

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from _____ to _____

Commission file number 000-30713

Intuitive Surgical, Inc.
(Exact name of Registrant as specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

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

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

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 352,071,592 shares of Common Stock, \$0.001 par value per share, outstanding as of October 16, 2023.

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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>	September 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,602.0	\$ 1,581.2
Short-term investments	2,873.7	2,536.7
Accounts receivable, net	962.7	942.1
Inventory	1,147.5	893.2
Prepays and other current assets	317.0	299.8
Total current assets	8,902.9	6,253.0
Property, plant, and equipment, net	3,077.0	2,374.2
Long-term investments	1,044.9	2,623.6
Deferred tax assets	701.4	664.6
Intangible and other assets, net	638.4	710.1
Goodwill	348.1	348.5
Total assets	\$ 14,712.7	\$ 12,974.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 196.2	\$ 147.0
Accrued compensation and employee benefits	374.8	401.6
Deferred revenue	394.8	397.3
Other accrued liabilities	710.6	476.2
Total current liabilities	1,676.4	1,422.1
Other long-term liabilities	412.8	439.3
Total liabilities	2,089.2	1,861.4
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 September 30, 2023, and December 31, 2022	—	—
Common stock, 600.0 shares authorized, \$0.001 par value, 352.0 shares and 350.0 shares issued and outstanding as of September 30, 2023, and December 31, 2022, respectively	0.4	0.4
Additional paid-in capital	8,385.9	7,703.9
Retained earnings	4,209.2	3,500.1
Accumulated other comprehensive loss	(56.5)	(162.5)
Total Intuitive Surgical, Inc. stockholders' equity	12,539.0	11,041.9
Noncontrolling interest in joint venture	84.5	70.7
Total stockholders' equity	12,623.5	11,112.6
Total liabilities and stockholders' equity	\$ 14,712.7	\$ 12,974.0

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>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue:				
Product	\$ 1,450.8	\$ 1,297.5	\$ 4,332.4	\$ 3,806.3
Service	292.9	259.9	863.4	760.9
Total revenue	1,743.7	1,557.4	5,195.8	4,567.2
Cost of revenue:				
Product	489.5	421.6	1,480.5	1,239.9
Service	87.0	83.7	263.2	242.2
Total cost of revenue	576.5	505.3	1,743.7	1,482.1
Gross profit	1,167.2	1,052.1	3,452.1	3,085.1
Operating expenses:				
Selling, general and administrative	452.0	436.1	1,396.8	1,245.6
Research and development	249.4	217.1	738.7	634.9
Total operating expenses	701.4	653.2	2,135.5	1,880.5
Income from operations	465.8	398.9	1,316.6	1,204.6
Interest and other income, net	56.2	3.9	126.4	7.5
Income before taxes	522.0	402.8	1,443.0	1,212.1
Income tax expense	102.2	78.1	236.4	204.4
Net income	419.8	324.7	1,206.6	1,007.7
Less: net income attributable to noncontrolling interest in joint venture	4.1	0.7	14.8	10.3
Net income attributable to Intuitive Surgical, Inc.	\$ 415.7	\$ 324.0	\$ 1,191.8	\$ 997.4
Net income per share attributable to Intuitive Surgical, Inc.:				
Basic	\$ 1.18	\$ 0.91	\$ 3.40	\$ 2.79
Diluted	\$ 1.16	\$ 0.90	\$ 3.34	\$ 2.74
Shares used in computing net income per share attributable to Intuitive Surgical, Inc.:				
Basic	351.7	355.3	351.0	357.2
Diluted	358.2	360.5	357.1	363.7
Other comprehensive income (loss), net of tax:				
Unrealized gains on hedge instruments	\$ 4.3	\$ 2.3	\$ 12.8	\$ 7.7
Unrealized gains (losses) on available-for-sale securities	25.6	(37.3)	76.3	(161.4)
Foreign currency translation gains (losses)	(6.8)	(10.0)	15.9	(12.0)
Prior service cost for employee benefit plans	—	0.1	—	0.2
Other comprehensive income (loss)	23.1	(44.9)	105.0	(165.5)
Total comprehensive income	442.9	279.8	1,311.6	842.2
Less: comprehensive income (loss) attributable to noncontrolling interest	3.9	(0.8)	13.8	8.2
Total comprehensive income attributable to Intuitive Surgical, Inc.	\$ 439.0	\$ 280.6	\$ 1,297.8	\$ 834.0

