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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 2022

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-30713

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**Intuitive Surgical, Inc.**

(Exact name of Registrant as specified in its Charter)

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Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

77-0416458  
(I.R.S. Employer  
Identification No.)

1020 Kifer Road  
Sunnyvale, California 94086  
(Address of principal executive offices) (Zip Code)

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

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Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.001 per share	ISRG	The Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The Registrant had 357,111,192 shares of Common Stock, \$0.001 par value per share, outstanding as of July 19, 2022.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTUITIVE SURGICAL, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

<i>in millions (except par values)</i>	June 30, 2022	December 31, 2021
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,536.1	\$ 1,290.9
Short-term investments	2,901.3	2,913.1
Accounts receivable, net	838.5	782.7
Inventory	724.0	587.1
Prepaids and other current assets	292.6	271.1
Total current assets	6,292.5	5,844.9
Property, plant, and equipment, net	2,109.3	1,876.4
Long-term investments	3,738.0	4,415.5
Deferred tax assets	515.9	441.4
Intangible and other assets, net	700.4	633.2
Goodwill	349.1	343.6
Total assets	\$ 13,705.2	\$ 13,555.0
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 149.7	\$ 121.2
Accrued compensation and employee benefits	278.6	350.1
Deferred revenue	376.3	377.2
Other accrued liabilities	370.4	301.3
Total current liabilities	1,175.0	1,149.8
Other long-term liabilities	447.8	453.7
Total liabilities	1,622.8	1,603.5
Contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, 2.5 shares authorized, \$0.001 par value, issuable in series; zero shares issued and outstanding as of June 30, 2022, and December 31, 2021	—	—
Common stock, 600.0 shares authorized, \$0.001 par value, 357.1 shares and 357.7 shares issued and outstanding as of June 30, 2022, and December 31, 2021, respectively	0.4	0.4
Additional paid-in capital	7,484.0	7,164.0
Retained earnings	4,682.8	4,760.9
Accumulated other comprehensive income (loss)	(144.2)	(24.2)
Total Intuitive Surgical, Inc. stockholders' equity	12,023.0	11,901.1
Noncontrolling interest in joint venture	59.4	50.4
Total stockholders' equity	12,082.4	11,951.5
Total liabilities and stockholders' equity	\$ 13,705.2	\$ 13,555.0

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

**INTUITIVE SURGICAL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

<i>in millions (except per share amounts)</i>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Revenue:				
Product	\$ 1,270.4	\$ 1,236.0	\$ 2,508.8	\$ 2,310.6
Service	251.7	228.0	501.0	445.5
Total revenue	1,522.1	1,464.0	3,009.8	2,756.1
Cost of revenue:				
Product	421.0	374.0	818.3	693.3
Service	77.8	66.3	158.5	136.5
Total cost of revenue	498.8	440.3	976.8	829.8
Gross profit	1,023.3	1,023.7	2,033.0	1,926.3
Operating expenses:				
Selling, general and administrative	418.4	350.2	809.5	676.2
Research and development	207.3	162.3	417.8	322.1
Total operating expenses	625.7	512.5	1,227.3	998.3
Income from operations	397.6	511.2	805.7	928.0
Interest and other income, net	9.3	15.0	3.6	47.0
Income before taxes	406.9	526.2	809.3	975.0
Income tax expense	93.3	3.2	126.3	16.8
Net income	313.6	523.0	683.0	958.2
Less: net income attributable to noncontrolling interest in joint venture	5.8	5.8	9.6	14.7
Net income attributable to Intuitive Surgical, Inc.	\$ 307.8	\$ 517.2	\$ 673.4	\$ 943.5
Net income per share attributable to Intuitive Surgical, Inc.:				
Basic	\$ 0.86	\$ 1.45	\$ 1.88	\$ 2.66
Diluted	\$ 0.85	\$ 1.42	\$ 1.84	\$ 2.59
Shares used in computing net income per share attributable to Intuitive Surgical, Inc.:				
Basic	358.1	355.7	358.2	355.0
Diluted	363.9	364.9	365.3	364.5
Other comprehensive loss, net of tax:				
Change in unrealized gains (losses) on hedge instruments	\$ 4.4	\$ (0.1)	\$ 5.4	\$ 6.0
Change in unrealized losses on available-for-sale securities	(33.4)	(6.0)	(124.1)	(16.0)
Change in foreign currency translation gains (losses)	(5.5)	4.4	(2.0)	(5.1)
Change in prior service cost for employee benefit plans	—	0.1	0.1	0.2
Other comprehensive loss	(34.5)	(1.6)	(120.6)	(14.9)
Total comprehensive income	279.1	521.4	562.4	943.3
Less: comprehensive income attributable to noncontrolling interest	4.8	5.3	9.0	14.4
Total comprehensive income attributable to Intuitive Surgical, Inc.	\$ 274.3	\$ 516.1	\$ 553.4	\$ 928.9

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

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

<i>in millions</i>	<b>Six Months Ended June 30,</b>	
	<b>2022</b>	<b>2021</b>
<b>Operating activities:</b>		
Net income	\$ 683.0	\$ 958.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and loss on disposal of property, plant, and equipment	157.5	132.8
Amortization of intangible assets	12.3	14.5
Gain on sale of business	(3.8)	—
Loss (gain) on investments, accretion, and amortization, net	33.8	(4.3)
Deferred income taxes	(40.1)	(24.0)
Share-based compensation expense	247.5	211.3
Amortization of contract acquisition assets	13.6	10.0
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(56.0)	(59.6)
Inventory	(245.5)	(92.4)
Prepays and other assets	(90.1)	(177.0)
Accounts payable	12.4	38.2
Accrued compensation and employee benefits	(71.5)	19.0
Deferred revenue	(3.1)	10.6
Other liabilities	19.7	(17.0)
Net cash provided by operating activities	669.7	1,020.3
<b>Investing activities:</b>		
Purchase of investments	(1,376.2)	(3,507.7)
Proceeds from sales of investments	—	72.1
Proceeds from maturities of investments	1,865.1	2,596.9
Purchase of property, plant, and equipment and intellectual property	(225.6)	(134.3)
Acquisition of businesses, net of cash, and other investing activities	(11.8)	(8.7)
Net cash provided by (used in) investing activities	251.5	(981.7)
<b>Financing activities:</b>		
Proceeds from issuance of common stock relating to employee stock plans	106.6	153.7
Taxes paid related to net share settlement of equity awards	(179.0)	(187.9)
Repurchase of common stock	(606.6)	—
Payment of deferred purchase consideration	(3.0)	(9.7)
Net cash used in financing activities	(682.0)	(43.9)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	6.0	(2.6)
Net increase (decrease) in cash, cash equivalents, and restricted cash	245.2	(7.9)
Cash, cash equivalents, and restricted cash, beginning of period	1,306.0	1,638.5
Cash, cash equivalents, and restricted cash, end of period	\$ 1,551.2	\$ 1,630.6

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

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

#### **NOTE 1. DESCRIPTION OF THE BUSINESS**

Intuitive Surgical, Inc. (“Intuitive” or the “Company”) develops, manufactures, and markets the da Vinci® Surgical System and the Ion® endoluminal system. The Company’s products and related services enable physicians and healthcare providers to improve the quality of and access to minimally invasive care. The systems consist of a surgeon console or consoles, a patient-side cart, a high-performance vision system, and proprietary instruments and accessories.

#### **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### ***Basis of Presentation***

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements (“Financial Statements”) of Intuitive Surgical, Inc. and its wholly and majority-owned subsidiaries have been prepared on a consistent basis with the audited Consolidated Financial Statements for the fiscal year ended December 31, 2021, and include all adjustments, consisting of only normal, recurring adjustments, necessary to fairly state the information set forth herein. The Financial Statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) and, therefore, omit certain information and footnote disclosure necessary to present the Financial Statements in accordance with United States (“U.S.”) generally accepted accounting principles (“U.S. GAAP”). These Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021, which was filed with the SEC on February 3, 2022. The results of operations for the first six months of 2022 are not necessarily indicative of the results to be expected for the entire fiscal year or any future periods.

The Financial Statements include the results and balances of the Company’s majority-owned joint venture (“Joint Venture”) with Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (“Fosun Pharma”). Chindex Medical Limited (“Chindex”), a subsidiary of Fosun Pharma, has been its distribution partner for da Vinci Surgical Systems in China. The Company holds a controlling financial interest in the Joint Venture, and the noncontrolling interest is reflected as a separate component of the consolidated stockholders’ equity. The noncontrolling interest’s share of the earnings in the Joint Venture is presented separately in the Condensed Consolidated Statements of Comprehensive Income.

##### ***Common Stock Split***

Shares issued pursuant to the three-for-one stock split (the “Stock Split”) of the Company’s issued and outstanding common stock, par value \$0.001 per share, were distributed on October 4, 2021, to stockholders of record as of September 27, 2021. All share and per-share information presented in the Financial Statements have been retroactively adjusted to reflect the Stock Split.

##### ***Risks and Uncertainties***

The Company’s future results of operations and liquidity could be materially adversely affected by macroeconomic factors contributing to delays in payments of outstanding receivables, supply chain disruptions, including shortages and inflationary pressure, uncertain or reduced demand, and the impact of any initiatives or programs that the Company may undertake to address financial and operational challenges faced by its customers.

In particular, the Company has experienced increased difficulties in obtaining a sufficient supply of a number of component materials used in its products, such as semiconductor components as well as a range of other materials including, but not limited to, metals and polymers, as global supply has become significantly constrained due to increased demand for certain materials. Additionally, prices of such materials have increased due to the increased demand and supply shortage. With rising interest rates, access to credit may become more difficult, and any insolvency of the Company’s key suppliers, including sole-source suppliers, may exacerbate current supply chain challenges. The Company is engaged in activities to seek to mitigate supply disruptions by, for example, increasing its communications with its suppliers and modifying its purchase order coverage and inventory levels. However, the global supply chain shortages are likely to remain a challenge for the foreseeable future.

The Company has also experienced challenges in logistics, as certain shipping routes have been impacted by port closures. Such global shortages in important components and logistics challenges have resulted in, and will continue to cause, inflationary cost pressure in the Company’s supply chain. To date, the inflationary cost pressure has been more pronounced in the Company’s logistics costs, but these supply chain challenges have not materially impacted the Company’s results of operations or ability to deliver products and services to its customers. However, if shortages in important supply chain materials in the semiconductor or other markets or logistics challenges continue, the Company could fail to meet product demand, which could result in deferred or cancelled procedures. Additionally, if inflationary pressures in logistics or component costs persist,

the Company may not be able to quickly or easily adjust pricing, reduce costs, or implement countermeasures. Additionally, there is uncertainty surrounding the impact of any monetary policy changes taken by the U.S. Federal Reserve and other central banks to address the structural risks associated with inflation.

Increased labor shortages globally, including staff burnout and attrition, could also impact the Company's ability to hire and retain personnel critical to its manufacturing, logistics, and commercial operations. The Company is also highly dependent on the principal members of its management and scientific staff. Attracting and retaining qualified personnel is critical to its success, and competition for them has become more intense. The loss of critical members of the Company's team, or its inability to attract and retain qualified personnel, could significantly hamper its operations, business, and ability to compete.

Hospitals are also experiencing staffing shortages and supply chain issues that could affect their ability to provide patient care. Additionally, hospitals are facing significant financial pressure as supply chain constraints and inflation drive up operating costs, rising interest rates make access to credit more expensive, unrealized losses decrease available cash reserves, and fiscal stimulus programs enacted during the COVID-19 pandemic wind down. To the extent macroeconomic conditions remain challenging, it is likely that hospitals' spend on capital equipment will be adversely impacted. In addition, as competition progresses in various markets, longer selling cycles and pricing pressures are likely to result. As of the date of issuance of these Financial Statements, the extent to which these macroeconomic factors may materially adversely affect the Company's financial condition, liquidity, or results of operations is uncertain.

The Company is also subject to additional risks and uncertainties due to the ongoing COVID-19 pandemic. The extent of the impact on the Company's business is highly uncertain and difficult to predict. In certain regions, the Company's customers continue to divert resources to treat COVID-19 patients and defer some elective surgical procedures, both of which may impact the Company's customers' ability to meet their obligations, including to the Company. Furthermore, economies worldwide have been negatively impacted by the COVID-19 pandemic, and it is possible that the impact could cause an extended local and/or global economic recession. Such economic disruption could have a material adverse effect on the Company's business as hospitals curtail and reduce capital and overall spending. Policymakers around the globe have responded with fiscal policy actions to support the healthcare industry and their economies. However, the magnitude and overall effectiveness of these actions remains uncertain.

The severity of the impact of the COVID-19 pandemic on the Company's business will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Company's customers, all of which are uncertain and cannot be predicted.

### ***Recently Adopted Accounting Pronouncements***

#### ***Business Combinations***

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* ("ASU 2021-08"), which creates an exception to the general recognition and measurement principle in ASC 805 by requiring companies to apply ASC 606 to recognize and measure contract assets and contract liabilities from contracts with customers acquired in a business combination. The guidance additionally clarifies that companies should apply the definition of a performance obligation in ASC 606 when recognizing contract liabilities assumed in a business combination. The Company has early adopted ASU 2021-08 as of January 1, 2022, on a prospective basis. The impact of the adoption of ASU 2021-08 had an immaterial impact on the Company's Financial Statements in the six months ended June 30, 2022.

### ***Recent Accounting Pronouncements***

#### ***Troubled Debt Restructurings and Vintage Disclosures***

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* ("ASU 2022-02"), which eliminates the accounting guidance for troubled debt restructurings by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Additionally, the standard requires disclosure of current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic ASC 326-20, *Financial Instruments-Credit Losses-Measured at Amortized Cost*. The standard will become effective for the Company beginning January 1, 2023, and should be applied prospectively. The adoption of ASU 2022-02 is not expected to have a material impact on the Company's future Financial Statements.

#### ***Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions***

In June 2022, the FASB issued ASU No. 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions* ("ASU 2022-03"), which applies to all equity securities measured at fair value that are subject to contractual sale restrictions. This change prohibits entities from taking into account contractual restrictions on the sale of equity securities when estimating fair value and introduces required disclosures for such transactions.

The standard will become effective for the Company beginning January 1, 2024, and should be applied prospectively. Early adoption is permitted. The adoption of ASU 2022-03 is not expected to have a material impact on the Company's future Financial Statements.

### Significant Accounting Policies

There have been no new or material changes to the significant accounting policies discussed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, that are of significance, or potential significance, to the Company.

### NOTE 3. FINANCIAL INSTRUMENTS

#### Cash, Cash Equivalents, and Investments

The following tables summarize the Company's cash and available-for-sale marketable securities' amortized cost, gross unrealized gains, gross unrealized losses, allowance for credit loss, and fair value by significant investment category reported as cash and cash equivalents, short-term investments, or long-term investments as of June 30, 2022 and December 31, 2021 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Loss	Fair Value	Reported as:		
						Cash and Cash Equivalents	Short- term Investments	Long- term Investments
<b>June 30, 2022</b>								
<b>Cash</b>	\$ 532.7	\$ —	\$ —	\$ —	\$ 532.7	\$ 532.7	\$ —	\$ —
<b>Level 1:</b>								
Money market funds	1,003.4	—	—	—	1,003.4	1,003.4	—	—
U.S. treasuries	3,330.1	—	(89.6)	—	3,240.5	—	1,447.1	1,793.4
Subtotal	4,333.5	—	(89.6)	—	4,243.9	1,003.4	1,447.1	1,793.4
<b>Level 2:</b>								
Commercial paper	310.6	—	—	—	310.6	—	310.6	—
Corporate debt securities	2,472.2	—	(69.1)	(1.1)	2,402.0	—	927.5	1,474.5
U.S. government agencies	522.9	0.1	(16.7)	—	506.3	—	149.9	356.4
Municipal securities	185.2	—	(5.3)	—	179.9	—	66.2	113.7
Subtotal	3,490.9	0.1	(91.1)	(1.1)	3,398.8	—	1,454.2	1,944.6
<b>Total assets measured at fair value</b>	<u>\$ 8,357.1</u>	<u>\$ 0.1</u>	<u>\$ (180.7)</u>	<u>\$ (1.1)</u>	<u>\$ 8,175.4</u>	<u>\$ 1,536.1</u>	<u>\$ 2,901.3</u>	<u>\$ 3,738.0</u>



	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Loss	Fair Value	Reported as:		
						Cash and Cash Equivalents	Short- term Investments	Long- term Investments
<b>December 31, 2021</b>								
<b>Cash</b>	\$ 572.3	\$ —	\$ —	\$ —	\$ 572.3	\$ 572.3	\$ —	\$ —
<b>Level 1:</b>								
Money market funds	696.6	—	—	—	696.6	696.6	—	—
U.S. treasuries	3,429.1	6.3	(15.4)	—	3,420.0	17.0	1,100.3	2,302.7
Subtotal	4,125.7	6.3	(15.4)	—	4,116.6	713.6	1,100.3	2,302.7
<b>Level 2:</b>								
Commercial paper	717.7	—	—	—	717.7	—	717.7	—
Corporate debt securities	2,485.6	2.7	(11.9)	—	2,476.4	5.0	886.7	1,584.7
U.S. government agencies	526.1	0.2	(2.9)	—	523.4	—	137.8	385.6
Municipal securities	213.4	0.7	(1.0)	—	213.1	—	70.6	142.5
Subtotal	3,942.8	3.6	(15.8)	—	3,930.6	5.0	1,812.8	2,112.8
<b>Total assets measured at fair value</b>	<b>\$ 8,640.8</b>	<b>\$ 9.9</b>	<b>\$ (31.2)</b>	<b>\$ —</b>	<b>\$ 8,619.5</b>	<b>\$ 1,290.9</b>	<b>\$ 2,913.1</b>	<b>\$ 4,415.5</b>

The following table summarizes the contractual maturities of the Company's cash equivalents and available-for-sale investments (excluding cash and money market funds), as of June 30, 2022 (in millions):

	Amortized Cost	Fair Value
Mature in less than one year	\$ 2,930.9	\$ 2,901.3
Mature in one to five years	3,890.1	3,738.0
Total	<u>\$ 6,821.0</u>	<u>\$ 6,639.3</u>

Actual maturities may differ from contractual maturities, because certain borrowers have the right to call or prepay certain obligations. Realized gains and losses recognized on the sale of investments were not material for any of the periods presented.

The following tables present the breakdown of the available-for-sale debt securities that have been in a continuous unrealized loss position deemed to be temporary, aggregated by investment category, as of June 30, 2022, and December 31, 2021 (in millions):

	June 30, 2022					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. treasuries	\$ 2,882.3	\$ (74.6)	\$ 327.0	\$ (15.0)	\$ 3,209.3	\$ (89.6)
Commercial paper	3.0	—	—	—	3.0	—
Corporate debt securities	1,917.7	(59.5)	182.3	(9.6)	2,100.0	(69.1)
U.S. government agencies	479.8	(15.7)	16.5	(1.0)	496.3	(16.7)
Municipal securities	130.0	(3.5)	41.5	(1.8)	171.5	(5.3)
Total	<u>\$ 5,412.8</u>	<u>\$ (153.3)</u>	<u>\$ 567.3</u>	<u>\$ (27.4)</u>	<u>\$ 5,980.1</u>	<u>\$ (180.7)</u>

	December 31, 2021					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. treasuries	\$ 2,596.3	\$ (15.4)	\$ —	\$ —	\$ 2,596.3	\$ (15.4)
Commercial paper	4.0	—	—	—	4.0	—
Corporate debt securities	1,687.9	(11.9)	—	—	1,687.9	(11.9)
U.S. government agencies	412.5	(2.9)	—	—	412.5	(2.9)
Municipal securities	156.0	(1.0)	—	—	156.0	(1.0)
Total	\$ 4,856.7	\$ (31.2)	\$ —	\$ —	\$ 4,856.7	\$ (31.2)

The Company's investment portfolio at any point in time contains available-for-sale debt securities including investments in U.S. treasury and U.S. government agency securities, taxable and tax-exempt municipal notes, corporate notes and bonds, commercial paper, non-U.S. government agency securities, cash deposits, and money market funds. The Company segments its portfolio based on the underlying risk profiles of the securities and has a zero loss expectation for U.S. treasury and U.S. government agency securities. The basis for this assumption is that these securities have consistently high credit ratings by rating agencies, have a long history with no credit losses, are explicitly guaranteed by a sovereign entity, which can print its own currency, and is a currency that is routinely held by central banks, used in international commerce, and commonly viewed as a reserve currency. The Company regularly reviews the securities in an unrealized loss position and evaluates the current expected credit loss by considering factors such as historical experience, market data, issuer-specific factors, and current economic conditions.

