of any kind shall be permitted at any time in the Premises or the Building, with the exception of guide animals for the handicapped employees or invitees of Tenant and except in connection with Tenant's permitted use of the Premises as expressly permitted by the Lease.

14. Any charges which Tenant is obligated by these Rules to pay shall be deemed additional rent under the Lease, and should Tenant fail to pay the same within ten (10) days after written demand, such failure shall be treated as a default by Tenant to pay rent as due under the Lease.

15. Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenant or tenants, but no such waiver by Landlord shall be construed as a waiver of these Rules and Regulations in favor of any other tenant or tenants, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all of the tenants of the Building. All waivers shall be one time waivers only unless in writing and specifically providing to the contrary.

16. These Rules and Regulations are in addition to, and shall not be construed in any way to modify, alter or amend, in whole or part, the terms, covenants, agreements and conditions of Tenant's Lease or any other lease of premises in the Project. In the event of any conflict between the terms of these Rules and Regulations and the terms of any lease in the Building, the terms of the Lease shall prevail.

17. Landlord reserves the right to make such other reasonable rules and regulations, or to amend or repeal these Rules and Regulations, as in its judgement may from time to time be needed for the safety, care and cleanliness of the Project and for the preservation of good order therein.

18. Tenant shall be responsible for the observance of all of the foregoing rules and regulations by Tenant's employees, agents, contractors, clients, customers, invitees and guests. Tenant shall cooperate with Landlord's educational programs for Landlord's policies and procedures with regard to fire and life safety, earthquakes and any other emergency or evacuation procedures of which Landlord shall notify Tenant from time to time.

Exhibit G

LIST OF HAZARDOUS MATERIALS

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-43558 and 333-65342) pertaining to the Intuitive Surgical 2000 Equity Incentive Plan, 2000 Non-Employee Directors' Stock Option Plan and 2000 Employee Stock Purchase Plan of our report dated February 1, 2002, with respect to the consolidated financial statements and schedule included in Intuitive Surgical, Inc.'s Annual Report (Form 10-K) for the year ended December 31, 2001.

/s/ ERNST & YOUNG LLP

Palo Alto, California
March 25, 2002