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>	Nine Months Ended September 30,	
	2023	2022
Operating activities:		
Net income	\$ 1,206.6	\$ 1,007.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and loss on disposal of property, plant, and equipment	283.5	239.4
Amortization of intangible assets	15.1	20.2
Gain on sale of business	—	(3.8)
Loss on investments, accretion of discounts, and amortization of premiums on investments, net	14.7	43.4
Deferred income taxes	(61.0)	(102.0)
Share-based compensation expense	442.4	385.6
Amortization of contract acquisition assets	22.6	20.7
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(19.7)	(67.2)
Inventory	(528.2)	(419.1)
Prepays and other assets	37.5	(96.8)
Accounts payable	27.7	26.3
Accrued compensation and employee benefits	(26.8)	(41.9)
Deferred revenue	(1.0)	(21.2)
Other liabilities	172.1	61.6
Net cash provided by operating activities	1,585.5	1,052.9
Investing activities:		
Purchase of investments	(820.2)	(1,393.6)
Proceeds from sales of investments	47.7	59.6
Proceeds from maturities of investments	2,092.4	2,536.3
Purchase of property, plant, and equipment	(628.7)	(393.2)
Acquisition of businesses, net of cash, and intellectual property and other investing activities	(7.1)	(13.1)
Net cash provided by investing activities	684.1	796.0
Financing activities:		
Proceeds from issuance of common stock relating to employee stock plans	252.2	188.6
Taxes paid related to net share settlement of equity awards	(155.4)	(187.3)
Repurchase of common stock	(350.0)	(1,606.6)
Payment of deferred purchase consideration	(2.9)	(3.5)
Net cash used in financing activities	(256.1)	(1,608.8)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	8.7	7.9
Net increase in cash, cash equivalents, and restricted cash	2,022.2	248.0
Cash, cash equivalents, and restricted cash, beginning of period	1,600.7	1,306.0
Cash, cash equivalents, and restricted cash, end of period	\$ 3,622.9	\$ 1,554.0

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

In this report, “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 da Vinci[®] surgical systems 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 da Vinci surgical system consists of a surgeon console or consoles, a patient-side cart, and a high-performance vision system. The Ion endoluminal system consists of a system cart, a controller, a catheter, and a vision probe. Both systems use software, 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, 2022, 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 (“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, 2022, which was filed with the SEC on February 10, 2023. The results of operations for the first nine months of 2023 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 ventures, Intuitive Surgical-Fosun Medical Technology (Shanghai) Co., Ltd. and Intuitive Surgical-Fosun (HongKong) Co., Ltd. (collectively, the “Joint Venture”), with Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (“Fosun Pharma”). 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.

Risks and Uncertainties

The Company’s future results of operations and liquidity could be materially adversely affected by macroeconomic and geopolitical factors in the U.S. and globally, including the supply chain environment, inflationary pressure, higher interest rates, instability in the global financial markets, significant disruptions in the commodities’ markets as a result of the conflict between Russia and Ukraine and the conflict in Israel, labor shortages, the introduction of or changes in tariffs, trade barriers, or regulatory requirements, and uncertain or reduced demand, as well as the impact of any initiatives or programs that the Company may undertake to address financial and operational challenges faced by its customers.