For the three and six months ended June 30, 2022, the credit losses related to available-for-sales debt securities were not material.

The Company determined these unrealized losses to be temporary. Factors considered in determining whether a loss is temporary included the length of time and extent to which the investment's fair value has been less than the cost basis, the financial condition and near-term prospects of the investee, the extent of the loss related to credit of the issuer, the expected cash flows from the security, the Company's intent to sell the security, and whether or not the Company will be required to sell the security before the recovery of its amortized cost. As of June 30, 2022, the Company did not intend to sell any of the debt securities included in the table above, and it is not more likely than not that the Company will be required to sell any of these securities before recovery of the unrealized losses, which may be at maturity.

### Equity Investments

The Company holds equity investments with readily determinable fair values and equity investments without readily determinable fair values. The Company generally recognizes equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

The following table is a summary of the activity related to equity investments (in millions):

	December 31, 2021 Carrying Value	Changes in Fair Value <sup>(1)</sup>	Purchases/Sales	June 30, 2022 Carrying Value	Reported as:	
					Prepaids and other current assets	Intangible and other assets, net
Equity investments with readily determinable value (Level 1)	\$ 26.9	\$ (18.3)	\$ —	\$ 8.6	\$ 8.6	\$ —
Equity investments without readily determinable value (Level 2)	\$ 15.6	\$ 0.2	\$ 20.5	\$ 36.3	\$ —	\$ 36.3

<sup>(1)</sup> Recorded in Interest and other income (expense), net.

In September 2021, Broncus Holding Corporation ("Broncus") completed an initial public offering ("IPO") of common shares on the Stock Exchange of Hong Kong. Upon completion of its IPO, the Company's preferred shares of Broncus were converted into common shares, which have a readily determinable value (Level 1). The Company was restricted from selling these shares for a period of six months.

For the three and six months ended June 30, 2022, the Company recognized an unrealized loss on this investment of \$1.1 million and \$18.3 million, respectively, reflected in changes in fair value for Level 1 equity investments, which was reflected in Interest and other income (expense), net.

There were no decreases in fair value reflected in net income due to impairments.

### Foreign Currency Derivatives

The objective of the Company's hedging program is to mitigate the impact of changes in currency exchange rates on net cash flow from foreign currency-denominated sales, expenses, intercompany balances, and other monetary assets or liabilities denominated in currencies other than the U.S. dollar ("USD"). The terms of the Company's derivative contracts are generally twelve months or shorter. The derivative assets and liabilities are measured using Level 2 fair value inputs.

#### Cash Flow Hedges

The Company enters into currency forward contracts as cash flow hedges to hedge certain forecasted revenue transactions denominated in currencies other than the USD, primarily the Euro ("EUR"), the British Pound ("GBP"), the Japanese Yen ("JPY"), the Korean Won ("KRW"), and the New Taiwan Dollar ("TWD"). The Company also enters into currency forward contracts as cash flow hedges to hedge certain forecasted expense transactions denominated in EUR and the Swiss Franc ("CHF").

For these derivatives, the Company reports the unrealized after-tax gain or loss from the hedge as a component of accumulated other comprehensive income/(loss) in stockholders' equity and reclassifies the amount into earnings in the same period in which the hedged transaction affects earnings. The amounts reclassified to revenue and expenses related to the hedged transactions and the ineffective portions of cash flow hedges were not material for the periods presented.

#### Other Derivatives Not Designated as Hedging Instruments

Other derivatives not designated as hedging instruments consist primarily of forward contracts that the Company uses to hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the USD, primarily the EUR, GBP, JPY, KRW, CHF, TWD, Indian Rupee ("INR"), Mexican Peso ("MXN"), and Chinese Yuan ("CNY").

These derivative instruments are used to hedge against balance sheet foreign currency exposures. The related gains and losses were as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Recognized gains/(losses) in Interest and other income (expense), net	\$ 21.9	\$ (4.0)	\$ 28.7	\$ 7.4
Foreign exchange gains/(losses) related to balance sheet re-measurement	\$ (28.8)	\$ 5.0	\$ (38.9)	\$ (6.0)

Additionally, in January 2021, the Company settled a collar contract previously entered into to hedge its equity investment in Teladoc Health, Inc. For the six months ended June 30, 2021, a loss of \$7.5 million was recognized in Interest and other income (expense), net.

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

	Derivatives Designated as Hedging Instruments		Derivatives Not Designated as Hedging Instruments	
	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021
Notional amounts:				
Forward contracts	\$ 204.4	\$ 181.2	\$ 335.1	\$ 318.8
Gross fair value recorded in:				
Prepays and other current assets	\$ 12.3	\$ 5.7	\$ 12.5	\$ 6.9
Other accrued liabilities	\$ 0.8	\$ 0.5	\$ 1.1	\$ 0.8

#### NOTE 4. BALANCE SHEET DETAILS AND OTHER FINANCIAL INFORMATION

##### Balance Sheet Details

The following tables provide details of selected balance sheet line items (in millions):

	As of	
	June 30, 2022	December 31, 2021
<b><u>Inventory</u></b>		
Raw materials	\$ 294.9	\$ 214.6
Work-in-process	117.4	96.4
Finished goods	311.7	276.1
Total inventory	<u>\$ 724.0</u>	<u>\$ 587.1</u>
	As of	
	June 30, 2022	December 31, 2021
<b><u>Prepaids and other current assets</u></b>		
Prepaid taxes	\$ 20.7	\$ 4.3
Equity investments	8.6	26.9
Net investment in sales-type leases—short-term	116.5	110.3
Other prepaids and other current assets	146.8	129.6
Total prepaids and other current assets	<u>\$ 292.6</u>	<u>\$ 271.1</u>
	As of	
	June 30, 2022	December 31, 2021
<b><u>Other accrued liabilities—short-term</u></b>		
Taxes payable	\$ 40.8	\$ 54.1
Current portion of deferred and contingent purchase consideration	7.2	12.0
Accrued construction-related capital expenditures	72.1	23.1
Other accrued liabilities	250.3	212.1
Total other accrued liabilities—short-term	<u>\$ 370.4</u>	<u>\$ 301.3</u>
	As of	
	June 30, 2022	December 31, 2021
<b><u>Other long-term liabilities</u></b>		
Income taxes—long-term	\$ 288.2	\$ 316.6
Deferred revenue—long-term	37.4	36.8
Other long-term liabilities	122.2	100.3
Total other long-term liabilities	<u>\$ 447.8</u>	<u>\$ 453.7</u>

##### Supplemental Cash Flow Information

The following table provides supplemental non-cash investing and financing activities (in millions):

	Six Months Ended June 30,	
	2022	2021
Equipment transfers, including operating lease assets, from inventory to property, plant, and equipment	\$ 122.7	\$ 139.4
Acquisition of property, plant, and equipment in accounts payable and accrued liabilities	\$ 95.8	\$ 14.3

**NOTE 5. REVENUE AND CONTRACT ACQUISITION COSTS**

The following table presents revenue disaggregated by types and geography (in millions):

<b>U.S.</b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Instruments and accessories	\$ 625.1	\$ 577.5	\$ 1,175.7	\$ 1,078.3
Systems	218.0	277.6	466.3	480.3
Services	168.0	150.7	333.9	294.7
Total U.S. revenue	\$ 1,011.1	\$ 1,005.8	\$ 1,975.9	\$ 1,853.3
<b>Outside of U.S. ("OUS")</b>				
Instruments and accessories	\$ 270.2	\$ 218.9	\$ 529.9	\$ 424.0
Systems	157.1	162.0	336.9	328.0
Services	83.7	77.3	167.1	150.8
Total OUS revenue	\$ 511.0	\$ 458.2	\$ 1,033.9	\$ 902.8
<b>Total</b>				
Instruments and accessories	\$ 895.3	\$ 796.4	\$ 1,705.6	\$ 1,502.3
Systems	375.1	439.6	803.2	808.3
Services	251.7	228.0	501.0	445.5
Total revenue	\$ 1,522.1	\$ 1,464.0	\$ 3,009.8	\$ 2,756.1

**Remaining Performance Obligations**

The transaction price allocated to remaining performance obligations relates to amounts allocated to products and services for which revenue has not yet been recognized. A significant portion of these performance obligations relate to service obligations in the Company's system sale and lease arrangements that will be satisfied and recognized as revenue in future periods. The transaction price allocated to the remaining performance obligations was \$1.83 billion as of June 30, 2022. The remaining performance obligations are expected to be satisfied over the term of the system sale, lease, and service arrangements, which are generally up to 5 years.

**Contract Assets and Liabilities**

The following information summarizes the Company's contract assets and liabilities (in millions):

	<b>As of</b>	
	<b>June 30, 2022</b>	<b>December 31, 2021</b>
Contract assets	\$ 50.6	\$ 46.9
Deferred revenue	\$ 413.7	\$ 414.0

The Company invoices its customers based on the billing schedules in its sales arrangements. Payments are generally due 30 to 60 days from date of invoice. Contract assets for the periods presented primarily represent the difference between the revenue that was recognized based on the relative standalone selling price of the related performance obligations satisfied and the contractual billing terms in the arrangements. Deferred revenue for the periods presented primarily relates to service contracts where the service fees are billed up-front, generally quarterly or annually, prior to those services having been performed. The associated deferred revenue is generally recognized over the term of the service period. The Company did not have any significant impairment losses on its contract assets for the periods presented.

During the three and six months ended June 30, 2022, the Company recognized \$125 million and \$318 million of revenue, respectively, that was included in the deferred revenue balance as of December 31, 2021. During the three and six months ended June 30, 2021, the Company recognized \$99 million and \$250 million of revenue, respectively, that was included in the deferred revenue balance as of December 31, 2020.

### Intuitive System Leasing

The following table presents revenue from Intuitive System Leasing arrangements (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Sales-type lease revenue	\$ 50.1	\$ 84.0	\$ 85.7	\$ 101.3
Operating lease revenue*	\$ 93.0	\$ 67.3	\$ 176.2	\$ 126.3
*Variable lease revenue relating to usage-based arrangements included within operating lease revenue	\$ 33.6	\$ 21.0	\$ 58.5	\$ 34.5

### Trade Accounts Receivable

The allowance for doubtful accounts is based on the Company's assessment of the collectibility of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, the age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay.

For the three and six months ended June 30, 2022, and 2021, bad debt expense was not material.

The Company's exposure to credit losses may increase if its customers are adversely affected by changes in healthcare laws, coverage, and reimbursement, economic pressures or uncertainty associated with local or global economic recessions, disruption associated with the current COVID-19 pandemic, or other customer-specific factors. Although the Company has historically not experienced significant credit losses, it is possible that there could be a material adverse impact from potential adjustments to the carrying amount of lease and trade receivables as hospital cash flows are impacted by inflation and rising interest rates, which drive up their operating costs, as well as their response to the COVID-19 pandemic and deferral of elective surgical procedures.

## NOTE 6. LEASES

### Lessor Information

*Sales-type Leases.* Lease receivables relating to sales-type lease arrangements are presented on the Condensed Consolidated Balance Sheets as follows (in millions):

	As of	
	June 30, 2022	December 31, 2021
Gross lease receivables	\$ 433.3	\$ 404.0
Unearned income	(13.5)	(11.4)
Subtotal	419.8	392.6
Allowance for credit loss	(3.4)	(3.6)
Net investment in sales-type leases	\$ 416.4	\$ 389.0
Reported as:		
Prepays and other current assets	\$ 116.5	\$ 110.3
Intangible and other assets, net	299.9	278.7
Total, net	\$ 416.4	\$ 389.0

Contractual maturities of gross lease receivables as of June 30, 2022, are as follows (in millions):

Fiscal Year	Amount
Remainder of 2022	\$ 63.6
2023	121.7
2024	108.3
2025	78.1
2026	46.8
2027 and thereafter	14.8
Total	\$ 433.3

The Company enters into sales-type leases with certain qualified customers to purchase its systems. Sales-type leases have terms that generally range from 24 to 84 months and are usually collateralized by a security interest in the underlying assets. The allowance for loan loss is based on the Company's assessment of current expected lifetime losses on lease receivables. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, age of the lease receivable balances, and current economic conditions that may affect a customer's ability to pay. Lease receivables are considered past due 90 days after invoice.

The Company manages the credit risk in net investment in sales-type leases using a number of factors, including, but not limited to the following: size of operations; profitability, liquidity, and debt ratios; payment history; and past due amounts. The Company also uses credit scores obtained from external providers as a key indicator for the purposes of determining credit quality. The following table summarizes the amortized cost basis by year of origination and by credit quality for the net investment in sales-type leases as of June 30, 2022 (in millions):

	2022	2021	2020	2019	2018	Prior	Net Investment
<b>Credit Rating:</b>							
High	\$ 47.6	\$ 119.3	\$ 61.8	\$ 20.8	\$ 3.4	\$ 1.7	\$ 254.6
Moderate	47.8	65.2	31.4	7.2	5.3	0.4	157.3
Low	—	0.8	3.7	2.1	1.2	0.1	7.9
<b>Total</b>	<b>\$ 95.4</b>	<b>\$ 185.3</b>	<b>\$ 96.9</b>	<b>\$ 30.1</b>	<b>\$ 9.9</b>	<b>\$ 2.2</b>	<b>\$ 419.8</b>

For the three and six months ended June 30, 2022, and 2021, credit losses related to net investment in sales-type leases were not material.

#### NOTE 7. GOODWILL AND INTANGIBLE ASSETS

##### Acquisitions

There were no material acquisitions for the six months ended June 30, 2022, and 2021.

##### Goodwill

The following table summarizes the changes in the carrying amount of goodwill (in millions):

	Amount
Balance as of December 31, 2021	\$ 343.6
Acquisition activity	6.5
Translation and other	(1.0)
Balance as of June 30, 2022	\$ 349.1

##### Intangible Assets

The following table summarizes the components of gross intangible assets, accumulated amortization, and net intangible asset balances as of June 30, 2022, and December 31, 2021 (in millions):

	June 30, 2022			December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and developed technology	\$ 219.3	\$ (180.6)	\$ 38.7	\$ 219.3	\$ (173.2)	\$ 46.1
Distribution rights and others	31.5	(21.5)	10.0	26.3	(19.4)	6.9
Customer relationships	33.5	(16.0)	17.5	31.8	(14.3)	17.5
Total intangible assets	<u>\$ 284.3</u>	<u>\$ (218.1)</u>	<u>\$ 66.2</u>	<u>\$ 277.4</u>	<u>\$ (206.9)</u>	<u>\$ 70.5</u>

Amortization expense related to intangible assets was \$6.2 million and \$7.6 million for the three months ended June 30, 2022, and 2021, respectively. Amortization expense related to intangible assets was \$12.3 million and \$14.5 million for the six months ended June 30, 2022, and 2021, respectively.

The estimated future amortization expense related to intangible assets as of June 30, 2022, is as follows (in millions):

<u>Fiscal Year</u>	<u>Amount</u>
Remainder of 2022	\$ 16.0
2023	19.6
2024	15.6
2025	10.3
2026	3.3
2027 and thereafter	1.4
Total	<u>\$ 66.2</u>

The preceding expected amortization expense is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, measurement-period adjustments to intangible assets, changes in foreign currency exchange rates, impairments of intangible assets, accelerated amortization of intangible assets, and other events.

#### **NOTE 8. CONTINGENCIES**

From time to time, the Company is involved in a variety of claims, lawsuits, investigations, and proceedings relating to securities laws, product liability, intellectual property, insurance, contract disputes, employment, and other matters. Certain of these lawsuits and claims are described in further detail below. It is not possible to predict what the outcome of these matters will be, and the Company cannot guarantee that any resolution will be reached on commercially reasonable terms, if at all.

A liability and related charge to earnings are recorded in the Financial Statements for legal contingencies when the loss is considered probable and the amount can be reasonably estimated. The assessment is re-evaluated each accounting period and is based on all available information, including the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to each case. Nevertheless, it is possible that additional future legal costs (including settlements, judgments, legal fees, and other related defense costs) could have a material adverse effect on the Company's business, financial position, and future results of operations.

##### **Product Liability Litigation**

The Company is currently named as a defendant in a number of individual product liability lawsuits filed in various state and federal courts. The plaintiffs generally allege that they or a family member underwent surgical procedures that utilized the da Vinci Surgical System and sustained a variety of personal injuries and, in some cases, death as a result of such surgery. Several of the filed cases have trial dates in the next 12 months.

The cases raise a variety of allegations including, to varying degrees, that plaintiffs' injuries resulted from purported defects in the da Vinci Surgical System and/or failure on the Company's part to provide adequate training resources to the healthcare professionals who performed plaintiffs' surgeries. The cases further allege that the Company failed to adequately disclose and/or misrepresented the potential risks and/or benefits of the da Vinci Surgical System. Plaintiffs also assert a variety of causes of action, including, for example, strict liability based on purported design defects, negligence, fraud, breach of express and implied warranties, unjust enrichment, and loss of consortium. Plaintiffs seek recovery for alleged personal injuries and, in many cases, punitive damages. The Company disputes these allegations and is defending against these claims.

The Company's estimate of the anticipated cost of resolving the pending cases is based on negotiations with attorneys for the claimants. The final outcome of the pending lawsuits and claims, and others that might arise, is dependent on many variables that are difficult to predict, and the ultimate cost associated with these product liability lawsuits and claims may be materially different than the amount of the current estimate and accruals and could have a material adverse effect on the Company's business, financial position, and future results of operations. Although there is a reasonable possibility that a loss in excess of the amount recognized exists, the Company is unable to estimate the possible loss or range of loss in excess of the amount recognized at this time.

##### **Patent Litigation**

On June 30, 2017, Ethicon LLC, Ethicon Endo-Surgery, Inc., and Ethicon US LLC (collectively, "Ethicon") filed a complaint for patent infringement against the Company in the U.S. District Court for the District of Delaware. The complaint, which was served on the Company on July 12, 2017, alleges that the Company's EndoWrist Stapler instruments infringe several of Ethicon's patents. Ethicon asserts infringement of U.S. Patent Nos. 9,585,658; 8,479,969; 9,113,874; 8,998,058; 8,991,677; 9,084,601; and 8,616,431. A claim construction hearing occurred on October 1, 2018, and the Court issued a scheduling order on December 28, 2018. On March 20, 2019, the Court granted the Company's Motion to Stay pending an Inter Partes Review to be held at the Patent Trademark and Appeals Board to review patentability of six of the seven patents noted above and



vacated the trial date. On August 1, 2019, the Court granted the parties' joint stipulation to modify the stay in light of Ethicon's U.S. International Trade Commission ("USITC") complaint against Intuitive involving U.S. Patent Nos. 8,479,969 and 9,113,874, discussed below. There is currently no trial date scheduled for this matter.