While the supply chain challenges facing the Company have shown signs of improvement during the first three quarters of 2023, relative to 2022, certain semiconductor materials, specialty metals, and polymers continue to face supply constraints due to various factors, including limited labor availability, equipment shortages, capacity limitations among sub-tier suppliers, and difficulties in sourcing raw materials and component parts to meet demand requirements. Additionally, prices of such materials remain elevated due to increased demand and production-related cost inflation. With higher interest rates, access to credit may become more difficult, and any insolvency of the Company’s key suppliers, including sole-sourced and single-sourced suppliers, may exacerbate current supply chain challenges. Also, liquidity concerns in the broader financial services industry could result in delayed access or loss of access to the Company’s key suppliers’ uninsured deposits or loss of their ability to draw on existing credit facilities involving a troubled or failed financial institution. The Company is actively engaged in activities to seek to mitigate the impact of any supply chain disruptions on the Company’s operations.

Such global shortages in important components have resulted in, and will continue to cause, inflationary cost pressure in the Company’s supply chain. To date, 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, supply constraints with certain materials, many of which may be unavoidable, could delay the timing of our product deliveries, which could result in deferred or canceled procedures. Additionally, if inflationary pressures in component costs persist, the Company may not be able to quickly or easily adjust pricing, reduce costs, or implement countermeasures. Additionally, there is continued 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.

Fluctuations in labor availability globally, including labor shortages and 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. The loss of critical members of the Company's team, or its inability to attract and retain qualified personnel, could significantly harm its operations, business, and ability to compete.

Many hospitals continue to experience challenges with staffing and cost pressures that could affect their ability to provide patient care; however, the staffing challenges have shown signs of improvement during the third quarter of 2023, relative to the first two quarters of 2023 and to the prior year. Additionally, hospitals are facing significant financial pressure as supply chain constraints and inflation drive up operating costs, higher 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. Hospitals may also be adversely affected by the liquidity concerns in the broader financial services industry that could result in delayed access or loss of access to uninsured deposits or loss of their ability to draw on existing credit facilities involving a troubled or failed financial institution. 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 maintains the majority of its cash and cash equivalents in accounts with major U.S. and multi-national financial institutions, and our deposits exceed insured limits. Market conditions could impact the viability of these institutions. To date, these market conditions and liquidity concerns have not impacted our results of operations. However, in the event of the failure of any of the financial institutions where we maintain our cash and cash equivalents, there can be no assurance that we would be able to access uninsured funds in a timely manner or at all. Any inability to access or delay in accessing these funds could adversely affect our business and financial position.

The Company is also subject to additional risks and uncertainties due to the ongoing COVID-19 pandemic. When COVID-19 infection rates have spiked in a particular region in the past, procedure volumes were often negatively impacted and the diagnoses of new conditions and their related treatments were sometimes deferred. The extent of the impact on the Company's business is highly uncertain and difficult to predict. The Company's customers may 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. 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

Troubled Debt Restructurings and Vintage Disclosures

In March 2022, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 Company adopted ASU 2022-02 on January 1, 2023, on a prospective basis. There was no impact of the adoption of ASU 2022-02 on the Company's Financial Statements in the three and nine months ended September 30, 2023.

Recently Issued Accounting Pronouncements

The Company continues to monitor new accounting pronouncements issued by the FASB and does not believe any accounting pronouncements issued through the date of this report will have a material impact on the Company's 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, 2022, 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 debt 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 September 30, 2023, and December 31, 2022 (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
September 30, 2023								
Cash	\$ 474.3	\$ —	\$ —	\$ —	\$ 474.3	\$ 474.3	\$ —	\$ —
Level 1:								
Money market funds	2,967.8	—	—	—	2,967.8	2,967.8	—	—
U.S. treasuries	2,324.2	0.2	(43.9)	—	2,280.5	159.9	1,660.5	460.1
Subtotal	5,292.0	0.2	(43.9)	—	5,248.3	3,127.7	1,660.5	460.1
Level 2:								
Corporate debt securities	1,353.9	—	(42.3)	(1.1)	1,310.5	—	914.7	395.8
U.S. government agencies	400.4	—	(11.2)	—	389.2	—	214.2	175.0
Municipal securities	101.4	—	(3.1)	—	98.3	—	84.3	14.0
Subtotal	1,855.7	—	(56.6)	(1.1)	1,798.0	—	1,213.2	584.8
Total assets measured at fair value	\$ 7,622.0	\$ 0.2	\$ (100.5)	\$ (1.1)	\$ 7,520.6	\$ 3,602.0	\$ 2,873.7	\$ 1,044.9
December 31, 2022								
Cash	\$ 497.2	\$ —	\$ —	\$ —	\$ 497.2	\$ 497.2	\$ —	\$ —
Level 1:								
Money market funds	1,084.0	—	—	—	1,084.0	1,084.0	—	—
U.S. treasuries	2,715.2	—	(96.6)	—	2,618.6	—	1,542.4	1,076.2
Subtotal	3,799.2	—	(96.6)	—	3,702.6	1,084.0	1,542.4	1,076.2
Level 2:								
Commercial paper	20.0	—	—	—	20.0	—	20.0	—
Corporate debt securities	2,022.0	—	(76.0)	(1.1)	1,944.9	—	651.8	1,293.1
U.S. government agencies	447.2	—	(19.9)	—	427.3	—	247.8	179.5
Municipal securities	155.5	—	(6.0)	—	149.5	—	74.7	74.8
Subtotal	2,644.7	—	(101.9)	(1.1)	2,541.7	—	994.3	1,547.4
Total assets measured at fair value	\$ 6,941.1	\$ —	\$ (198.5)	\$ (1.1)	\$ 6,741.5	\$ 1,581.2	\$ 2,536.7	\$ 2,623.6

The following table summarizes the contractual maturities of the Company's cash equivalents and available-for-sale debt securities (excluding money market funds), as of September 30, 2023 (in millions):

	Amortized Cost	Fair Value
Mature in less than one year	\$ 3,084.2	\$ 3,033.6
Mature in one to five years	1,095.7	1,044.9
Total	\$ 4,179.9	\$ 4,078.5

Actual maturities may differ from contractual maturities, because certain borrowers have the right to call or prepay certain obligations. Gross realized gains and losses recognized on the sale of investments were immaterial for the periods presented.

As of September 30, 2023, and December 31, 2022, net unrealized losses on available-for-sale debt securities, net of tax, of \$77.9 million and \$154.2 million, respectively, were included in accumulated other comprehensive loss in the accompanying Consolidated Balance Sheets.

The following tables present the breakdown of the available-for-sale debt securities with unrealized losses as of September 30, 2023, and December 31, 2022 (in millions):

September 30, 2023						
	Unrealized losses less than 12 months		Unrealized losses 12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasuries	\$ 458.8	\$ (0.4)	\$ 1,427.5	\$ (43.5)	\$ 1,886.3	\$ (43.9)
Corporate debt securities	54.0	(0.1)	1,248.8	(42.2)	1,302.8	(42.3)
U.S. government agencies	114.6	(0.2)	274.6	(11.0)	389.2	(11.2)
Municipal securities	—	—	82.3	(3.1)	82.3	(3.1)
Total	\$ 627.4	\$ (0.7)	\$ 3,033.2	\$ (99.8)	\$ 3,660.6	\$ (100.5)

December 31, 2022						
	Unrealized losses less than 12 months		Unrealized losses 12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasuries	\$ 731.7	\$ (26.0)	\$ 1,886.9	\$ (70.6)	\$ 2,618.6	\$ (96.6)
Corporate debt securities	631.4	(17.6)	1,221.9	(58.4)	1,853.3	(76.0)
U.S. government agencies	102.7	(4.4)	324.6	(15.5)	427.3	(19.9)
Municipal securities	44.6	(1.1)	104.9	(4.9)	149.5	(6.0)
Total	\$ 1,510.4	\$ (49.1)	\$ 3,538.3	\$ (149.4)	\$ 5,048.7	\$ (198.5)