On August 27, 2018, Ethicon filed a second complaint for patent infringement against the Company in the U.S. District Court for the District of Delaware. The complaint alleges that the Company's SureForm 60 Staplers infringe five of Ethicon's patents. Ethicon asserts infringement of U.S. Patent Nos. 9,884,369; 7,490,749; 8,602,288; 8,602,287; and 9,326,770. The Company filed an answer denying all claims. On March 19, 2019, Ethicon filed a Motion for Leave to File a First Amended Complaint, removing allegations related to U.S. Patent No. 9,326,770 and adding allegations related to U.S. Patent Nos. 9,844,379 and 8,479,969. On July 17, 2019, the Court entered an order denying the amendment, without prejudice, and granting the parties' joint stipulation to stay the case in its entirety in light of the USITC investigation involving U.S. Patent Nos. 9,844,369 and 7,490,749, discussed below. There is currently no trial date scheduled for this matter.

Based on currently available information, the Company is unable to make a reasonable estimate of loss or range of losses, if any, arising from these matters.

On May 30, 2019, Ethicon filed a complaint with the USITC, asserting infringement of U.S. Patent Nos. 9,884,369 ("369"); 7,490,749 ("749"); 9,844,379 ("379"); 9,113,874 ("874"); and 8,479,969 ("969"). On June 28, 2019, the USITC voted to institute an investigation (No. 337-TA-1167) with respect to the claims in this complaint. The accused products include the Company's EndoWrist 30, EndoWrist 45, SureForm 45, and SureForm 60 Staplers, as well as the stapler reload cartridges. In March 2020, Ethicon dismissed its claims concerning the '749 patent. The evidentiary hearing took place in February 2021. On March 26, 2021, the U.S. Patent Trial and Appeal Board ("PTAB") issued a Final Written Decision in which it found the claims in the '379 patent asserted against the Company in this USITC proceeding to be invalid. On June 8, 2021, the Chief Administrative Law Judge issued an Initial Determination concluding that (1) the accused products do not infringe the asserted claims in the '874 or '969 patents; (2) the asserted claims in the '874 and '969 patents are invalid; (3) the accused SureForm staplers and associated reload cartridges infringe two claims of the '369 patent; (4) the accused SureForm staplers and associated reload cartridges infringe two claims of the '379 patent; and (5) the Company was estopped from contending that the asserted claims in the '379 patent are invalid. Ethicon has not challenged the Initial Determination with regard to the findings that absolve Intuitive of any liability regarding the accused EndoWrist staplers and associated reload cartridges. On October 14, 2021, the USITC issued its Opinion in which it made the following rulings: (1) the USITC absolved Intuitive from any liability regarding the '874, '969, and '369 patents; and (2) the USITC found that, while the SureForm staplers and their associated reload cartridges infringe the asserted claims in the '379 patent, it has suspended the imposition of any remedial order pending an opinion from the U.S. Court of Appeal for the Federal Circuit of whether the Patent and Trademark Office correctly found the asserted claims in this patent to be invalid. On May 23, 2022, the U.S. Court of Appeal for the Federal Circuit affirmed the earlier PTAB Final Written Decision invalidating the asserted claims in the '379 patent. An adverse ruling on Ethicon's appeal of the USITC's Opinion could result in a prohibition on importing the accused SureForm products into the U.S. or necessitating workarounds. Based on currently available information, the Company does not believe that any losses arising from this matter would be material.

### **Commercial Litigation**

On February 27, 2019, Restore Robotics LLC and Restore Repair LLC ("Restore") filed a complaint in the Northern District of Florida alleging anti-trust claims against the Company. On May 13, 2019, Restore filed an amended complaint alleging anti-trust claims relating to the da Vinci Surgical System and EndoWrist service, maintenance, and repair processes. On September 16, 2019, the Court partially granted and partially denied the Company's Motion to Dismiss the amended complaint.

On September 30, 2019, the Company filed an answer denying the anti-trust allegations and filed a counterclaim against Restore. The Company filed amended counterclaims after the Court partially granted and partially denied Restore's Motion to Dismiss the counterclaim. The amended counterclaims allege that Restore violated the Federal Lanham Act, the Federal Computer Fraud and Abuse Act, and Florida's Deceptive and Unfair Trade Practices Act and that Restore is also liable to the Company for Unfair Competition and Tortious Interference with Contract. On January 7, 2020, the Court denied Restore's Motion to Dismiss the amended counterclaims.

On April 11, 2022, the Court granted in part and denied in part the parties' Motions for Summary Judgment. Shortly thereafter, Restore's licensor, Rebotix Repair LLC filed a notice in the related Rebotix action (described below) that it had received an email from the U.S. Food and Drug Administration ("FDA") confirming that "extending the number of uses and modifying [EndoWrist] instrument[s] with a new chip" constitutes "remanufacturing," and required 510(k) clearance, which neither Restore nor Rebotix has obtained. In light of this communication with the FDA, on April 13, 2022, the Company filed a Motion for Reconsideration to the Court's Summary Judgment Order, which the Court denied on May 31, 2022. A trial date has been set for February 6, 2023. Based on currently available information, the Company is unable to make a reasonable estimate of loss or range of losses, if any, arising from these matters.

On September 28, 2020, Rebotix Repair Inc. (“Rebotix”) filed a complaint in the Middle District of Florida alleging anti-trust claims against the Company relating to EndoWrist service, maintenance, and repair processes. The complaint was formally served on the Company on October 6, 2020. On March 8, 2021, the Court partially granted and partially denied the Company’s Motion to Dismiss the complaint. The Company filed an answer denying the anti-trust allegations and filed counterclaims against Rebotix. The counterclaims allege that Rebotix violated the Federal Lanham Act and Florida’s Deceptive and Unfair Trade Practices Act and that Rebotix is also liable to the Company for Tortious Interference with Contract.

Motions for Summary Judgment have been filed by the Company and Rebotix. On April 1, 2022, the Court stayed this case based on Rebotix’s representation that the FDA would soon be issuing a decision on whether Rebotix’s services require 510(k) clearance. On April 11, 2022, Rebotix filed a Notice of FDA Decision, which included correspondence from the FDA concluding that Rebotix’s activities constituted remanufacturing and would require FDA review and clearance. On April 13, 2022, the Court issued an Order directing the parties to confer and file a joint status report by May 4, 2022, on how the FDA’s decision impacts this case and how the parties wish to proceed. On May 4, 2022, the parties filed a joint status report, but the Court has not taken further action since that report was filed. Based on currently available information, the Company is unable to make a reasonable estimate of loss or range of losses, if any, arising from this matter.

Similar to the claims asserted in the Restore case, on May 10, 2021, Surgical Instrument Service Company, Inc. (“SIS”) filed a complaint in the Northern District of California Court alleging anti-trust claims against the Company relating to EndoWrist service, maintenance, and repair processes. The Court granted in part and denied in part the Company’s Motion to Dismiss, and discovery has commenced. The Company filed an answer denying the anti-trust allegations and filed counterclaims against SIS. The counterclaims allege that SIS violated the Federal Lanham Act, California’s Unfair Competition Law, and California’s False Advertising Law and that SIS is also liable to the Company for Unfair Competition and Tortious Interference with Contract. Based on currently available information, the Company is unable to make a reasonable estimate of loss or range of losses, if any, arising from this matter.

Three class action complaints were filed against the Company in the Northern District of California Court alleging anti-trust allegations relating to the service and repair of certain instruments manufactured by the Company. A complaint by Larkin Community Hospital was filed on May 20, 2021, a complaint by Franciscan Alliance, Inc. and King County Public Hospital District No. 1 was filed on July 6, 2021, and a complaint by Kaleida Health was filed on July 8, 2021. The Court has consolidated the Franciscan Alliance, Inc. and King County Public Hospital District No. 1 and Kaleida Health cases with the Larkin Community Hospital case, which is now captioned on the Larkin docket as “In Re: da Vinci Surgical Robot Antitrust Litigation.” A Consolidated Amended Class Action Complaint has been filed on behalf of each plaintiff named in the earlier-filed cases. On January 14, 2022, Kaleida Health voluntarily dismissed itself as a party to this case. On January 18, 2022, the Company filed an answer against the plaintiffs in this matter, and discovery has commenced. Based on currently available information, the Company is unable to make a reasonable estimate of loss or range of losses, if any, arising from these matters.

## NOTE 9. STOCKHOLDERS' EQUITY

### Stockholders' Equity

The following tables present the changes in stockholders' equity (in millions):

Three Months Ended June 30, 2022								
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Intuitive Surgical, Inc. Stockholders' Equity	Noncontrolling Interest in Joint Venture	Total Stockholders' Equity
	Shares	Amount						
Beginning balance	358.9	\$ 0.4	\$ 7,354.6	\$ 4,858.0	\$ (110.7)	\$ 12,102.3	\$ 54.6	\$ 12,156.9
Issuance of common stock through employee stock plans	0.4	—	26.6	—	—	26.6	—	26.6
Shares withheld related to net share settlement of equity awards	—	—	(0.6)	(6.2)	—	(6.8)	—	(6.8)
Share-based compensation expense related to employee stock plans	—	—	126.7	—	—	126.7	—	126.7
Repurchase and retirement of common stock	(2.2)	—	(23.3)	(476.8)	—	(500.1)	—	(500.1)
Net income attributable to Intuitive Surgical, Inc.	—	—	—	307.8	—	307.8	—	307.8
Other comprehensive income (loss)	—	—	—	—	(33.5)	(33.5)	(1.0)	(34.5)
Net income attributable to noncontrolling interest in joint venture	—	—	—	—	—	—	5.8	5.8
Ending balance	357.1	\$ 0.4	\$ 7,484.0	\$ 4,682.8	\$ (144.2)	\$ 12,023.0	\$ 59.4	\$ 12,082.4

  

Three Months Ended June 30, 2021								
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Intuitive Surgical, Inc. Stockholders' Equity	Noncontrolling Interest in Joint Venture	Total Stockholders' Equity
	Shares	Amount						
Beginning balance	355.2	\$ 0.4	\$ 6,627.0	\$ 3,514.7	\$ 11.4	\$ 10,153.5	\$ 36.7	\$ 10,190.2
Issuance of common stock through employee stock plans	1.0	—	69.7	—	—	69.7	—	69.7
Shares withheld related to net share settlement of equity awards	—	—	(0.7)	(9.2)	—	(9.9)	—	(9.9)
Share-based compensation expense related to employee stock plans	—	—	108.1	—	—	108.1	—	108.1
Net income attributable to Intuitive Surgical, Inc.	—	—	—	517.2	—	517.2	—	517.2
Other comprehensive income (loss)	—	—	—	—	(1.1)	(1.1)	(0.5)	(1.6)
Net income attributable to noncontrolling interest in joint venture	—	—	—	—	—	—	5.8	5.8
Ending balance	356.2	\$ 0.4	\$ 6,804.1	\$ 4,022.7	\$ 10.3	\$ 10,837.5	\$ 42.0	\$ 10,879.5

**Six Months Ended June 30, 2022**

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Intuitive Surgical, Inc. Stockholders' Equity	Noncontrolling Interest in Joint Venture	Total Stockholders' Equity
	Shares	Amount						
Beginning balance	357.7	\$ 0.4	\$ 7,164.0	\$ 4,760.9	\$ (24.2)	\$ 11,901.1	\$ 50.4	\$ 11,951.5
Issuance of common stock through employee stock plans	2.6	—	106.6	—	—	106.6	—	106.6
Shares withheld related to net share settlement of equity awards	(0.6)	—	(6.7)	(172.3)	—	(179.0)	—	(179.0)
Share-based compensation expense related to employee stock plans	—	—	247.5	—	—	247.5	—	247.5
Repurchase and retirement of common stock	(2.6)	—	(27.4)	(579.2)	—	(606.6)	—	(606.6)
Net income attributable to Intuitive Surgical, Inc.	—	—	—	673.4	—	673.4	—	673.4
Other comprehensive income (loss)	—	—	—	—	(120.0)	(120.0)	(0.6)	(120.6)
Net income attributable to noncontrolling interest in joint venture	—	—	—	—	—	—	9.6	9.6
Ending balance	357.1	\$ 0.4	\$ 7,484.0	\$ 4,682.8	\$ (144.2)	\$ 12,023.0	\$ 59.4	\$ 12,082.4

**Six Months Ended June 30, 2021**

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Intuitive Surgical, Inc. Stockholders' Equity	Noncontrolling Interest in Joint Venture	Total Stockholders' Equity
	Shares	Amount						
Beginning balance	353.1	\$ 0.4	\$ 6,444.9	\$ 3,261.3	\$ 24.9	\$ 9,731.5	\$ 27.6	\$ 9,759.1
Issuance of common stock through employee stock plans	3.8	—	153.7	—	—	153.7	—	153.7
Shares withheld related to net share settlement of equity awards	(0.7)	—	(5.8)	(182.1)	—	(187.9)	—	(187.9)
Share-based compensation expense related to employee stock plans	—	—	211.3	—	—	211.3	—	211.3
Net income attributable to Intuitive Surgical, Inc.	—	—	—	943.5	—	943.5	—	943.5
Other comprehensive income (loss)	—	—	—	—	(14.6)	(14.6)	(0.3)	(14.9)
Net income attributable to noncontrolling interest in joint venture	—	—	—	—	—	—	14.7	14.7
Ending balance	356.2	\$ 0.4	\$ 6,804.1	\$ 4,022.7	\$ 10.3	\$ 10,837.5	\$ 42.0	\$ 10,879.5

**Stock Repurchase Program**

The Company's Board of Directors (the "Board") has previously authorized an aggregate of \$7.5 billion of funding for the Company's common stock repurchase program (the "Repurchase Program") since its establishment in March 2009. The most recent authorization occurred in January 2019 when the Board increased the authorized amount available under the Repurchase Program to \$2.0 billion. As of June 30, 2022, the remaining amount of share repurchases authorized by the Board was \$1.0 billion. On July 20, 2022, the Board increased the authorized amount available under the Repurchase Program to an aggregate of \$3.5 billion, including amounts remaining under previous authorization.

The following table provides share repurchase activities (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Shares repurchased	2.2	—	2.6	—
Average price per share	\$ 224.4	\$ —	\$ 231.0	\$ —
Value of shares repurchased	\$ 500.1	\$ —	\$ 606.6	\$ —

***Accumulated Other Comprehensive Income (Loss), Net of Tax, Attributable to Intuitive Surgical, Inc.***

The components of accumulated other comprehensive income (loss), net of tax, attributable to Intuitive Surgical, Inc. are as follows (in millions):

<b>Three Months Ended June 30, 2022</b>					
	<b>Gains (Losses) on Hedge Instruments</b>	<b>Unrealized Gains (Losses) on Available-for-Sale Securities</b>	<b>Foreign Currency Translation Gains (Losses)</b>	<b>Employee Benefit Plans</b>	<b>Total</b>
Beginning balance	\$ 5.5	\$ (106.7)	\$ (4.8)	\$ (4.7)	\$ (110.7)
Other comprehensive income (loss) before reclassifications	(9.0)	(33.3)	(4.5)	—	(46.8)
Amounts reclassified from accumulated other comprehensive income (loss)	13.4	(0.1)	—	—	13.3
Net current-period other comprehensive income (loss)	4.4	(33.4)	(4.5)	—	(33.5)
Ending balance	<u>\$ 9.9</u>	<u>\$ (140.1)</u>	<u>\$ (9.3)</u>	<u>\$ (4.7)</u>	<u>\$ (144.2)</u>

<b>Three Months Ended June 30, 2021</b>					
	<b>Gains (Losses) on Hedge Instruments</b>	<b>Unrealized Gains (Losses) on Available-for-Sale Securities</b>	<b>Foreign Currency Translation Gains (Losses)</b>	<b>Employee Benefit Plans</b>	<b>Total</b>
Beginning balance	\$ 3.2	\$ 19.5	\$ (5.0)	\$ (6.3)	\$ 11.4
Other comprehensive income (loss) before reclassifications	0.5	(6.0)	4.9	—	(0.6)
Amounts reclassified from accumulated other comprehensive income (loss)	(0.6)	—	—	0.1	(0.5)
Net current-period other comprehensive income (loss)	(0.1)	(6.0)	4.9	0.1	(1.1)
Ending balance	<u>\$ 3.1</u>	<u>\$ 13.5</u>	<u>\$ (0.1)</u>	<u>\$ (6.2)</u>	<u>\$ 10.3</u>

<b>Six Months Ended June 30, 2022</b>					
	<b>Gains (Losses) on Hedge Instruments</b>	<b>Unrealized Gains (Losses) on Available-for-Sale Securities</b>	<b>Foreign Currency Translation Gains (Losses)</b>	<b>Employee Benefit Plans</b>	<b>Total</b>
Beginning balance	\$ 4.5	\$ (16.0)	\$ (7.9)	\$ (4.8)	\$ (24.2)
Other comprehensive income (loss) before reclassifications	(5.3)	(124.1)	(1.4)	—	(130.8)
Amounts reclassified from accumulated other comprehensive income (loss)	10.7	—	—	0.1	10.8
Net current-period other comprehensive income (loss)	5.4	(124.1)	(1.4)	0.1	(120.0)
Ending balance	<u>\$ 9.9</u>	<u>\$ (140.1)</u>	<u>\$ (9.3)</u>	<u>\$ (4.7)</u>	<u>\$ (144.2)</u>

	Six Months Ended June 30, 2021				
	Gains (Losses) on Hedge Instruments	Unrealized Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation Gains (Losses)	Employee Benefit Plans	Total
Beginning balance	\$ (2.9)	\$ 29.5	\$ 4.7	\$ (6.4)	\$ 24.9
Other comprehensive income (loss) before reclassifications	5.1	(16.0)	(4.8)	—	(15.7)
Amounts reclassified from accumulated other comprehensive income (loss)	0.9	—	—	0.2	1.1
Net current-period other comprehensive income (loss)	6.0	(16.0)	(4.8)	0.2	(14.6)
Ending balance	\$ 3.1	\$ 13.5	\$ (0.1)	\$ (6.2)	\$ 10.3

#### NOTE 10. SHARE-BASED COMPENSATION

In April 2022, the Company's shareholders approved an amended and restated 2010 Incentive Award Plan to provide for an increase in the number of shares of common stock reserved for issuance thereunder from 103,350,000 to 110,350,000. As of June 30, 2022, approximately 28.2 million shares were reserved for future issuance under the Company's stock plans. A maximum of approximately 12.3 million of these shares can be awarded as restricted stock units ("RSUs").

##### Stock Options Information

A summary of stock option activity under all stock plans for the six months ended June 30, 2022, is presented as follows (in millions, except per share amounts):

	Stock Options Outstanding	
	Number Outstanding	Weighted-Average Exercise Price Per Share
Balance as of December 31, 2021	11.7	\$ 125.07
Options granted	0.6	\$ 287.28
Options exercised	(0.8)	\$ 80.09
Options forfeited/expired	(0.1)	\$ 232.79
Balance as of June 30, 2022	11.4	\$ 135.41

As of June 30, 2022, options to purchase an aggregate of 9.3 million shares of common stock were exercisable at a weighted average price of \$108.23 per share.

##### Restricted Stock Units Information

A summary of RSUs activity under all stock plans for the six months ended June 30, 2022, is presented as follows (in millions, except per share amounts):

	Shares	Weighted-Average Grant-Date Fair Value
Unvested balance as of December 31, 2021	4.8	\$ 207.37
RSUs granted	1.7	\$ 283.62
RSUs vested	(1.7)	\$ 187.45
RSUs forfeited	(0.2)	\$ 230.38
Unvested balance as of June 30, 2022	4.6	\$ 242.33

##### Performance Share Units

Beginning in 2022, in addition to RSUs and stock options, the Company granted performance share units ("PSUs") to officers and other key employees subject to three-year cliff vesting and pre-established, quantitative goals. Whether any PSUs vest, and the amount that does vest, is tied to completion of service over three years and the achievement of three equally-weighted, quantitative goals that directly align with or help drive the Company's strategy and long-term total shareholder return. The metrics are focused on relative total shareholder return ("TSR"), year-over-year procedure growth for 2023, and

two-year compound annual procedure growth for 2024. TSR is considered a market condition, and the expense is determined at the grant date. This expense will not be adjusted even if the market condition is not met. The two procedure growth goals are considered performance conditions, and the expense is recorded over the vesting period based on the forecasted performance, which will be reassessed each reporting period based on the probability of achieving the two performance conditions. The number of shares earned at the end of the three-year period will vary, based on actual performance, from 0% to 125% of the target number of PSUs granted. PSUs are subject to forfeiture if employment terminates prior to the vesting date. PSUs are not considered issued or outstanding shares of the Company.

The Company calculates the fair value for each component of the PSUs individually. The fair value for the component with the TSR metric was determined using Monte Carlo simulation. The fair value per share for the components with the procedure growth metrics is equal to the closing stock price on the grant date. As part of the Company's annual grant in 2022, 0.1 million PSUs were granted at a weighted-average grant-date fair value of \$299.32.

#### **Employee Stock Purchase Plan**

Under the Employee Stock Purchase Plan ("ESPP"), employees purchased approximately 0.2 million shares for \$47.8 million and approximately 0.3 million shares for \$41.4 million during the six months ended June 30, 2022, and 2021, respectively.

#### **Share-based Compensation Expense**

The following table summarizes share-based compensation expense for the three and six months ended June 30, 2022, and 2021 (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cost of sales—products	\$ 20.3	\$ 16.6	\$ 39.0	\$ 31.9
Cost of sales—services	5.8	5.2	11.4	10.9
Total cost of sales	26.1	21.8	50.4	42.8
Selling, general, and administrative	62.7	55.7	123.0	108.8
Research and development	38.5	32.6	75.3	62.7
Share-based compensation expense before income taxes	127.3	110.1	248.7	214.3
Income tax benefit	20.9	22.5	48.1	43.1
Share-based compensation expense after income taxes	\$ 106.4	\$ 87.6	\$ 200.6	\$ 171.2

The Black-Scholes option pricing model is used to estimate the fair value of stock options granted under the Company's share-based compensation plans and rights to acquire stock granted under the ESPP. The weighted-average estimated fair values of stock options and the rights to acquire stock under the ESPP, as well as the weighted-average assumptions used in calculating the fair values of stock options and the rights to acquire stock under the ESPP that were granted during the three and six months ended June 30, 2022, and 2021, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
<b>Stock Options</b>				
Risk-free interest rate	2.9%	0.8%	1.7%	0.7%
Expected term (in years)	3.3	4.0	3.4	4.3
Expected volatility	38%	27%	36%	33%
Fair value at grant date	\$72.35	\$63.65	\$80.27	\$69.96
<b>ESPP</b>				
Risk-free interest rate	—%	—%	0.8%	0.1%
Expected term (in years)	0.0	0.0	1.2	1.2
Expected volatility	—%	—%	37%	35%
Fair value at grant date	\$—	\$—	\$88.85	\$74.39

#### **NOTE 11. INCOME TAXES**

Income tax expense for the three months ended June 30, 2022, was \$93.3 million, or 22.9% of income before taxes, compared to \$3.2 million, or 0.6% of income before taxes, for the three months ended June 30, 2021. Income tax expense for

the six months ended June 30, 2022, was \$126.3 million, or 15.6% of income before taxes, compared to \$16.8 million, or 1.7% of income before taxes, for the six months ended June 30, 2021.

The effective tax rate for the three months ended June 30, 2022, differed from the U.S. federal statutory tax rate of 21% mainly due to U.S. tax on foreign earnings and state income taxes (net of federal benefit), partially offset by excess tax benefits associated with employee equity plans, the effect of income earned by certain overseas entities being taxed at rates lower than the federal statutory rate, and the federal research and development (“R&D”) credit benefit.

The effective tax rates for the six months ended June 30, 2022, and for the three and six months ended June 30, 2021, differed from the U.S. federal statutory rate of 21% mainly due to excess tax benefits associated with employee equity plans, the effect of income earned by certain overseas entities being taxed at rates lower than the federal statutory rate, and the federal R&D credit benefit, partially offset by U.S. tax on foreign earnings and state income taxes (net of federal benefit).

The effective tax rate for the three and six months ended June 30, 2021, included a one-time benefit of \$66.4 million from re-measurement of the Company’s Swiss deferred tax assets resulting from the extension of the economic useful life of certain intangible assets.

The provision for income taxes for the three and six months ended June 30, 2022, reflected the impact of a change in U.S. tax law effective January 1, 2022, which requires the capitalization and amortization of research and experimental (“R&E”) expenditures incurred after December 31, 2021.

The provision for income taxes for the three and six months ended June 30, 2022, included excess tax benefits associated with employee equity plans of \$9.3 million and \$62.3 million, which reduced the Company’s effective tax rate by 2.3 and 7.7 percentage points, respectively. The provision for income taxes for the three and six months ended June 30, 2021, included excess tax benefits associated with employee equity plans of \$43.6 million and \$117.0 million, which reduced the Company’s effective tax rate by 8.3 and 12.0 percentage points, respectively.

The Company files federal, state, and foreign income tax returns in many U.S. and OUS jurisdictions. Years before 2016 are closed for the significant jurisdictions. Certain of the Company’s unrecognized tax benefits could change due to activities of various tax authorities, including potential assessment of additional tax, possible settlement of audits, or through normal expiration of various statutes of limitations, which could affect the Company’s effective tax rate in the period in which they change. Due to the uncertainty related to the timing and potential outcome of audits, the Company cannot estimate the range of reasonably possible change in unrecognized tax benefits that may occur in the next 12 months.

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

#### NOTE 12. NET INCOME PER SHARE

The following table presents the computation of basic and diluted net income per share attributable to Intuitive Surgical, Inc. (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
<b>Numerator:</b>				
Net income attributable to Intuitive Surgical, Inc.	\$ 307.8	\$ 517.2	\$ 673.4	\$ 943.5
<b>Denominator:</b>				
Weighted average shares outstanding used in basic calculation	358.1	355.7	358.2	355.0
Add: dilutive effect of potential common shares	5.8	9.2	7.1	9.5
Weighted average shares outstanding used in diluted calculation	363.9	364.9	365.3	364.5
<b>Net income per share attributable to Intuitive Surgical, Inc.:</b>				
Basic	\$ 0.86	\$ 1.45	\$ 1.88	\$ 2.66
Diluted	\$ 0.85	\$ 1.42	\$ 1.84	\$ 2.59



Share-based compensation awards of approximately 4.3 million and 1.2 million shares for the three months ended June 30, 2022, and 2021, respectively, and approximately 3.4 million and 1.1 million shares for the six months ended June 30, 2022, and 2021, respectively, were outstanding but were not included in the computation of diluted net income per share attributable to Intuitive Surgical, Inc. common stockholders, because the effect of including such shares would have been anti-dilutive in the periods presented.

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

This management's discussion and analysis of financial condition as of June 30, 2022, and results of operations for the three and six months ended June 30, 2022, and 2021, should be read in conjunction with management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2021.

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements relate to expectations concerning matters that are not historical facts. Statements using words such as "estimates," "projects," "believes," "anticipates," "plans," "expects," "intends," "may," "will," "could," "should," "would," "targeted," and similar words and expressions are intended to identify forward-looking statements. These forward-looking statements are necessarily estimates reflecting the judgment of our management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements include, but are not limited to, statements related to the expected impacts of the COVID-19 pandemic on our business, financial condition, and results of operations, future results of operations, future financial position, our financing plans and future capital requirements, our potential tax assets or liabilities, and statements based on current expectations, estimates, forecasts, and projections about the economies and markets in which we operate and our beliefs and assumptions regarding these economies and markets. These forward-looking statements should be considered in light of various important factors, including, but not limited to, the following: disruption to our supply chain, including increased difficulties in obtaining a sufficient supply of materials in the semiconductor and other markets; the risk that the COVID-19 pandemic could lead to material delays and cancellations of, or reduced demand for, procedures; curtailed or delayed capital spending by hospitals; closures of our facilities; delays in surgeon training; delays in gathering clinical evidence; delays in obtaining new product approvals, clearances, or certifications from the U.S. Food and Drug Administration ("FDA"); the evaluation of the risks of robotic-assisted surgery in the presence of infectious diseases; diversion of resources to respond to COVID-19 outbreaks; the risk that the COVID-19 virus causes economies in our key markets to enter prolonged recessions; the impact of global and regional economic and credit market conditions on healthcare spending; the risk of our inability to comply with complex FDA and other regulations, which may result in significant enforcement actions; regulatory approvals, clearances, certifications, and restrictions or any dispute that may occur with any regulatory body; guidelines and recommendations in the healthcare and patient communities; healthcare reform legislation in the U.S. and its impact on hospital spending, reimbursement, and fees levied on certain medical device revenues; changes in hospital admissions and actions by payers to limit or manage surgical procedures; the timing and success of product development and market acceptance of developed products; the results of any collaborations, in-licensing arrangements, joint ventures, strategic alliances, or partnerships, including the joint venture with Shanghai Fosun Pharmaceutical (Group) Co., Ltd.; our completion of and ability to successfully integrate acquisitions; intellectual property positions and litigation; competition in the medical device industry and in the specific markets of surgery in which we operate; risks associated with our operations and any expansion outside of the United States; unanticipated manufacturing disruptions or the inability to meet demand for products; our reliance on sole and single source suppliers; the results of legal proceedings to which we are or may become a party, including, but not limited to, product liability claims; adverse publicity regarding us and the safety of our products and adequacy of training; the impact of changes to tax legislation, guidance, and interpretations; changes in tariffs, trade barriers, and regulatory requirements; and other risk factors. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report and which are based on current expectations and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those risk factors described throughout this filing and identified under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021, as updated by our other filings with the Securities and Exchange Commission. We undertake no obligation to publicly update or release any revisions to these forward-looking statements, except as required by law.

Intuitive®, Intuitive Surgical®, da Vinci®, da Vinci S®, da Vinci S HD Surgical System®, da Vinci Si®, da Vinci X®, da Vinci Xi®, da Vinci SP®, EndoWrist®, Firefly®, InSite®, SureForm®, Ion®, Iris®, and SynchroSeal® are trademarks or registered trademarks of the Company.

### Overview

As part of Intuitive's mission, we believe that minimally invasive care is life-enhancing care. Intuitive is committed to advancing minimally invasive care through a comprehensive ecosystem of products and services. This ecosystem includes systems, instruments and accessories, learning, and services connected by a digital portfolio that enables precision and control, seamless interactions and experiences, and meaningful insights to drive better care.

Intuitive brings nearly three decades of experience and technical innovation to our robotic-assisted surgical solutions. While surgery and acute interventions have improved significantly in the past decades, there remains a significant need for better outcomes and decreased variability of these outcomes across care teams. The current healthcare environment continues to stress critical resources, including the professionals who staff care teams: surgeons, anesthesiologists, nurses, and other staff. At the same time, governments strain to cover the healthcare needs of their populations and demand lower total cost per patient to treat disease. In the face of these challenges, we believe scientific and technological advances in biology, computing, imaging, algorithms, and robotics may offer new methods to solve continued and difficult problems.

We address our customer needs by sharing their goals reflected in the quadruple aim. First, we focus on improving patient outcomes through an ecosystem of advanced robotic systems, instruments and accessories, progressive technology learning pathways, and comprehensive support and program assistance services. Second, we seek to improve the patient experience by minimizing disruption to lives and creating greater predictability for the treatment experience. Third, we seek to improve care team satisfaction by creating products and services that are dependable, smart, and optimized for the care environment in which they are used. Finally, we seek to lower the total cost to treat per patient episode when compared with existing treatment alternatives, providing a return on investment for hospitals and healthcare systems and value for payers.

Open surgery remains the predominant form of surgery and is used in almost every area of the body. However, the large incisions required for open surgery create trauma to patients, typically resulting in longer hospitalization and recovery times, increased hospitalization costs, and additional pain and suffering relative to minimally invasive surgery ("MIS"), where MIS is available. For over three decades, MIS has reduced trauma to patients by allowing selected surgeries to be performed through small ports rather than large incisions. MIS has been widely adopted for certain surgical procedures.

Da Vinci Surgical Systems enable surgeons to extend the benefits of MIS to many patients who would otherwise undergo a more invasive surgery by using computational, robotic, and imaging technologies to overcome many of the limitations of traditional open surgery or conventional MIS. Surgeons using a da Vinci Surgical System operate while seated comfortably at a console viewing a 3D, high-definition image of the surgical field. This immersive console connects surgeons to the surgical field and their instruments. While seated at the console, the surgeon manipulates instrument controls in a natural manner, similar to open surgical technique. Our technology is designed to provide surgeons with a range of articulation of the surgical instruments used in the surgical field analogous to the motions of a human wrist, while filtering out the tremor inherent in a surgeon's hand. In designing our products, we focus on making our technology easy and safe to use.

Our da Vinci products fall into five broad categories: da Vinci Surgical Systems, da Vinci instruments and accessories, da Vinci Stapling, da Vinci Energy, and da Vinci Vision, including Firefly Fluorescence imaging systems and da Vinci Endoscopes. We also provide a comprehensive suite of systems, learning, and services offerings. Digitally-enabled for more than two decades, these three offerings aim to decrease variability by providing dependable, consistent functionality and an integrated user experience. Our systems category includes robotic platforms, software, vision, energy, and instruments and accessories. Our learning category includes educational technology, such as simulation and telepresence, as well as technical training programs and personalized peer-to-peer learning opportunities. Our services category assists and optimizes minimally invasive programs through readiness, on-demand support, consultation for minimally invasive program optimization, and hospitals customized analytics. Within our integrated ecosystem, our focus is to decrease variability in surgery by offering actionable insights, with digital solutions, to take action with the potential to improve outcomes, personalize learning, and optimize efficiency. We take a holistic approach, offering intelligent technology and systems designed to work together to make MIS intervention more available and applicable.

We have commercialized the following da Vinci Surgical Systems: the da Vinci standard Surgical System in 1999, the da Vinci S Surgical System in 2006, the da Vinci Si Surgical System in 2009, and the fourth generation da Vinci Xi Surgical System in 2014. We have extended our fourth generation platform by adding the da Vinci X Surgical System, commercialized in 2017, and the da Vinci SP Surgical System, commercialized in 2018. The da Vinci SP Surgical System accesses the body through a single incision while the other da Vinci Surgical Systems access the body through multiple incisions. All da Vinci systems include a surgeon's console (or consoles), imaging electronics, a patient-side cart, and computational hardware and software. We are still in a measured launch of our da Vinci SP Surgical System, and we have an installed base of 111 da Vinci SP Surgical Systems as of June 30, 2022. Our plans for the rollout of the da Vinci SP Surgical System include putting systems in the hands of experienced da Vinci users first while we optimize training pathways and our supply chain. We received U.S. FDA clearances for the da Vinci SP Surgical System for urological and certain transoral procedures. We also received clearance in South Korea where the da Vinci SP Surgical System may be used for a broad set of procedures. We plan to seek FDA clearances for additional indications for da Vinci SP over time. We also plan to seek clearances in other OUS markets over time. The success of the da Vinci SP Surgical System is dependent on positive experiences and improved clinical outcomes for the procedures for which it has been cleared as well as securing additional clinical clearances.

We offer approximately 70 different multi-port da Vinci instruments to provide surgeons with flexibility in choosing the types of tools needed to perform a particular surgery. These multi-port instruments are generally robotically controlled and provide end effectors (tips) that are similar to those used in either open or laparoscopic surgery. We offer advanced

instrumentation for the da Vinci Xi and da Vinci X platforms, including da Vinci Energy and da Vinci Stapler products, to provide surgeons with sophisticated, computer-aided tools to precisely and efficiently interact with tissue. Da Vinci X and da Vinci Xi Surgical Systems share the same instruments whereas the da Vinci Si Surgical System uses instruments that are not compatible with da Vinci X or da Vinci Xi systems. We currently offer nine core instruments on our da Vinci SP Surgical System. We plan to expand the SP instrument offering over time.

Training technologies include our Intuitive Simulation products, our Intuitive Telepresence remote case observation and telementoring tools, and our dual console for use in surgeon proctoring and collaborative surgery.

During the first quarter of 2019, the FDA cleared our Ion endoluminal system to enable minimally invasive biopsies in the lung. Our Ion system extends our commercial offering beyond surgery into diagnostic procedures with this first application. Our rollout of the Ion system is progressing well, and we are continuing to gather additional clinical evidence. We plan to seek additional clearances for the Ion system in OUS markets over time.

The success of new product introductions depends on a number of factors including, but not limited to, pricing, competition, market and consumer acceptance, the effective forecasting and management of product demand, inventory levels, the management of manufacturing and supply costs, and the risk that new products may have quality or other defects in the early stages of introduction.

#### ***Macroeconomic Environment***

Uncertainty surrounding macroeconomic factors in the U.S. and globally characterized by the supply chain environment, inflationary pressure, rising interest rates, labor shortages, and significant disruption in commodities as a result of the Russia and Ukraine conflict may result in a recession, which could have a material adverse effect on our long-term business.

We have experienced increased difficulties in obtaining a sufficient supply of a number of component materials used in our products, such as semiconductor components as well as a range of other materials, including, but not limited to, metals and polymers, as global supply has become significantly constrained due to increased demand for certain materials. Additionally, prices of such materials have increased due to the increased demand and supply shortage. With rising interest rates, access to credit may become more difficult and any insolvency of key suppliers, including single-source suppliers, may exacerbate current supply chain challenges. We are engaged in activities to seek to mitigate supply disruptions, but the global supply chain shortages are likely to remain a challenge for the foreseeable future.

We have also experienced challenges in logistics, as certain shipping routes have been impacted by port closures. Such global shortages in important components and logistics challenges have resulted in, and will continue to cause, inflationary cost pressure in our supply chain. To date, the inflationary cost pressure has been more pronounced in our logistics costs, but these supply chain challenges have not materially impacted our results of operations or ability to deliver products and services to our customers. However, if shortages in important supply chain materials in the semiconductor or other markets or logistics challenges continue, we could fail to meet product demand, which could result in deferred or cancelled procedures. If inflationary pressures in logistics or component costs persist, we may not be able to adjust pricing, reduce costs, or implement countermeasures. Additionally, there is uncertainty surrounding the impact of any monetary policy changes taken by the U.S. Federal Reserve and other central banks to address the structural risks associated with inflation.

Increased labor shortages globally, including staff burnout and attrition, could also impact our ability to hire and retain personnel critical to our manufacturing, logistics, and commercial operations. We are also highly dependent on the principal members of our management and scientific staff. Attracting and retaining qualified personnel is critical to our success, and competition for them has become more intense. The loss of critical members of our team, or our inability to attract and retain qualified personnel, could significantly harm our operations, business, and ability to compete.

The current macroeconomic environment is impacting our customers financially and operationally as well. Hospitals are experiencing staffing shortages and supply chain issues that could affect their ability to provide patient care. Additionally, hospitals are facing significant financial pressure as supply chain constraints and inflation drive up operating costs, rising interest rates make access to credit more expensive, unrealized losses decrease available cash reserves, and fiscal stimulus programs enacted during the COVID-19 pandemic wind down. As a consequence of the financial pressures and decreased profitability, some hospitals have indicated that they are lowering their capital investment plans and tightening their operational budgets. We believe that these factors have contributed to a softening in our U.S. capital pipeline, and we expect that demand for capital, particularly in the U.S., will continue to be impacted while macroeconomic conditions remain challenging. In addition, as competition progresses in various markets, we will likely experience longer selling cycles and pricing pressures. Any or all of these factors could negatively impact the number of da Vinci procedures performed or the number of system placements and have a material adverse effect on our business, financial condition, results of operations, or cash flows resulting in failure to achieve our anticipated financial results.