The Company's investments may consist of U.S. government money market funds, U.S. treasury and U.S. government agency securities, high-quality corporate notes and bonds, commercial paper, non-U.S. government agency securities, and taxable and tax-exempt municipal notes. The Company regularly reviews its investments and evaluates the current expected credit loss by considering factors such as historical experience, market data, financial condition and near-term prospects of the investee, the extent of any losses related to the credit of the issuer, and the expected cash flows from the security. 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 are denominated in a currency that is routinely held by central banks, used in international commerce, and commonly viewed as a reserve currency.

The current unrealized losses on the Company's available-for-sale debt securities were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. As of September 30, 2023, the Company does not intend to sell the investments in unrealized loss positions, and it is not more-likely-than-not that the Company will be required to sell any of the investments before recovery of their amortized cost basis, which may be at maturity. Therefore, the Company does not expect to realize any losses on these available-for-sale debt securities. Additional factors considered in determining the treatment of unrealized losses include the

financial condition and near-term prospects of the investee, the extent of the loss related to the credit of the issuer, and the expected cash flows from the security.

For the three and nine months ended September 30, 2023, and 2022, the credit losses related to available-for-sales debt securities were not material.

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, 2022 Carrying Value	Changes in Fair Value ⁽¹⁾	Purchases / Sales / Other ⁽²⁾	September 30, 2023 Carrying Value	Reported as:	
					Prepays and other current assets	Intangible and other assets, net
Equity investments with readily determinable value (Level 1)	\$ 4.3	\$ (0.4)	\$ (3.9)	\$ —	\$ —	\$ —
Equity investments without readily determinable value (Level 2)	\$ 59.1	\$ (5.6)	\$ 20.0	\$ 73.5	\$ —	\$ 73.5

⁽¹⁾ Recorded in interest and other income, net.

⁽²⁾ Other includes foreign currency translation gains/(losses).

For the three months ended September 30, 2023, the Company recognized immaterial increases in fair value on its equity investments that lack readily determinable market values (Level 2), which were reflected in interest and other income, net. For the nine months ended September 30, 2023, Company recognized decreases in fair value of \$5.6 million due to an impairment, partially offset by increases in observable prices for certain equity investments that lack readily determinable market values (Level 2), which were also reflected in interest and other income, net.

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 thirteen 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 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"), Chinese Yuan ("CNY"), Canadian Dollar ("CAD"), and Swedish Kronor ("SEK").

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Recognized gains in interest and other income, net	\$ 10.4	\$ 17.9	\$ 21.8	\$ 46.6
Foreign exchange losses related to balance sheet re-measurement	\$ (13.1)	\$ (30.5)	\$ (24.0)	\$ (69.4)

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	
	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Notional amounts:				
Forward contracts	\$ 262.2	\$ 188.4	\$ 618.0	\$ 496.3
Gross fair value recorded in:				
Prepays and other current assets	\$ 12.8	\$ 1.8	\$ 9.3	\$ 4.3
Other accrued liabilities	\$ 1.7	\$ 5.3	\$ 2.5	\$ 4.2

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	
	September 30, 2023	December 31, 2022
Accounts receivable, net		
Trade accounts receivable, net	\$ 879.6	\$ 864.9
Unbilled accounts receivable and other	98.4	91.7
Sales returns and allowances	(15.3)	(14.5)
Total accounts receivable, net	\$ 962.7	\$ 942.1

	As of	
	September 30, 2023	December 31, 2022
Inventory		
Raw materials	\$ 420.3	\$ 382.9
Work-in-process	150.1	159.9
Finished goods	577.1	350.4
Total inventory	\$ 1,147.5	\$ 893.2