## **COVID-19 Pandemic**

### *Procedures*

In 2021, COVID-19 resurgences continued to affect da Vinci procedure volumes at various times throughout the year in most of the markets that we operate in. After each resurgence, as COVID-19 cases and hospitalizations subsided, we saw procedure volumes recover. In the U.S., the impact of high COVID-related hospitalization rates on procedure volumes also have been exacerbated by staffing shortages. Although hospitals are now better equipped to handle COVID patients as compared to the outset of the pandemic, COVID-19 resurgences have challenged, and will continue to challenge, hospital resources and negatively impact da Vinci procedure volumes. In addition, delays in diagnosis and treatment of underlying conditions have, and will continue to have, a negative impact on da Vinci procedure volumes. Volumes associated with benign procedures have generally been impacted to a higher degree when COVID-19 cases and hospitalizations increased, reflecting the deferability of certain elective surgeries.

In early 2022, a resurgence of COVID-19 resulted in a significant increase in infections and hospitalization rates in the U.S. and certain countries in Europe, which, in turn, negatively impacted procedure volumes in January and February. As infections and hospitalizations started to decrease in February in the U.S. and Europe, we saw a recovery of procedure volumes. In March and during the second quarter of 2022, we also saw a resurgence in COVID-19 cases and increased hospitalizations and government interventions impacting parts of Asia, particularly China, which negatively impacted procedure volumes.

The depth and extent to which the COVID-19 pandemic will impact individual markets will vary based on the availability of resources and interventions, such as medical staff, intensive care units and operating rooms, and vaccinations, as well as government interventions. The impact of COVID-19 on our procedure volumes varies widely by country, region, and type. When COVID-19 infection rates spike in a particular region, procedure volumes have been negatively impacted and the diagnoses of new conditions and their related treatments have been deferred.

### *General Increase in Risks*

The COVID-19 pandemic and local actions, such as “shelter-in-place” orders and restrictions on our ability to travel and access our customers or temporary closures of our facilities, including our training and manufacturing operations, or the facilities of our suppliers and their contract manufacturers, could further significantly impact our sales and our ability to produce and ship our products and supply our customers.

In addition, COVID-19 has contributed to the staffing shortages experienced by hospitals, which impacts hospitals’ ability to provide patient care and, in some cases, results in the deferral of elective surgeries.

### *Our Response*

Our priorities and actions during the COVID-19 pandemic have been and remain as follows. First, we are focused on the health and safety of all those we serve—patients, customers, our communities, and our employees—implementing continuous updates to our health and safety policies and processes. Second, we are supporting our customers according to their priorities—clinical, operational, and economic—and ensuring continuity of supply by working with our suppliers and our distributors. Third, we are securing our workforce economically. We have built a valuable team over the years, and we believe they will be important in a recovery that follows the pandemic. Finally, we will continue to invest in our priority development programs while eliminating avoidable spend.

As COVID-19 vaccination rates increase and the severity of cases decline, we are implementing our return-to-office strategy. We intend to remain flexible, allowing many of our employees to work remotely on at least a partial basis, while maintaining productivity and our culture. Our top priority in this process continues to be the health and safety of our employees.

## **Business Model**

### *Overview*

We generate revenue from the placements of da Vinci Surgical Systems, in sales or sales-type lease arrangements where revenue is recognized up-front or in operating lease transactions and usage-based models where revenue is recognized over time. We earn recurring revenue from the sales of instruments, accessories, and services, as well as the revenue from operating leases. The da Vinci Surgical System generally sells for between \$0.5 million and \$2.5 million, depending upon the model, configuration, and geography, and represents a significant capital equipment investment for our customers when purchased. Our instruments and accessories have limited lives and will either expire or wear out as they are used in surgery, at which point they need to be replaced. We generally earn between \$600 and \$3,500 of instruments and accessories revenue per surgical procedure performed, depending on the type and complexity of the specific procedures performed and the number and type of instruments used. Further, in late 2020, we launched our Extended Use Program (refer to further discussion immediately below) in the U.S. and Europe, with the intention to reduce the cost for customers to treat patients, which in turn will reduce our overall instruments and accessories revenue per procedure. We typically enter into service contracts at the time systems are sold or

leased at an annual fee between \$80,000 and \$190,000, depending upon the configuration of the underlying system and composition of the services offered under the contract. These service contracts have generally been renewed at the end of the initial contractual service periods.

We generate revenue from our Ion endoluminal system in a business model consistent with the da Vinci Surgical System model described above. We generate revenue from the placement of Ion systems, in sales or sales-type lease arrangements where revenue is recognized up-front at a point in time or in operating lease transactions and usage-based models where revenue is recognized over time. We earn recurring revenue from the sales of instruments and accessories used in biopsies and ongoing system service, as well as revenue from operating leases. The average selling price of an Ion system is generally significantly lower than the average selling price of a da Vinci Surgical System. For the three and six months ended June 30, 2022, and 2021, Ion's contribution to revenue and gross margin was not significant.

Additionally, as part of our ecosystem of products and services, we provide a portfolio of learning offerings and digital solutions. We do not currently generate material revenue from these offerings.

#### ***Extended Use Program***

In 2020, we introduced our "Extended Use Program," which consists of select da Vinci Xi and da Vinci X instruments possessing 12 to 18 uses ("Extended Use Instruments") compared to previously 10 uses. These Extended Use Instruments represent some of our higher volume instruments but exclude stapling, monopolar, and advanced energy instruments. Instruments included in the program are used across a number of da Vinci surgeries. Their increased uses are the result of continuous, significant investments in the design and production capabilities of our instruments, resulting in improved quality and durability. Extended Use Instruments were introduced in the U.S. and Europe in the fourth quarter of 2020 and launched in most other countries around the world in the first half of 2021, except China due to regulatory timelines. In addition, simultaneous with the regional launches of Extended Use Instruments, we have lowered the price of certain instruments that are most commonly used in lower acuity procedures and/or lower reimbursed procedures within the region. These actions have reduced the cost for customers to treat patients, which in turn has reduced our revenue per procedure. In the U.S. and Europe, during 2021, we saw customers adjust their instrument buying patterns to reduce their inventory levels to reflect the additional uses per instrument. We believe that, as of the end of 2021, in the U.S. and Europe, full cutover to Extended Use Instruments has occurred, as customers have substantially utilized all of their remaining 10 use instruments. The precise impact of these actions on future revenue will be dependent on the future volume and mix of procedures and whether cost elasticity will enable greater penetration into available markets.

#### ***Recurring Revenue***

Recurring revenue consists of instruments and accessories revenue, service revenue, and operating lease revenue. Recurring revenue increased to \$4.3 billion, or 75% of total revenue in 2021, compared to \$3.4 billion, or 77% of total revenue in 2020, and \$3.2 billion, or 72% of total revenue in 2019.

Instruments and accessories revenue has grown at a faster rate than systems revenue over time. Instruments and accessories revenue increased to \$3.10 billion in 2021, compared to \$2.46 billion in 2020 and \$2.41 billion in 2019. The increase in instruments and accessories revenue largely reflects continued procedure adoption.

Service revenue was \$916 million in 2021, compared to \$724 million in 2020 and 2019. The increase in service revenue was primarily driven by the growth of the installed base of systems producing service revenue, as well as the effects of the Customer Relief Program in the prior year, which resulted in an \$80 million decrease in service revenue in 2020. The installed base of da Vinci Surgical Systems grew 12% to approximately 6,730 as of December 31, 2021; 7% to approximately 5,989 as of December 31, 2020; and 12% to approximately 5,582 as of December 31, 2019. The installed base of Ion endoluminal systems was approximately 129 as of December 31, 2021; approximately 36 as of December 31, 2020; and approximately 10 as of December 31, 2019.

We use the installed base, number of placements, and utilization of systems as metrics for financial and operational decision-making and as a means to evaluate period-to-period comparisons. Management believes that the installed base, number of placements, and utilization of systems provide meaningful supplemental information regarding our performance, as management believes that the installed base, number of placements, and utilization of systems are an indicator of the rate of adoption of robotic-assisted surgery or medical procedures as well as an indicator of future recurring revenue (particularly service revenue). Management believes that both it and investors benefit from referring to the installed base, number of placements, and utilization of systems in assessing our performance and when planning, forecasting, and analyzing future periods. The installed base, number of placements, and utilization of systems also facilitate management's internal comparisons of our historical performance. We believe that the installed base, number of placements, and utilization of systems are useful to investors as metrics, because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making, and (2) they are used by institutional investors and the analyst community to help them analyze the performance of our business. The vast majority of systems installed are connected via the internet. System

logs can also be accessed by field engineers for systems that are not connected to the internet. We utilize this information as well as other information from agreements and discussions with our customers that involve estimates and judgments, which are, by their nature, subject to substantial uncertainties and assumptions. Estimates and judgments for determining the installed base, number of placements, and utilization of systems may be impacted over time by various factors, including system internet connectivity, hospital and distributor reporting behavior, and inherent complexities in new agreements. Such estimates and judgments are also susceptible to technical errors. In addition, the relationship between the installed base, number of placements, and utilization of systems and our revenues may fluctuate from period to period, and growth in the installed base, number of placements, and utilization of systems may not correspond to an increase in revenue. The installed base, number of placements, and utilization of systems are not intended to be considered in isolation or as a substitute for, or superior to, revenue or other financial information prepared and presented in accordance with generally accepted accounting principles.

### ***Intuitive System Leasing***

Since 2013, we have entered into sales-type and operating lease arrangements directly with certain qualified customers as a way to offer customers flexibility in how they acquire systems and expand their robotic-assisted programs while leveraging our balance sheet. These leases generally have commercially competitive terms as compared to other third-party entities that offer equipment leasing. We have also entered into usage-based arrangements with qualified customers that have committed da Vinci programs where we charge for the system and service as the systems are utilized. We believe that these alternative financing structures have been effective and well-received, and we are willing to expand the proportion of these structures based on customer demand. We include operating and sales-type leases, and systems placed under usage-based arrangements, in our system placement and installed base disclosures. We exclude operating lease-related revenue, usage-based revenue, and Ion system revenue from our da Vinci Surgical System average selling price ("ASP") computations.

In the years ended December 31, 2021, 2020, and 2019, we placed 668, 432, and 425 da Vinci Surgical Systems, respectively, under lease and usage-based arrangements, of which 517, 317, and 384 systems, respectively, were operating lease and usage-based arrangements. Revenue from operating lease arrangements is generally recognized on a straight-line basis over the lease term or, in the case of usage-based arrangements, as the systems are used. We generally set operating lease and usage-based pricing at a modest premium relative to purchased systems reflecting the time value of money and, in the case of usage-based arrangements, the risk that system utilization may fall short of anticipated levels. Variable lease revenue recognized from usage-based arrangements has been included in our operating lease metrics herein. Operating lease revenue has grown at a faster rate than overall systems revenue and was \$277 million, \$177 million, and \$107 million for the years ended December 31, 2021, 2020, and 2019, respectively. As revenue for operating leases and usage-based systems is recognized over time, total systems revenue growth is reduced in a period when the number of operating lease and usage-based placements increases as a proportion of total system placements. Generally, lease transactions generate similar gross margins as our sale transactions. As of December 31, 2021, a total of 1,294 da Vinci Surgical Systems were installed at customers under operating lease or usage-based arrangements.

Our exposure to the credit risks relating to our lease financing arrangements may increase if our customers are adversely affected by changes in healthcare laws, coverage and reimbursement, economic pressures or uncertainty, or other customer-specific factors. In addition, as customers divert resources to the treatment of or the preparation to treat patients with COVID-19, we may be exposed to defaults under our lease financing arrangements. Moreover, usage-based arrangements generally contain no minimum payments; therefore, customers may exit such arrangements without paying a financial penalty to us. As a result of the COVID-19 pandemic, we anticipate that some customers will exit such arrangements or seek to amend the terms of our operating lease and usage-based arrangements with them.

For some operating lease arrangements, our customers are provided with the right to purchase the leased system at certain points during and/or at the end of the lease term. Revenue generated from customer purchases of systems under operating lease arrangements ("Lease Buyouts") was \$96.0 million, \$52.2 million, and \$92.8 million for the years ended December 31, 2021, 2020, and 2019, respectively. We expect that revenue recognized from customer exercises of the buyout options will fluctuate based on the timing of when, and if, customers choose to exercise their buyout options.

### ***Systems Revenue***

System placements are driven by procedure growth in most markets. In some markets, system placements are constrained by regulation. In geographies where da Vinci procedure adoption is in an early stage or system placements are constrained by regulation, system sales will precede procedure growth. System placements also vary due to seasonality, largely aligned with hospital budgeting cycles. We typically place a higher proportion of annual system placements in the fourth quarter and a lower proportion in the first quarter as customer budgets are reset. Systems revenue is also affected by the proportion of system placements under operating lease and usage-based arrangements, recurring operating lease and usage-based revenue, operating lease buyouts, product mix, ASPs, trade-in activities, and customer mix. Systems revenue grew 44% to \$1.69 billion in 2021. Systems revenue declined 12% to \$1.18 billion in 2020. Systems revenue grew 19% to \$1.35 billion in 2019. Based on the

factors outlined in the *COVID-19 Pandemic* section above, we believe that historical system placement trends may not be a good indicator of future system placements.

#### ***Procedure Mix / Products***

Our da Vinci Surgical Systems are generally used for soft tissue surgery for areas of the body between the pelvis and the neck, primarily in general surgery, gynecologic surgery, urologic surgery, cardiothoracic surgery, and head and neck surgery. Within these categories, procedures range in complexity from cancer and other highly complex procedures to less complex procedures for benign conditions. Cancer and other highly complex procedures tend to be reimbursed at higher rates than less complex procedures for benign conditions. Thus, hospitals are more sensitive to the costs associated with treating less complex, benign conditions. Our strategy is to provide hospitals with attractive clinical and economic solutions across the spectrum of procedure complexity. Our fully featured da Vinci Xi Surgical System with advanced instruments (including da Vinci Energy and EndoWrist and SureForm Stapler products) and our Integrated Table Motion product targets the more complex procedure segment. Our da Vinci X Surgical System is targeted towards price sensitive markets and procedures. Our da Vinci SP Surgical System complements the da Vinci Xi and X Surgical Systems by enabling surgeons to access narrow workspaces.

#### ***Procedure Seasonality***

More than half of da Vinci procedures performed are for benign conditions, most notably hernia repairs, hysterectomies, and cholecystectomies. These benign procedures and other short-term elective procedures tend to be more seasonal than cancer operations and surgeries for other life-threatening conditions. Seasonality in the U.S. for procedures for benign conditions typically results in higher fourth quarter procedure volume when more patients have met annual deductibles and lower first quarter procedure volume when deductibles are reset. Seasonality outside the U.S. varies and is more pronounced around local holidays and vacation periods. As a result of the factors outlined in the *COVID-19 Pandemic* section above, including past and potentially future recommendations of authorities to defer elective procedures, historical procedure patterns may be disrupted.

#### ***Distribution Channels***

We provide our products through direct sales organizations in the U.S., Europe (excluding Spain, Portugal, Italy, Greece, and most Eastern European countries), China (through our Intuitive-Fosun Pharma joint venture), Japan, South Korea, India, Taiwan and, as of June 2022, Canada. In the remainder of our OUS markets, we provide our products through distributors.

### **Regulatory Activities**

#### ***Overview***

Our products must meet the requirements of a large and growing body of international standards that govern the product safety, efficacy, advertising, labeling, safety reporting design, manufacture, materials content and sourcing, testing, certification, packaging, installation, use, and disposal of our products. Examples of such standards include electrical safety standards, such as those of the International Electrotechnical Commission, and composition standards, such as the Reduction of Hazardous Substances and the Waste Electrical and Electronic Equipment Directives. Failure to meet these standards could limit our ability to market our products in those regions that require compliance to such standards.

Our products and operations are also subject to increasingly stringent medical device, privacy, and other regulations by regional, federal, state, and local authorities. After a device is placed on the market, numerous FDA and other regulatory requirements continue to apply. These requirements include establishment registration and device listing with the FDA and compliance with medical device reporting regulations, which require that manufacturers report to the FDA if their device caused or contributed, or may have caused or contributed, to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur.

We recently revised our medical device reporting policies, which had been developed based on previous feedback from the FDA. These revisions have been made in consultation with the FDA to better align with existing regulations. There has been an increase in medical device reporting filings due to changes in our reportability criteria. In addition, we have been investing in resources and utilizing external experts to strengthen our quality system. These efforts are ongoing.

We also anticipate that timelines for the introduction of new products and/or indications may be extended relative to past experience as a result of these regulations. For example, we have seen elongated regulatory approval timelines in the U.S. and the EU.



### *Clearances and Approvals*

We have generally obtained the clearances required to market our products associated with our da Vinci Surgical Multiport Systems (Standard, S, Si, Xi, and X systems) for our targeted surgical specialties within the U.S., South Korea, Japan, and the European markets in which we operate. Since 2020, we obtained regulatory clearances for the following products:

- In February 2022, we received regulatory clearance in China to market both our 12 mm SureForm 45 Stapler and SureForm 60 Stapler and corresponding reloads.
- In January 2022, we received regulatory clearance in China to market our da Vinci Vessel Sealer Extend with up to 7 mm vascular indications.
- In December 2021, we obtained FDA clearance for our 8 mm SureForm 30 Curved-Tip Stapler and reloads for use in general, thoracic, gynecologic, urologic, and pediatric surgery. The 8 mm SureForm 30 stapler is expected to launch in the U.S. in 2022, with other countries to follow.
- In late 2020 and early 2021, we obtained FDA clearance, CE mark clearance, and other regulatory clearances in most of our significant markets to market our Extended Use Instruments.
- In November 2019, we obtained FDA clearance for our SynchroSeal instrument and E-100 generator. Following the FDA clearance, in February 2020, we received CE mark clearance for both products. In March 2020, we received regulatory clearance in Japan to market both our SynchroSeal instrument and E-100 generator. We received regulatory clearance in South Korea to market our SynchroSeal instrument and E-100 generator in January 2020 and August 2020, respectively.
- In June 2019, we received CE mark clearance for our da Vinci Endoscope Plus for the da Vinci Xi and da Vinci X Surgical Systems in Europe. Following the CE mark, in July 2019, we obtained FDA clearance for our da Vinci Endoscope Plus. We have also received regulatory clearances in South Korea and Japan to market our da Vinci Endoscope Plus in December 2019 and May 2020, respectively. In March 2022, we received regulatory clearance in China to market our da Vinci Endoscope Plus.
- In June 2019, we obtained FDA clearance for our da Vinci Handheld Camera and, in February 2020, we received CE mark clearance.

Refer to the descriptions of our new products that received regulatory clearances in 2022, 2021, and 2020 in the New Product Introductions section below.

In October 2018, the China National Health Commission published on its official website the quota for major medical equipment to be sold in China through 2020. After an adjustment notice was published in the third quarter of 2020, the government will now allow for the total sale of 225 new surgical robots into China, which could include da Vinci Surgical Systems as well as surgical systems introduced by others. As of June 30, 2022, we have sold 172 da Vinci Surgical Systems under this quota, and five system quotas are no longer available; therefore, 48 surgical robots can still be sold under this quota. Future sales of da Vinci Surgical Systems under the quota are uncertain, as they are dependent on hospitals completing a tender process and receiving associated approvals.

The Japanese Ministry of Health, Labor, and Welfare (“MHLW”) considers reimbursement for procedures in April of even-numbered years. The process for obtaining reimbursement requires Japanese university hospitals and surgical societies, with our support, to seek reimbursement. There are multiple pathways to obtain reimbursement for procedures, including those that require in-country clinical data/economic data. In April 2012 and April 2016, the MHLW granted reimbursement status for prostatectomy and partial nephrectomy, respectively. Most prostatectomies and partial nephrectomies were open procedures prior to da Vinci reimbursement. Da Vinci procedure reimbursement for prostatectomy and partial nephrectomy procedures are higher than open and conventional laparoscopic procedure reimbursements. An additional 12 da Vinci procedures were granted reimbursement effective April 1, 2018, including gastrectomy, low anterior resection, lobectomy, and hysterectomy, for both malignant and benign conditions, and an additional seven da Vinci procedures were granted reimbursement effective April 1, 2020. An additional eight da Vinci procedures were granted reimbursement effective April 1, 2022, including colon resection. In addition, we received higher reimbursement for da Vinci gastrectomy procedures, as compared to open and conventional laparoscopic procedure reimbursements. The additional reimbursed procedures have varying levels of conventional laparoscopic penetration and will generally be reimbursed at rates equal to the conventional laparoscopic procedures. Given the reimbursement level and laparoscopic penetration for these additional procedures, there can be no assurance that the adoption pace for these procedures will be similar to prostatectomy or partial nephrectomy, given their higher reimbursement, or any other da Vinci procedure.

### ***Recalls and Corrections***

Medical device companies have regulatory obligations to correct or remove medical devices in the field that could pose a risk to health. The definition of “recalls and corrections” is expansive and includes repair, replacement, inspections, relabeling, and issuance of new or additional instructions for use or reinforcement of existing instructions for use and training when such actions are taken for specific reasons of safety or compliance. These field actions require stringent documentation, reporting, and monitoring worldwide. There are other actions that a medical device manufacturer may take in the field without reporting including, but not limited to, routine servicing and stock rotations.

As we determine whether a field action is reportable in any regulatory jurisdiction, we prepare and submit notifications to the appropriate regulatory agency for the particular jurisdiction. Regulators can require the expansion, reclassification, or change in scope and language of the field action. In general, upon submitting required notifications to regulators regarding a field action that is a recall or correction, we will notify customers regarding the field action, provide any additional documentation required in their national language, and arrange, as required, the return or replacement of the affected product or a field service visit to perform the correction.

Field actions, as well as certain outcomes from regulatory activities, can result in adverse effects on our business, including damage to our reputation, delays by customers of purchase decisions, reduction or stoppage of the use of installed systems, and reduced revenue as well as increased expenses.

### **Procedures**

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

We use the number and type of procedures as metrics for financial and operational decision-making and as a means to evaluate period-to-period comparisons. Management believes that the number and type of procedures provide meaningful supplemental information regarding our performance, as management believes procedure volume is an indicator of the rate of adoption of robotic-assisted surgery as well as an indicator of future revenue (including revenue from usage-based arrangements). Management believes that both it and investors benefit from referring to the number and type of procedures in assessing our performance and when planning, forecasting, and analyzing future periods. The number and type of procedures also facilitate management’s internal comparisons of our historical performance. We believe that the number and type of procedures are useful to investors as metrics, because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making, and (2) they are used by institutional investors and the analyst community to help them analyze the performance of our business. The vast majority of systems installed are connected via the internet. System logs can also be accessed by field engineers for systems that are not connected to the internet. We utilize certain methods that rely on information collected from the systems installed for determining the number and type of procedures performed that involve estimates and judgments, which are, by their nature, subject to substantial uncertainties and assumptions. Estimates and judgments for determining the number and type of procedures may be impacted over time by various factors, including changes in treatment modalities, hospital and distributor reporting behavior, and system internet connectivity. Such estimates and judgments are also susceptible to algorithmic or other technical errors. In addition, the relationship between the number and type of procedures and our revenues may fluctuate from period to period, and procedure volume growth may not correspond to an increase in revenue. The number and type of procedures are not intended to be considered in isolation or as a substitute for, or superior to, revenue or other financial information prepared and presented in accordance with generally accepted accounting principles.

### ***Worldwide Procedures***

Our da Vinci systems and instruments are regulated independently in various countries and regions of the world. The discussion of indications for use and representative or target procedures is intended solely to provide an understanding of the market for da Vinci products and is not intended to promote for sale or use of any Intuitive product outside of its licensed or cleared labeling and indications for use.

The adoption of robotic-assisted surgery using the da Vinci Surgical System has the potential to grow for those procedures that offer greater patient value than to non-da Vinci alternatives and competitive total economics for healthcare providers. Our da Vinci Surgical Systems are used primarily in general surgery, urologic surgery, gynecologic surgery, cardiothoracic surgery, and head and neck surgery. We focus our organization and investments on developing, marketing, and training products and services for procedures in which da Vinci can bring patient value relative to alternative treatment options and/or economic

benefit to healthcare providers. Target procedures in general surgery include hernia repair (both ventral and inguinal), colorectal procedures, cholecystostomies, and bariatrics. Target procedures in urology include prostatectomy and partial nephrectomy. Target procedures in gynecology include hysterectomy for both cancer and benign conditions and sacrocolpopexy. In cardiothoracic surgery, target procedures include lobectomy. In head and neck surgery, target procedures include transoral surgery. Not all indications, procedures, or products described may be available in a given country or region or on all generations of da Vinci surgical systems. Surgeons and their patients need to consult the product labeling in their specific country and for each product in order to determine the cleared uses, as well as important limitations, restrictions, or contraindications.

In 2021, approximately 1,594,000 surgical procedures were performed with da Vinci Surgical Systems, compared to approximately 1,243,000 and 1,229,000 surgical procedures performed with da Vinci Surgical Systems in 2020 and 2019, respectively. The increase in our overall procedure volume in 2021 reflects the significant disruption caused by the COVID-19 pandemic in 2020, as noted in the *COVID-19 Pandemic* section above, and was driven by growth in U.S. general surgery and gynecology procedures and worldwide urology procedures.

#### ***U.S. Procedures***

Overall U.S. procedure volume with da Vinci Surgical Systems grew to approximately 1,109,000 in 2021, compared to approximately 876,000 in 2020 and approximately 883,000 in 2019. General surgery was our largest and fastest growing U.S. specialty in 2020 with procedure volume that grew to approximately 589,000 in 2021, compared to approximately 434,000 in 2020 and approximately 421,000 in 2019. Gynecology was our second largest U.S. surgical specialty in 2021 with procedure volume that grew to approximately 316,000 in 2021, compared to approximately 267,000 in 2020 and approximately 282,000 in 2019. Urology was our third largest U.S. surgical specialty in 2021 with procedure volume that grew to approximately 153,000 in 2021, compared to approximately 134,000 in 2020 and approximately 138,000 in 2019.

#### ***Procedures Outside of the U.S.***

Overall OUS procedure volume with da Vinci Surgical Systems grew to approximately 485,000 in 2021, compared to approximately 367,000 in 2020 and approximately 346,000 in 2019. Urology was our largest OUS specialty in 2021 with procedure volume that grew to approximately 264,000 in 2021, compared to approximately 214,000 in 2020 and approximately 206,000 in 2019. General surgery was our second largest OUS specialty in 2021 with procedure volume that grew to approximately 101,000 in 2021, compared to approximately 68,000 in 2020 and approximately 62,000 in 2019. Thoracic procedures also contributed to OUS procedure growth with higher growth rates than urology and general surgery procedures.

## Recent Business Events and Trends

### Procedures

*Overall.* Total da Vinci procedures performed by our customers grew approximately 14% for the three months ended June 30, 2022, compared to approximately 68% for the three months ended June 30, 2021. Total da Vinci procedures performed by our customers grew approximately 16% for the six months ended June 30, 2022, compared to approximately 39% for the six months ended June 30, 2021. The second quarter 2022 and 2021 procedure results (and comparative second quarter 2020 procedure results) reflect disruption caused by the COVID-19 pandemic, as noted in the *COVID-19 Pandemic* section above. The second quarter 2022 procedure growth was largely attributable to growth in U.S. general surgery and growth in OUS markets. Delays in both the diagnosis and treatments of disease reflecting disruptions caused by COVID-19 have previously and may continue to impact the number of procedures performed by our customers.

*U.S. Procedures.* U.S. da Vinci procedures grew approximately 11% for the three months ended June 30, 2022, compared to approximately 77% for the three months ended June 30, 2021. U.S. da Vinci procedures grew approximately 13% for the six months ended June 30, 2022, compared to approximately 41% for the six months ended June 30, 2021. The second quarter 2022 and 2021 procedure results reflect disruption caused by the COVID-19 pandemic, as noted in the *COVID-19 Pandemic* section above. The second quarter 2022 U.S. procedure growth was largely attributable to growth in general surgery procedures, most notably bariatric, cholecystectomy, and hernia repair procedures. Growth in the more mature gynecologic and urologic procedure categories was more moderate.

*OUS Procedures.* OUS da Vinci procedures grew approximately 22% for the three months ended June 30, 2022, compared to approximately 51% for the three months ended June 30, 2021. OUS da Vinci procedures grew approximately 23% for the six months ended June 30, 2022, compared to approximately 36% for the six months ended June 30, 2021. The second quarter 2022 and 2021 procedure results reflect disruption caused by the COVID-19 pandemic, as noted in the *COVID-19 Pandemic* section above. The second quarter 2022 OUS procedure growth was driven by continued growth in urologic procedures, including prostatectomies and partial nephrectomies, and earlier stage growth in general surgery (particularly colorectal), gynecology, and thoracic procedures. The second quarter 2022 OUS procedure growth rate reflects continued da Vinci adoption in European and Asian markets. We saw strong procedure growth in Japan, Italy, and Germany during the second quarter of 2022. However, our procedure volume in China was impacted by an increase in COVID-19 cases and preventative measures and interventions taken by the government. We believe growth in our global markets is being driven by increased acceptance among surgeons and health systems, supported by expanded global evidence validating the clinical and economic value of da Vinci procedures.

### System Demand

We placed 279 da Vinci Surgical Systems in the second quarter of 2022, compared to 328 systems in the second quarter of 2021. The decrease in systems placed reflects a smaller number of third generation da Vinci systems available for trade-in, along with supply chain and logistical challenges impacting the number of systems available for shipment, and a softening of our capital pipeline in the U.S. caused by increased financial pressures on hospitals from higher inflation, increasing interest rates, and continued staffing shortages. As a consequence of the financial pressures and decreased profitability, some hospitals have indicated they are lowering their capital investment plans and tightening operational budgets. We expect that demand for capital, particularly in the U.S., will be impacted while macroeconomic conditions remain challenging. In addition, given the lower number of older generation systems in the field, we expect the volume of trade-ins to be significantly lower in 2022 as compared to 2021.

Second quarter 2022 placements declined 15% compared with 2021, and future placements of da Vinci Surgical Systems will be impacted by a number of factors: supply chain risks; economic and geopolitical factors; inflationary pressures; rising interest rates; hospital staffing shortages; the impact of the current COVID-19 pandemic, as noted in the *COVID-19 Pandemic* section above; hospital response to the evolving healthcare environment; procedure growth rates; hospital consolidation trends; evolving system utilization and point of care dynamics; capital replacement trends, including a declining number of older generation systems available for trade-in transactions; additional reimbursements in various global markets, including Japan: the timing around governmental tenders and authorizations, including China; the timing of when we receive regulatory clearance in our other OUS markets for our da Vinci Xi Surgical System, da Vinci X Surgical System, and da Vinci SP Surgical System, and related instruments; and market response. Market acceptance of our da Vinci SP Surgical System and the nature and timing of additional da Vinci SP regulatory indications may also impact future system placements.

Demand may also be impacted by robotic-assisted surgery competition, including from companies that have introduced products in the field of robotic-assisted surgery or have made explicit statements about their efforts to enter the field including, but not limited to, the following companies: Asensus Surgical, Inc.; avateramedical GmbH; CMR Surgical Ltd.; Johnson & Johnson; Medcaroid, Inc.; Medrobotics Corporation; Medtronic plc; meerecompany Inc.; MicroPort Scientific Corporation; Olympus Corporation; Samsung Group; Shandong Weigao Group Medical Polymer Company Ltd.; and Titan Medical Inc.

Many of the above factors will also impact future demand for our Ion system, as we extend our commercial offering into diagnostics, along with additional factors associated with a new product introduction, including, but not limited to, our ability to optimize manufacturing and our supply chain, competition, clinical data to demonstrate value, and market acceptance.

#### ***New Product Introductions***

***SureForm 30 Curved-Tip Stapler and Reloads.*** In December 2021, we obtained FDA clearance for our 8 mm SureForm 30 Curved-Tip Stapler and reloads (gray, white, and blue) for use in general, thoracic, gynecologic, urologic, and pediatric surgery. It has been designed to help surgeons better visualize and reach anatomy through a combination of the 8 mm diameter instrument shaft and jaws, 120-degree cone of wristed articulation, and the curved tip. As it fits through the 8 mm da Vinci surgical system instrument cannula, the stapler allows different angles for surgeons to approach patient anatomy. Consistent with the other SureForm staplers, the 8 mm SureForm 30 Curved-Tip Stapler integrates SmartFire technology, which makes automatic adjustments to the firing process as staples are formed and the transection is made. The technology makes more than 1,000 measurements per second, helping achieve a consistent staple line. We are introducing the 8 mm SureForm 30 stapler in a measured fashion in the U.S. in 2022, with other countries to follow.

***SynchroSeal and E-100 Generator.*** In November 2019, we obtained FDA clearance for our SynchroSeal instrument and E-100 generator. Following the FDA clearance, in February 2020, we received CE mark clearance for both products. In March 2020, we received regulatory clearance in Japan to market both our SynchroSeal instrument and E-100 generator. In August 2020, we received regulatory clearance in South Korea to market our E-100 generator. SynchroSeal is a single-use, bipolar, electrosurgical instrument intended for grasping, dissection, sealing, and transection of tissue. With its wristed articulation, rapid sealing cycle, and refined curved jaw, SynchroSeal offers enhanced versatility to the da Vinci Energy portfolio. The E-100 generator is an electrosurgical generator developed to power two key instruments—Vessel Sealer Extend and SynchroSeal—on the da Vinci X and da Vinci Xi Surgical Systems. The generator delivers high frequency energy for cutting, coagulation, and vessel sealing of tissues.

***Da Vinci Endoscope Plus.*** In June 2019, we received CE mark clearance for our da Vinci Endoscope Plus, an enhanced 3D endoscope for use with our da Vinci X and Xi Surgical Systems. Following the CE mark, in July 2019, we obtained FDA clearance for our da Vinci Endoscope Plus. We have also received regulatory clearances in South Korea and Japan to market our da Vinci Endoscope Plus in December 2019 and May 2020, respectively. In March 2022, we received regulatory clearance in China to market our da Vinci Endoscope Plus. The da Vinci Endoscope Plus leverages new sensor technology to allow for increased sharpness and color accuracy.

***Da Vinci Handheld Camera.*** In June 2019, we obtained FDA clearance for our da Vinci Handheld Camera, a lightweight, 2D camera head, which can be connected to third-party laparoscopes. This allows the laparoscopic image to be displayed on the da Vinci X/Xi vision cart to address aspects of da Vinci procedures that may require use of a laparoscope, thus eliminating the need for redundant equipment in the operating room and increasing procedure efficiency. In February 2020, we received CE mark clearance for our da Vinci Handheld Camera. We broadly launched the da Vinci Handheld Camera in our European direct markets as well as in the U.S. in May 2020 and June 2020, respectively.

## Second Quarter 2022 Operational and Financial Highlights

- Total revenue increased by 4% to \$1.52 billion for the three months ended June 30, 2022, compared to \$1.46 billion for the three months ended June 30, 2021.
- Approximately 465,000 da Vinci procedures were performed during the three months ended June 30, 2022, an increase of 14% compared to approximately 408,000 for the three months ended June 30, 2021.
- Approximately 5,200 Ion procedures were performed during the three months ended June 30, 2022, an increase of 251% compared to approximately 1,480 for the three months ended June 30, 2021.
- Instruments and accessories revenue increased by 12% to \$895 million for the three months ended June 30, 2022, compared to \$796 million for the three months ended June 30, 2021.
- Systems revenue decreased by 15% to \$375 million for the three months ended June 30, 2022, compared to \$440 million during the three months ended June 30, 2021.
- During the three months ended June 30, 2022, we placed 279 da Vinci Surgical Systems, a decrease of 15% compared to 328 systems during the three months ended June 30, 2021.
- As of June 30, 2022, we had a da Vinci Surgical System installed base of approximately 7,135 systems, an increase of 13% compared to the installed base of approximately 6,335 systems as of June 30, 2021.
- Utilization of da Vinci Surgical Systems, measured in terms of procedures per system per year, increased 1% relative to the second quarter of 2021.
- During the three months ended June 30, 2022, we placed 41 Ion systems, an increase of 105% compared to 20 systems during the three months ended June 30, 2021.
- As of June 30, 2022, we had an Ion system installed base of approximately 204 systems, an increase of 191% compared to the installed base of approximately 70 systems as of June 30, 2021.
- Gross profit as a percentage of revenue was 67.2% for the three months ended June 30, 2022, compared to 69.9% for the three months ended June 30, 2021.
- Operating income decreased by 22% to \$398 million for the three months ended June 30, 2022, compared to \$511 million during the three months ended June 30, 2021. Operating income included \$127 million and \$110 million of share-based compensation expense related to employee stock plans and \$8.0 million and \$10.9 million of intangible asset-related charges for the three months ended June 30, 2022, and 2021, respectively.
- As of June 30, 2022, we had \$8.18 billion in cash, cash equivalents, and investments. Cash, cash equivalents, and investments decreased by \$444 million, compared to \$8.62 billion as of December 31, 2021, primarily as a result of cash used for share repurchases of \$607 million, capital expenditures, and taxes paid related to net share settlements of equity awards, as well as unrealized losses on interest-bearing debt securities classified as available for sale, partially offset by cash provided by operating activities and proceeds from stock option exercises and employee stock purchases.

## Results of Operations

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2022	% of total Revenue	2021	% of total Revenue	2022	% of total revenue	2021	% of total revenue
Revenue:								
Product	\$ 1,270.4	83 %	\$ 1,236.0	84 %	\$ 2,508.8	83 %	\$ 2,310.6	84 %
Service	251.7	17 %	228.0	16 %	501.0	17 %	445.5	16 %
Total revenue	1,522.1	100 %	1,464.0	100 %	3,009.8	100 %	2,756.1	100 %
Cost of revenue:								
Product	421.0	27 %	374.0	25 %	818.3	27 %	693.3	25 %
Service	77.8	6 %	66.3	5 %	158.5	5 %	136.5	5 %
Total cost of revenue	498.8	33 %	440.3	30 %	976.8	32 %	829.8	30 %
Product gross profit	849.4	56 %	862.0	59 %	1,690.5	56 %	1,617.3	59 %
Service gross profit	173.9	11 %	161.7	11 %	342.5	12 %	309.0	11 %
Gross profit	1,023.3	67 %	1,023.7	70 %	2,033.0	68 %	1,926.3	70 %
Operating expenses:								
Selling, general and administrative	418.4	27 %	350.2	24 %	809.5	27 %	676.2	24 %
Research and development	207.3	14 %	162.3	11 %	417.8	14 %	322.1	12 %
Total operating expenses	625.7	41 %	512.5	35 %	1,227.3	41 %	998.3	36 %
Income from operations	397.6	26 %	511.2	35 %	805.7	27 %	928.0	34 %
Interest and other income, net	9.3	1 %	15.0	1 %	3.6	— %	47.0	1 %
Income before taxes	406.9	27 %	526.2	36 %	809.3	27 %	975.0	35 %
Income tax expense	93.3	6 %	3.2	— %	126.3	4 %	16.8	— %
Net income	313.6	21 %	523.0	36 %	683.0	23 %	958.2	35 %
Less: net income attributable to noncontrolling interest in joint venture	5.8	1 %	5.8	1 %	9.6	1 %	14.7	1 %
Net income attributable to Intuitive Surgical, Inc.	\$ 307.8	20 %	\$ 517.2	35 %	\$ 673.4	22 %	\$ 943.5	34 %

## Total Revenue

Total revenue increased by 4% to \$1.52 billion for the three months ended June 30, 2022, compared to \$1.46 billion for the three months ended June 30, 2021, resulting from 12% higher instruments and accessories revenue, driven by approximately 14% higher procedure volume, partially offset by foreign currency impacts, and 10% higher service revenue, partially offset by 15% lower systems revenue, driven by 15% lower system placements and a higher proportion of system placements under operating leases, partially offset by higher leasing revenue. Total revenue increased by 9% to \$3.0 billion for the six months ended June 30, 2022, compared to \$2.8 billion for the six months ended June 30, 2021, resulting from 14% higher instruments and accessories revenue, driven by approximately 16% higher procedure volume, partially offset by foreign currency impacts and the effects of the Extended Use Program, and 12% higher service revenue, partially offset by 1% lower systems revenue, driven by 6% lower system placements, partially offset by higher leasing revenue.