	As of	
	September 30, 2023	December 31, 2022
Prepays and other current assets		
Net investment in sales-type leases – short-term	\$ 134.4	\$ 131.2
Other prepaids and other current assets	182.6	168.6
Total prepaids and other current assets	\$ 317.0	\$ 299.8

	As of	
	September 30, 2023	December 31, 2022
Property, plant, and equipment, net		
Land	\$ 389.5	\$ 388.6
Building and building/leasehold improvements	900.9	866.5
Machinery and equipment	654.7	566.4
Operating lease assets – Intuitive System Leasing	1,052.9	806.4
Computer and office equipment	145.6	134.7
Capitalized software	250.8	240.9
Construction-in-process	1,150.8	608.6
Gross property, plant, and equipment	4,545.2	3,612.1
Less: Accumulated depreciation*	(1,468.2)	(1,237.9)
Total property, plant, and equipment, net	<u>\$ 3,077.0</u>	<u>\$ 2,374.2</u>

*Accumulated depreciation associated with operating lease assets – Intuitive System Leasing \$ (395.7) \$ (285.8)

	As of	
	September 30, 2023	December 31, 2022
Other accrued liabilities – short-term		
Income and other taxes payable	\$ 342.8	\$ 96.1
Accrued construction-related capital expenditures	106.0	50.3
Litigation-related accruals	1.6	23.0
Other accrued liabilities	260.2	306.8
Total other accrued liabilities – short-term	<u>\$ 710.6</u>	<u>\$ 476.2</u>

	As of	
	September 30, 2023	December 31, 2022
Other long-term liabilities		
Income taxes – long-term	\$ 264.1	\$ 288.0
Deferred revenue – long-term	42.5	41.0
Other long-term liabilities	106.2	110.3
Total other long-term liabilities	<u>\$ 412.8</u>	<u>\$ 439.3</u>

Supplemental Cash Flow Information

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

	Nine Months Ended September 30,	
	2023	2022
Equipment transfers, including operating lease assets, from inventory to property, plant, and equipment	\$ 303.8	\$ 189.0
Acquisition of property, plant, and equipment in accounts payable and accrued liabilities	\$ 135.2	\$ 91.4

NOTE 5. REVENUE AND CONTRACT ACQUISITION COSTS

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

U.S.	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Instruments and accessories	\$ 775.7	\$ 643.3	\$ 2,240.4	\$ 1,819.0
Systems	216.0	264.7	627.6	731.0
Services	188.5	175.0	564.6	508.9
Total U.S. revenue	\$ 1,180.2	\$ 1,083.0	\$ 3,432.6	\$ 3,058.9
Outside of U.S. ("OUS")				
Instruments and accessories	\$ 295.7	\$ 228.3	\$ 892.5	\$ 758.2
Systems	163.4	161.2	571.9	498.1
Services	104.4	84.9	298.8	252.0
Total OUS revenue	\$ 563.5	\$ 474.4	\$ 1,763.2	\$ 1,508.3
Total				
Instruments and accessories	\$ 1,071.4	\$ 871.6	\$ 3,132.9	\$ 2,577.2
Systems	379.4	425.9	1,199.5	1,229.1
Services	292.9	259.9	863.4	760.9
Total revenue	\$ 1,743.7	\$ 1,557.4	\$ 5,195.8	\$ 4,567.2

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 \$2.13 billion as of September 30, 2023. The remaining performance obligations are expected to be satisfied over the term of the system sale, lease, and service arrangements. Approximately 43% of the remaining performance obligations are expected to be recognized in the next 12 months with the remainder recognized thereafter 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):

	As of	
	September 30, 2023	December 31, 2022
Contract assets	\$ 22.7	\$ 45.0
Deferred revenue	\$ 437.3	\$ 438.3

The Company invoices its customers based on the billing schedules in its sales arrangements. Payments are generally due 30 to 60 days from the 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 nine months ended September 30, 2023, the Company recognized \$75 million and \$372 million of revenue, respectively, that was included in the deferred revenue balance as of December 31, 2022. During the three and nine months ended September 30, 2022, the Company recognized \$73 million and \$352 million of revenue, respectively, that was included in the deferred revenue balance as of December 31, 2021.