Revenue denominated in foreign currencies as a percentage of total revenue was approximately 22% and 24% for the three and six months ended June 30, 2022, respectively, and 21% and 22% for the three and six months ended 2021, respectively. We generally sell our products and services in local currencies where we have direct distribution channels. Foreign currency rate fluctuations, as determined by comparing current period revenue in USD to current period revenue in local currency using the same foreign exchange rates as the prior year same period, net of the impacts from foreign currency hedging, had an unfavorable impact on OUS total revenue of \$35 million and \$53 million for the three and six months ended June 30, 2022, respectively. Foreign currency rate fluctuations, net of the impacts from foreign currency hedging, had a favorable impact on OUS total revenue of \$18 million and \$34 million for the three and six months ended June 30, 2021, respectively.

Revenue generated in the U.S. accounted for 66% of total revenue for both the three and six months ended June 30, 2022, respectively, and 69% and 67% for the three and six months ended 2021, respectively. We believe that U.S. revenue has accounted for the large majority of total revenue due to U.S. patients' ability to choose their provider and method of treatment, reimbursement structures supportive of innovation and MIS, and our initial investments focused on U.S. infrastructure. We have been investing in our business in the OUS markets, and our OUS procedures have grown faster in proportion to U.S. procedures. We expect that our OUS procedures and revenue will make up a greater portion of our business in the long term.

The following table summarizes our revenue and system unit placements for the three and six months ended June 30, 2022, and 2021, respectively (in millions, except percentages and unit placements):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
<b>Revenue</b>				
Instruments and accessories	\$ 895.3	\$ 796.4	\$ 1,705.6	\$ 1,502.3
Systems	375.1	439.6	803.2	808.3
Total product revenue	1,270.4	1,236.0	2,508.8	2,310.6
Services	251.7	228.0	501.0	445.5
Total revenue	\$ 1,522.1	\$ 1,464.0	\$ 3,009.8	\$ 2,756.1
United States	\$ 1,011.1	\$ 1,005.8	\$ 1,975.9	\$ 1,853.3
OUS	511.0	458.2	1,033.9	902.8
Total revenue	\$ 1,522.1	\$ 1,464.0	\$ 3,009.8	\$ 2,756.1
% of Revenue—U.S.	66 %	69 %	66 %	67 %
% of Revenue—OUS	34 %	31 %	34 %	33 %

Instruments and accessories	\$ 895.3	\$ 796.4	\$ 1,705.6	\$ 1,502.3
Services	251.7	228.0	501.0	445.5
Operating lease revenue	93.0	67.3	176.2	126.3
Total recurring revenue	\$ 1,240.0	\$ 1,091.7	\$ 2,382.8	\$ 2,074.1
% of Total revenue	81 %	75 %	79 %	75 %

**Da Vinci Surgical Systems Placements by Region:**

U.S. unit placements	150	213	336	403
OUS unit placements	129	115	254	223
Total unit placements*	279	328	590	626
*Systems placed under operating leases (included in total unit placements)	117	108	225	235

**Da Vinci Surgical Systems Placements involving System Trade-ins:**

Unit placements involving trade-ins	56	125	164	257
Unit placements not involving trade-ins	223	203	426	369

<b>Ion Systems Placements**</b>	41	20	75	34
**Systems placed under operating leases (included in total unit placements)	25	9	40	19

**Product Revenue**

Three Months Ended June 30, 2022

Product revenue increased by 3% to \$1.27 billion for the three months ended June 30, 2022, compared to \$1.24 billion for the three months ended June 30, 2021.



Instruments and accessories revenue increased by 12% to \$895 million for the three months ended June 30, 2022, compared to \$796 million for the three months ended June 30, 2021. The increase in instruments and accessories revenue was driven primarily by procedure growth of approximately 14% and incremental sales of our advanced instruments, partially offset by foreign currency impacts. The second quarter 2022 U.S. procedure growth was approximately 11%, driven by strong growth in general surgery procedures, most notably bariatric, cholecystectomy, and hernia repair procedures, as well as moderate growth in the more mature gynecologic and urologic procedures categories. The second quarter 2022 OUS procedure growth was approximately 22%, driven by continued growth in urology procedures, most notably prostatectomy and partial nephrectomy procedures, and earlier stage growth in general surgery (particularly colorectal), gynecology, and thoracic procedures. Both growth rates were impacted by the disruption caused by the COVID-19 pandemic, as noted in the *COVID-19 Pandemic* section above. Geographically, the second quarter 2022 OUS procedure growth was driven by procedure expansion in a number of markets with particular strength in Japan, Italy, and Germany.

Systems revenue decreased by 15% to \$375 million for the three months ended June 30, 2022, compared to \$440 million for the three months ended June 30, 2021. The lower second quarter 2022 systems revenue was primarily driven by fewer system placements, lower second quarter 2022 ASPs, lower sales-type lease revenue, lower lease buyout revenue, and a higher proportion of system placements under operating leases, partially offset by higher operating lease revenue.

During the second quarter of 2022, 279 da Vinci Surgical Systems were placed compared to 328 systems during the second quarter of 2021. By geography, 150 systems were placed in the U.S., 78 in Europe, 46 in Asia, and 5 in other markets during the second quarter of 2022, compared to 213 systems placed in the U.S., 63 in Europe, 41 in Asia, and 11 in other markets during the second quarter of 2021. The decrease in systems placements was primarily driven by a smaller number of third generation da Vinci systems available for trade-in, along with supply chain and logistical challenges impacting the number of systems available for shipment, and a softening of our capital pipeline in the U.S. caused by increased financial pressures on hospitals. Nevertheless, the incremental systems placements reflect procedure growth, customers trading in da Vinci Si Surgical Systems for fourth generation da Vinci Xi and da Vinci X systems in order to access fourth generation instruments and capabilities as well as to standardize their system portfolio, and further customer validation that da Vinci surgery addresses their quadruple aim objectives. As of June 30, 2022, we had a da Vinci Surgical System installed base of approximately 7,135 systems, compared to the installed base of approximately 6,335 systems as of June 30, 2021.

We placed 152 and 168 da Vinci Surgical Systems under lease or usage-based arrangements, of which 117 and 108 systems were classified as operating leases for the three months ended June 30, 2022, and 2021, respectively. Operating lease revenue, including the impact of Ion systems, was \$93.0 million for the three months ended June 30, 2022, compared to \$67.3 million for the three months ended June 30, 2021. Da Vinci Surgical Systems placed as operating leases represented 42% of total placements during the second quarter of 2022, compared to 33% during the second quarter of 2021. A total of 1,469 da Vinci Surgical Systems were installed at customers under operating lease or usage-based arrangements as of June 30, 2022, compared to 1,073 as of June 30, 2021. Revenue from Lease Buyouts was \$22.5 million for the three months ended June 30, 2022, compared to \$26.1 million for the three months ended June 30, 2021. We expect revenue from Lease Buyouts to fluctuate period to period depending on the timing of when, and if, customers choose to exercise the buyout options embedded in their leases.

The da Vinci Surgical System ASP, excluding the impact of systems placed under operating lease or usage-based arrangements and Ion systems, was approximately \$1.50 million for the three months ended June 30, 2022, compared to approximately \$1.55 million for the three months ended June 30, 2021. The lower second quarter 2022 ASP was largely driven by unfavorable geographic mix and foreign currency impacts, partially offset by lower pricing discounts and fewer trade-ins. ASP fluctuates from period to period based on geographic and product mix, product pricing, systems placed involving trade-ins, and changes in foreign exchange rates.

During the second quarter of 2022, 41 Ion systems were placed compared to 20 systems during the second quarter of 2021. As of June 30, 2022, we had an Ion system installed base of approximately 204 systems, compared to the installed base of approximately 70 systems as of June 30, 2021. We placed 26 and 11 Ion systems under lease or usage-based arrangements, of which 25 and 9 systems were classified as operating leases for the three months ended June 30, 2022, and 2021, respectively. Ion systems placed as operating leases represented 61% of total placements during the second quarter of 2022, compared to 45% during the second quarter of 2021. A total of 90 Ion systems were installed at customers under operating or usage-based arrangements as of June 30, 2022, compared to 30 as of June 30, 2021.

#### Six Months Ended June 30, 2022

Product revenue increased by 9% to \$2.51 billion for the six months ended June 30, 2022, compared to \$2.31 billion for the six months ended June 30, 2021.

Instruments and accessories revenue increased by 14% to \$1.71 billion for the six months ended June 30, 2022, compared to \$1.50 billion for the six months ended June 30, 2021. The increase in instruments and accessories revenue was primarily driven by procedure growth of approximately 16% and incremental sales of our advanced instruments. The increase was

partially offset by foreign currency impacts in the six months ended June 30, 2022, and the benefit of stocking orders in the six months ended June 30, 2021, associated with the launch our Extended Use Program. The year-to-date 2022 U.S. procedure growth was approximately 13%, driven by strong growth in general surgery procedures, most notably bariatric, cholecystectomy, and hernia repair procedures, as well as moderate growth in the more mature gynecologic and urologic procedures categories. The year-to-date 2022 OUS procedure growth was approximately 23%, driven by continued growth in urology procedures, most notably prostatectomy and partial nephrectomy procedures, and earlier stage growth in general surgery (particularly colorectal), gynecology, and thoracic procedures. Both growth rates were impacted by the disruption caused by the COVID-19 pandemic, as noted in the *COVID-19 Pandemic* section above. Geographically, the year-to-date 2022 OUS procedure growth was driven by procedure expansion in a number of markets with particular strength in Japan, China, the UK, Germany, and Italy.

Systems revenue decreased by 1% to \$803 million for the six months ended June 30, 2022, compared to \$808 million for the six months ended June 30, 2021. The decrease in systems revenue was primarily driven by fewer system placements, lower year-to-date 2022 ASPs, lower sales-type lease revenue, and lower lease buyout revenue, partially offset by higher operating lease revenue.

During the six months ended June 30, 2022, a total of 590 da Vinci Surgical Systems were placed compared to 626 systems during the six months ended June 30, 2021. By geography, 336 systems were placed in the U.S., 156 in Europe, 88 in Asia, and 10 in other markets during the six months ended June 30, 2022, compared to 403 systems placed in the U.S., 122 in Europe, 85 in Asia, and 16 in other markets during the six months ended June 30, 2021. The decrease in systems placements was primarily driven by a softening of our capital pipeline in the U.S. caused by increased financial pressures on hospitals, a smaller number of third generation da Vinci systems available for trade-in, along with supply chain and logistical challenges impacting the number of systems available for shipment.

We placed 280 and 305 da Vinci Surgical Systems under lease or usage-based arrangements, of which 225 and 235 systems were classified as operating leases for the six months ended June 30, 2022, and 2021, respectively. Operating lease revenue, including the impact of Ion systems, was \$176.2 million for the six months ended June 30, 2022, compared to \$126.3 million for the six months ended June 30, 2021. Da Vinci Surgical Systems placed as operating leases represented 38% of total placements during the six months ended June 30, 2022, compared to 38% during the six months ended June 30, 2021. Revenue from Lease Buyouts was \$38.0 million for the six months ended June 30, 2022, compared to \$45.2 million for the six months ended June 30, 2021. We expect revenue from Lease Buyouts to fluctuate period to period depending on the timing of when, and if, customers choose to exercise the buyout options embedded in their leases.

The da Vinci Surgical System ASP, excluding the impact of systems placed under operating lease or usage-based arrangements and Ion systems, was approximately \$1.53 million for the six months ended June 30, 2022, compared to approximately \$1.59 million for the six months ended June 30, 2021. The lower year-to-date 2022 ASP was largely driven by unfavorable geographic mix and foreign currency impacts, partially offset by fewer trade-ins and favorable product mix. ASP fluctuates from period to period based on geographic and product mix, product pricing, systems placed involving trade-ins, and changes in foreign exchange rates.

During the six months ended June 30, 2022, 75 Ion systems were placed compared to 34 systems during the six months ended June 30, 2021. We placed 45 and 23 Ion systems under lease or usage-based arrangements, of which 40 and 19 systems were classified as operating leases for the six months ended June 30, 2022, and 2021, respectively. Ion systems placed as operating leases represented 53% of total placements during the six months ended June 30, 2022, compared to 56% during the six months ended June 30, 2021.

### **Service Revenue**

Service revenue increased by 10% to \$252 million for the three months ended June 30, 2022, compared to \$228 million for the three months ended June 30, 2021. The increase in service revenue was primarily driven by a larger installed base of systems producing service revenue, partially offset by foreign currency impacts.

Service revenue increased by 12% to \$501 million for the six months ended June 30, 2022, compared to \$446 million for the six months ended June 30, 2021. The increase in service revenue was primarily driven by a larger installed base of systems producing service revenue, partially offset by foreign currency impacts.

### **Gross Profit**

Product gross profit for the three months ended June 30, 2022, decreased by 1% to \$849 million, representing 66.9% of product revenue, compared to \$862 million, representing 69.7% of product revenue, for the three months ended June 30, 2021. The lower product gross profit for the three months ended June 30, 2022, was primarily driven by lower product gross profit margin, partially offset by higher product revenue. The lower product gross profit margin for the three months ended June 30, 2022, was primarily driven by higher freight and material costs, higher fixed costs from investments to drive growth of the

business and strengthen our operating capabilities, unfavorable foreign currency impacts, and lower second quarter 2022 system ASPs.

Product gross profit for the six months ended June 30, 2022, increased by 5% to \$1.7 billion, representing 67.4% of product revenue, compared to \$1.6 billion, representing 70.0% of product revenue, for the six months ended June 30, 2021. The higher product gross profit for the six months ended June 30, 2022, was primarily driven by higher product revenue, partially offset by lower product gross profit margin. The lower product gross profit margin for the six months ended June 30, 2022, was primarily driven by higher fixed costs from investments to drive growth of the business and strengthen our operating capabilities, higher freight and material costs, unfavorable foreign currency impacts, and lower year-to-date 2022 system ASPs.

Product gross profit for the three and six months ended June 30, 2022, included share-based compensation expense of \$20.3 million and \$39.0 million, respectively, compared with \$16.6 million and \$31.9 million for the three and six months ended June 30, 2021, respectively. Product gross profit for the three and six months ended June 30, 2022, included intangible assets amortization expense of \$3.7 million and \$7.3 million, respectively, compared with \$4.7 million and \$10.1 million for the three and six months ended June 30, 2021, respectively.

Service gross profit for the three months ended June 30, 2022, increased by 8% to \$174 million, representing 69.1% of service revenue, compared to \$162 million, representing 70.9% of service revenue, for the three months ended June 30, 2021. The higher service gross profit for the three months ended June 30, 2022, was primarily driven by higher service revenue, reflecting a larger installed base of systems. The lower service gross profit margin for the three months ended June 30, 2022, was primarily driven by higher labor, material, and infrastructure costs as well as unfavorable foreign currency impacts.

Service gross profit for the six months ended June 30, 2022, increased by 11% to \$343 million, representing 68.4% of service revenue, compared to \$309 million, representing 69.4% of service revenue, for the six months ended June 30, 2021. The higher service gross profit for the six months ended June 30, 2022, was primarily driven by higher service revenue, reflecting a larger installed base of systems. The lower service gross profit margin for the six months ended June 30, 2022, was primarily driven by higher labor, material, and infrastructure costs as well as unfavorable foreign currency impacts.

Service gross profit for the three and six months ended June 30, 2022, included share-based compensation expense of \$5.8 million and \$11.4 million, respectively, compared with \$5.2 million and \$10.9 million for the three and six months ended June 30, 2021, respectively. Service gross profit for the three and six months ended June 30, 2022, included intangible assets amortization expense of \$0.2 million and \$0.4 million, respectively, compared with \$0.3 million and \$0.6 million for the three and six months ended June 30, 2021, respectively.

#### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses include costs for sales, marketing, and administrative personnel, sales and marketing activities, trade show expenses, legal expenses, regulatory fees, and general corporate expenses.

Selling, general and administrative expenses for the three months ended June 30, 2022, increased by 19% to \$418 million, compared to \$350 million for the three months ended June 30, 2021. Selling, general and administrative expenses for the six months ended June 30, 2022, increased by 20% to \$810 million, compared to \$676 million for the six months ended June 30, 2021. The increase in selling, general and administrative expenses for the three and six months ended June 30, 2022, was primarily driven by higher headcount, resulting in increased fixed and share-based compensation expense, higher variable compensation, and increased infrastructure costs to support our growth. In addition, there were higher travel, training, and marketing expenses for the three and six months ended June 30, 2022, as compared with the prior year.

Selling, general and administrative expenses for the three and six months ended June 30, 2022, included share-based compensation expense of \$62.7 million and \$123.0 million, respectively, compared with \$55.7 million and \$108.8 million for the three and six months ended June 30, 2021, respectively. Selling, general and administrative expenses for the three and six months ended June 30, 2022, included intangible assets amortization expense of \$1.6 million and \$3.2 million, respectively, compared with \$1.9 million and \$3.6 million for the three and six months ended June 30, 2021, respectively.

#### **Research and Development Expenses**

Research and development costs are expensed as incurred. Research and development expenses include costs associated with the design, development, testing, and significant enhancement of our products.

Research and development expenses for the three months ended June 30, 2022, increased by 28% to \$207 million, compared to \$162 million for the three months ended June 30, 2021. The increase in research and development expenses for the three months ended June 30, 2022, was primarily driven by higher personnel-related expenses, including share-based compensation expense, and other project costs incurred to support a broader set of product development initiatives, including Ion and SP platform investments, digital investments, advanced instrumentation, advanced imaging, and future generations of robotics. Research and development expenses for the six months ended June 30, 2022, increased by 30% to \$418 million,

compared to \$322 million for the six months ended June 30, 2021. The increase in research and development expenses for the six months ended June 30, 2022, was primarily driven by higher personnel-related expenses, including share-based compensation expense, intangible asset charges, and other project costs incurred to support a broader set of product development initiatives, including Ion and SP platform investments, digital investments, advanced instrumentation, advanced imaging, and future generations of robotics.

Research and development expenses for the three and six months ended June 30, 2022, included share-based compensation expense of \$38.5 million and \$75.3 million, respectively, compared with \$32.6 million and \$62.7 million for the three and six months ended June 30, 2021, respectively. Research and development expenses for the three and six months ended June 30, 2022, included intangible asset charges of \$2.5 million and \$11.0 million, respectively, compared with \$4.0 million and \$4.7 million for the three and six months ended June 30, 2021, respectively.

Research and development expenses fluctuate with project timing. Based upon our broader set of product development initiatives and the stage of the underlying projects, 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.

#### **Interest and Other Income, Net**

Interest and other income, net, for the three months ended June 30, 2022, decreased by 38% to \$9.3 million, compared to \$15.0 million for the three months ended June 30, 2021. The decrease in interest and other income, net, for the three months ended June 30, 2022, was primarily driven by foreign exchange losses (compared to foreign exchange gains in the three months ended June 30, 2021), partially offset by higher interest income earned, due to higher cash and investment balances and an increase in average interest rates.

Interest and other income, net, for the six months ended June 30, 2022, decreased by 92% to \$3.6 million, compared to \$47.0 million for six months ended June 30, 2021. The decrease in interest and other income, net, for the six months ended June 30, 2022, was primarily driven by unrealized losses on investments resulting from strategic arrangements (compared to unrealized gains on investments resulting from strategic arrangements in the six months ended June 30, 2021) and foreign exchange losses (compared to foreign exchange gains in the six months ended June 30, 2021), partially offset by higher interest income earned, due to higher cash and investment balances.

We held an equity investment in preferred shares of Broncus Holding Corporation (“Broncus”), which was reflected in our financial statements on a cost basis. In the first quarter of 2021, we recorded an unrealized gain on our investment in Broncus of approximately \$14 million. In September 2021, Broncus completed an initial public offering (“IPO”) of common shares on the Stock Exchange of Hong Kong. Upon completion of the IPO, the preferred shares were converted to common shares in Broncus. We were restricted from selling these shares for a period of six months. For the three and six months ended June 30, 2022, we recognized an unrealized loss on this investment of approximately \$1.1 million and \$18.3 million, respectively.

#### **Income Tax Expense**

Income tax expense for the three months ended June 30, 2022, was \$93.3 million, or 22.9% of income before taxes, compared to \$3.2 million, or 0.6% of income before taxes, for the three months ended June 30, 2021. Income tax expense for the six months ended June 30, 2022, was \$126.3 million, or 15.6% of income before taxes, compared to \$16.8 million, or 1.7% of income before taxes, for the six months ended June 30, 2021.

Our effective tax rate for the three months ended June 30, 2022, differed from the U.S. federal statutory tax rate of 21% primarily due to U.S. tax on foreign earnings and state income taxes (net of federal benefit), partially offset by excess tax benefits associated with employee equity plans, the effect of income earned by certain overseas entities being taxed at rates lower than the federal statutory rate, and the federal research and development (“R&D”) credit benefit.

Our effective tax rates for the six months ended June 30, 2022, and for the three and six months ended June 30, 2021, differed from the U.S. federal statutory rate of 21% primarily due to excess tax benefits associated with employee equity plans, the effect of income earned by certain overseas entities being taxed at rates lower than the federal statutory rate, and the federal R&D credit benefit, partially offset by U.S. tax on foreign earnings and state income taxes (net of federal benefit).

The increase in income tax expense for the three and six months ended June 30, 2022, was primarily due to the impact of capitalization of research and experimental (“R&E”) expenditures and lower excess tax benefits, as discussed below, as well as the fact that the effective tax rate for the three and six months ended June 30, 2021, included a one-time benefit of \$66.4 million from re-measurement of our Swiss deferred tax assets resulting from the extension of the economic useful life of certain intangible assets.

Our provision for income taxes for the three and six months ended June 30, 2022, reflected the impact of a change in U.S. tax law effective January 1, 2022, which requires the capitalization and amortization of R&E expenditures incurred after December 31, 2021.

Our provision for income taxes for the three and six months ended June 30, 2022, included excess tax benefits associated with employee equity plans of \$9.3 million and \$62.3 million, respectively, which reduced our effective tax rate by 2.3 and 7.7 percentage points, respectively. Our provision for income taxes for the three and six months ended June 30, 2021, included excess tax benefits associated with employee equity plans of \$43.6 million and \$117.0 million, respectively, which reduced our effective tax rate by 8.3 and 12.0 percentage points, respectively. The amount of excess tax benefits or deficiencies will fluctuate from period to period based on the price of our stock, the volume of share-based awards settled or vested, and the value assigned to employee equity awards under U.S. GAAP, which results in increased income tax expense volatility.

We file federal, state, and foreign income tax returns in many jurisdictions in the U.S. and abroad. Years prior to 2016 are considered closed for most significant jurisdictions. Certain of our unrecognized tax benefits could change due to activities of various tax authorities, including evolving interpretations of existing tax laws in the jurisdictions we operate, potential assessment of additional tax, possible settlement of audits, or through normal expiration of various statutes of limitations, which could affect our effective tax rate in the period in which they change. Due to the uncertainty related to the timing and potential outcome of audits, we cannot estimate the range of reasonably possible change in unrecognized tax benefits that may occur in the next 12 months.

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

#### **Net Income Attributable to Noncontrolling Interest in Joint Venture**

Net income attributable to noncontrolling interest in Joint Venture for the three and six months ended June 30, 2022, was \$5.8 million and \$9.6 million, respectively. Net income attributable to noncontrolling interest in Joint Venture for the three and six months ended June 30, 2021, was \$5.8 million and \$14.7 million, respectively. The decrease in net income attributable to noncontrolling interest in Joint Venture for the six months ended June 30, 2022, was primarily due to a decrease in sales and an increase in selling, general and administrative expenses in China.

#### **Liquidity and Capital Resources**

##### ***Sources and Uses of Cash and Cash Equivalents***

Our principal source of liquidity is cash provided by operations and by the issuance of common stock through the exercise of stock options and our employee stock purchase program. Cash and cash equivalents plus short- and long-term investments decreased by \$0.44 billion to \$8.18 billion as of June 30, 2022, from \$8.62 billion as of December 31, 2021, primarily from cash used in share repurchases, capital expenditures, and taxes paid related to net share settlements of equity awards, as well as unrealized losses on interest-bearing debt securities classified as available for sale, offset by cash provided by our operations and proceeds from stock option exercises and employee stock purchases.

Our cash requirements depend on numerous factors, including market acceptance of our products, the resources we devote to developing and supporting our products, and other factors. We expect to continue to devote substantial resources to expand procedure adoption and acceptance of our products. We have made substantial investments in our commercial operations, product development activities, facilities, and intellectual property. Based on our business model, we anticipate that we will continue to be able to fund future growth through cash provided by our operations. We believe that our current cash, cash equivalents, and investment balances, together with income to be derived from the sale of our products, will be sufficient to meet our liquidity requirements for the foreseeable future. However, as a result of the COVID-19 pandemic and the increasing risk of a recession as well as other macroeconomic and geopolitical headwinds, we may experience reduced cash flow from operations if we experience decreased revenues or if we extend payment terms on sales and operating lease and usage-based arrangements.

See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our Form 10-K for the fiscal year ended December 31, 2021, for discussion on the impact of interest rate risk and market risk on our investment portfolio.

### Condensed Consolidated Cash Flow Data

The following table summarizes our cash flows for the six months ended June 30, 2022, and 2021 (in millions):

	Six Months Ended June 30,	
	2022	2021
Net cash provided by (used in):		
Operating activities	\$ 669.7	\$ 1,020.3
Investing activities	251.5	(981.7)
Financing activities	(682.0)	(43.9)
Effect of exchange rates on cash, cash equivalents, and restricted cash	6.0	(2.6)
Net increase (decrease) in cash, cash equivalents, and restricted cash	\$ 245.2	\$ (7.9)

#### Operating Activities

For the six months ended June 30, 2022, net income of \$683 million exceeded our net cash provided by operating activities of \$670 million, primarily due to the following factors:

1. Changes in operating assets and liabilities resulted in \$434 million of cash used in operating activities during the six months ended June 30, 2022. Inventory, including the transfer of equipment from inventory to property, plant, and equipment, increased by \$246 million, primarily to address the growth in the business as well as to mitigate risks of disruption that could arise from trade, supply, or other matters. Refer to the Condensed Consolidated Financial Statements (Unaudited) in Note 4 for further details in the supplemental cash flow information. Prepaid expenses and other assets increased by \$90 million, primarily due to an increase in net investments in sales-type leases. Accrued compensation and employee benefits decreased by \$72 million, primarily due to payments of 2021 incentive compensation. Accounts receivable increased by \$56 million, primarily due to the timing of billings and collections. The unfavorable impact of these items on cash provided by operating activities was partially offset by a \$20 million increase in other liabilities, primarily due to additional accruals related to capital expenditures, and a \$12 million increase in accounts payable, primarily due to the timing of billing and payments.
2. The changes in operating assets and liabilities outlined above were partially offset by non-cash charges of \$421 million included in our net income, consisting primarily of the following significant items: share-based compensation of \$248 million; depreciation expense and losses on the disposal of property, plant, and equipment of \$158 million; and net losses on investments, accretion, and amortization of \$34 million.

#### Investing Activities

Net cash provided by investing activities for the six months ended June 30, 2022, consisted primarily of proceeds from maturities of investments, net of purchases, of \$489 million, partially offset by the acquisition of property and equipment of \$226 million. We invest predominantly in high quality, fixed income securities. Our investment portfolio may, at any time, contain investments in U.S. treasury and U.S. government agency securities, taxable and tax-exempt municipal notes, corporate notes and bonds, commercial paper, non-U.S. government agency securities, cash deposits, and money market funds.

#### Financing Activities

Net cash used in financing activities during the six months ended June 30, 2022, consisted primarily of cash used in the repurchase of approximately 2.6 million shares of our common stock in the open market for \$607 million and taxes paid on behalf of employees related to net share settlements of equity awards of \$179 million, partially offset by proceeds from stock option exercises and employee stock purchases of \$107 million.

#### Capital Expenditures

Our business is not capital equipment intensive. However, with the growth of our business and our investments in property and facilities and in manufacturing automation, capital investments in these areas have increased. We expect these capital investments to increase significantly in 2022 to a range between \$700 million and \$800 million. A significant portion of this investment involves the construction of facilities to provide incremental space for growth, consolidate operations to enhance efficiency, and replace leased spaces with owned spaces. These capital investments will also expand our OUS footprint in support of opportunities for growth in key international markets. We intend to fund these capital investments with cash generated from operations.

### **Critical Accounting Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of these Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses. On an ongoing basis, we evaluate our critical accounting estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no new or material changes to the critical accounting estimates discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, that are of significance, or potential significance, to the Company.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in our market risk during the three months ended June 30, 2022, compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2021.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

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

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

#### **Changes in Internal Control over Financial Reporting**

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



## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The information included in Note 8 to the Condensed Consolidated Financial Statements (Unaudited) included in Part I, Item 1 of this quarterly report is incorporated herein by reference.

### **ITEM 1A. RISK FACTORS**

You should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, which could materially affect our business, financial position, or future results of operations. The risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial position, or future results of operations. The risk factors set forth below updates, and should be read together with, the risk factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

#### ***RISKS RELATING TO OUR BUSINESS***

##### **THE INFLATIONARY ENVIRONMENT COULD MATERIALLY ADVERSELY IMPACT OUR BUSINESS AND RESULTS OF OPERATIONS.**

Our operating results could be materially impacted by changes in the overall macroeconomic environment and other economic factors that impact customer confidence and spending, including capital spending. Changes in economic conditions, supply chain constraints, logistics challenges, labor shortages, the conflict in Ukraine, and steps taken by governments and central banks, particularly in response to the COVID-19 pandemic as well as other stimulus and spending programs, have led to higher inflation, which is likely, in turn, to lead to an increase in costs and may cause changes in fiscal and monetary policy, including increased interest rates. In a higher inflationary environment, we may be unable to raise the prices of our products and services sufficiently to keep up with the rate of inflation. Impacts from inflationary pressures could be more pronounced and materially adversely impact aspects of our business where revenue streams and cost commitments are linked to contractual agreements that extend further into the future, as we may not be able to quickly or easily adjust pricing, reduce costs, or implement counter measures.

Additionally, hospitals are currently experiencing financial and operational pressures as a result of staffing shortages, the supply chain environment, and increased inflation, which could impact their ability to access capital markets and other funding sources, increase cost of funding, or impede their ability to comply with debt covenants, all of which could impede their ability to provide patient care, defer elective surgeries, and impact their profitability. To the extent that hospitals continue to face financial pressures, reductions in government spending, or higher interest rates, it is likely that hospitals’ ability or willingness to spend on capital equipment will be adversely impacted, all of which could have a material adverse effect on our business, financial condition, results of operations, or cash flows.

##### **IF WE LOSE KEY PERSONNEL OR ARE UNABLE TO ATTRACT AND RETAIN ADDITIONAL PERSONNEL, OUR ABILITY TO COMPETE WILL BE HARMED AND INCREASES IN LABOR COSTS COULD MATERIALLY ADVERSELY IMPACT OUR BUSINESS AND RESULTS OF OPERATIONS.**

We are highly dependent on the principal members of our management and scientific staff. For example, our product development plans depend, in part, on our ability to attract and retain engineers with experience in mechanics, electronics, software, and optics. Attracting and retaining qualified personnel will be critical to our success, and competition for qualified personnel is intense. We may not be able to attract and retain personnel on acceptable terms given the constrained labor market and competition for such personnel among technology and healthcare companies. Additionally, as a result of recent declines in our stock price, certain long-term incentive benefits, such as recently issued stock options, may be viewed as having less value and, accordingly, could lead to higher attrition. Moreover, we may encounter higher recruiting expenses, wage rates, and retention benefits. The extent and duration of the impact of labor market challenges are subject to numerous factors, including the continuing impact of the COVID-19 pandemic, availability of qualified and highly skilled persons in the markets where we operate and unemployment levels within these markets, behavioral changes, such as fully engaging employees and earning loyalty, prevailing wage rates, health and other insurance and benefit costs, inflation, adoption of new or revised employment and labor laws and regulations or government programs, safety levels of our operations, and our reputation within the labor market. The loss of any of our qualified personnel or our inability to attract and retain qualified personnel could harm our business and our ability to compete and related expenses could materially adversely affect our results of operations and financial condition.

**THE ONGOING ARMED CONFLICT BETWEEN RUSSIA AND UKRAINE COULD ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION, AND RESULTS OF OPERATIONS.**

On February 24, 2022, Russian military forces launched a military action in Ukraine, and sustained conflict and disruption in the region is likely. The length, impact, and outcome of this ongoing military conflict is highly unpredictable and could lead to significant market and other disruptions, including significant volatility in commodity prices and supply of energy resources, instability in financial markets, supply chain interruptions, political and social instability, trade disputes or trade barriers, changes in consumer or purchaser preferences, as well as an increase in cyberattacks and espionage.

Russia's recognition of two separatist republics in the Donetsk and Luhansk regions of Ukraine and subsequent military action against Ukraine have led to substantial expansion of sanction programs imposed by the United States, the European Union, the United Kingdom, Canada, Switzerland, Japan, and other countries against Russia, Belarus, the Crimea Region of Ukraine, the so-called Donetsk People's Republic, and the so-called Luhansk People's Republic, including, among others:

- blocking sanctions against some of the largest state-owned and private Russian financial institutions (and their subsequent removal from the Society for Worldwide Interbank Financial Telecommunication payment system) and certain Russian businesses, some of which have significant financial and trade ties to the European Union;
- blocking sanctions against Russian and Belarusian individuals, including the Russian President, other politicians, and those with government connections or involved in Russian military activities; and
- blocking of Russia's foreign currency reserves as well as expansion of sectoral sanctions and export and trade restrictions, limitations on investments and access to capital markets, and bans on various Russian imports.

In retaliation against new international sanctions and as part of measures to stabilize and support the volatile Russian financial and currency markets, the Russian authorities also imposed significant currency control measures aimed at restricting the outflow of foreign currency and capital from Russia, imposed various restrictions on transacting with non-Russian parties, banned exports of various products, and imposed other economic and financial restrictions. The situation is rapidly evolving, and additional sanctions by Russia on the one hand, and by the other countries on the other hand, could adversely affect the global economy, financial markets, energy supply and prices, certain critical materials and metals, supply chains, and global logistics and could adversely affect our business, financial condition, and results of operations.

We are actively monitoring the situation in Ukraine and Russia and assessing its impact on our business, including our business partners and customers. To date, we have not experienced any material interruptions in our infrastructure, supplies, technology systems, or networks needed to support our operations. We have no way to predict the progress or outcome of the military conflict in Ukraine or its impacts in Ukraine, Russia, Belarus, Europe, or the U.S. The extent and duration of the military action, sanctions, other consequences, such as Russia imposing restrictions on transactions or banning the export of energy products, including natural gas, and the resulting market disruptions could be significant and could potentially have substantial impact on the global economy and our business for an unknown period of time. Impacts to our business may include, but are not limited to, procedures performed, demand for our products, and ability to spend on capital equipment and healthcare in general. Any such disruption may also magnify the impact of other risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

**CYBERATTACKS OR CYBERSECURITY INCIDENTS IN CONNECTION WITH THE POLITICAL UNCERTAINTY IN RUSSIA AND UKRAINE COULD EITHER DIRECTLY OR INDIRECTLY IMPACT OUR OPERATIONS.**

Due to the political uncertainty involving Russia and Ukraine, there is also an increased likelihood that the tensions could result in cyberattacks or cybersecurity incidents that could either directly or indirectly impact our operations. Any attempts by cyber attackers to disrupt our services or information systems or the services or information systems of our vendors, if successful, could harm our business, result in the misappropriation of funds, be expensive to remedy, and damage our reputation or brand. Insurance may not be sufficient to cover significant expenses and losses related to such cyberattacks and cybersecurity incidents.

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

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

**(c) Issuer Purchases of Equity Securities**

The table below summarizes our stock repurchase activity for the quarter ended June 30, 2022.

Fiscal Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of a Publicly Announced Program	Approximate Dollar Amount of Shares That May Yet be Purchased Under the Program <sup>(1)</sup>
April 1 to April 30, 2022	183,523	\$ 241.20	183,523	\$ 1.4 billion
May 1 to May 31, 2022	1,524,323	\$ 226.77	1,524,323	\$ 1.1 billion
June 1 to June 30, 2022	521,017	\$ 211.32	521,017	\$ 1.0 billion
Total during quarter ended June 30, 2022	2,228,863	\$ 224.35	2,228,863	

(1) Since March 2009, we have had an active stock repurchase program. As of June 30, 2022, our Board of Directors (our “Board”) had authorized an aggregate amount of up to \$7.5 billion for stock repurchases, of which the most recent authorization occurred in January 2019, when our Board increased the authorized amount available under our share repurchase program to \$2.0 billion. The remaining \$1.0 billion represents the amount available to repurchase shares under the authorized repurchase program as of June 30, 2022. The authorized stock repurchase program does not have an expiration date. On July 20, 2022, the Board increased the authorized amount available under the Repurchase Program to an aggregate of \$3.5 billion, including amounts remaining under previous authorization.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

## ITEM 6. EXHIBITS

### Exhibit

Number	Description
3.1	<del>Amended and Restated Certificate of Incorporation of Intuitive Surgical, Inc., as amended (incorporated by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on July 23, 2020).</del>
3.1b	<del>Amended and Restated Certificate of Incorporation of Intuitive Surgical, Inc., as amended (incorporated by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on October 20, 2021).</del>
3.2	<del>Amended and Restated Bylaws of Intuitive Surgical, Inc. (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 1, 2021).</del>
10.1	<del>Amended and Restated Intuitive Surgical, Inc. 2010 Incentive Award Plan (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 3, 2022).</del>
30.1	<del>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</del>
30.2	<del>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</del>
30.3	<del>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</del>
30.4	<del>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</del>
101	The following materials from Intuitive Surgical, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, formatted in Inline XBRL (Extensible Business Reporting Language): (i) the unaudited Condensed Consolidated Balance Sheets, (ii) the unaudited Condensed Consolidated Statements of Comprehensive Income, (iii) the unaudited Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements (unaudited), tagged at Level I through IV.
101	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, formatted in Inline XBRL and contained in Exhibit 101.

**SIGNATURE**

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

INTUITIVE SURGICAL, INC.

By: /s/ JAMIE E. SAMATH  
Jamie E. Samath  
*Senior Vice President and Chief Financial Officer*  
(Principal Financial Officer and duly authorized signatory)

Date: July 22, 2022