Intuitive System Leasing

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Sales-type lease revenue	\$ 19.2	\$ 29.6	\$ 54.5	\$ 115.3
Operating lease revenue*	\$ 127.1	\$ 97.5	\$ 361.8	\$ 273.7
*Variable lease revenue relating to usage-based arrangements included within operating lease revenue				
	\$ 54.2	\$ 35.5	\$ 153.4	\$ 94.0

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 nine months ended September 30, 2023, and 2022, 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 ongoing 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, particularly as hospital cash flows are impacted by inflation and rising interest rates, which drive up their operating costs.

NOTE 6. LEASES

Lessor Information related to Intuitive System Leasing

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	
	September 30, 2023	December 31, 2022
Gross lease receivables	\$ 395.1	\$ 449.4
Unearned income	(13.0)	(14.4)
Subtotal	382.1	435.0
Allowance for credit loss	(2.7)	(3.0)
Net investment in sales-type leases	\$ 379.4	\$ 432.0
Reported as:		
Prepays and other current assets	\$ 134.4	\$ 131.2
Intangible and other assets, net	245.0	300.8
Net investment in sales-type leases	\$ 379.4	\$ 432.0

Contractual maturities of gross lease receivables as of September 30, 2023, are as follows (in millions):

Fiscal Year	Amount
Remainder of 2023	\$ 34.5
2024	135.9
2025	107.2
2026	69.3
2027	37.0
2028 and thereafter	11.2
Total	\$ 395.1

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 the 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 September 30, 2023 (in millions):

	2023	2022	2021	2020	2019	Prior	Net Investment
Credit Rating:							
High	\$ 34.7	\$ 71.1	\$ 63.7	\$ 25.6	\$ 7.2	\$ 0.5	\$ 202.8
Moderate	21.7	58.8	50.1	27.9	6.9	2.0	167.4
Low	—	6.7	4.3	0.9	—	—	11.9
Total	\$ 56.4	\$ 136.6	\$ 118.1	\$ 54.4	\$ 14.1	\$ 2.5	\$ 382.1

For the three and nine months ended September 30, 2023, and 2022, credit losses related to the net investment in sales-type leases were not material.

NOTE 7. GOODWILL AND INTANGIBLE ASSETS

Acquisitions

There were no material acquisitions in the nine months ended September 30, 2023, and 2022.

Goodwill

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

	Amount
Balance as of December 31, 2022	\$ 348.5
Acquisition activity	—
Translation and other	(0.4)
Balance as of September 30, 2023	\$ 348.1

Intangible Assets

The following table summarizes the components of gross intangible assets, accumulated amortization, and net intangible assets balances as of September 30, 2023, and December 31, 2022 (in millions):

	September 30, 2023			December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and developed technology	\$ 204.3	\$ (175.1)	\$ 29.2	\$ 199.1	\$ (167.4)	\$ 31.7
Distribution rights and others	10.7	(8.7)	2.0	11.0	(7.4)	3.6
Customer relationships	31.7	(21.1)	10.6	32.6	(18.1)	14.5
Total intangible assets	<u>\$ 246.7</u>	<u>\$ (204.9)</u>	<u>\$ 41.8</u>	<u>\$ 242.7</u>	<u>\$ (192.9)</u>	<u>\$ 49.8</u>

Amortization expense related to intangible assets was \$5.1 million and \$7.9 million for the three months ended September 30, 2023, and 2022, respectively. Amortization expense related to intangible assets was \$15.1 million and \$20.2 million for the nine months ended September 30, 2023, and 2022, respectively.

The estimated future amortization expense related to intangible assets as of September 30, 2023, is as follows (in millions):

<u>Fiscal Year</u>	<u>Amount</u>
Remainder of 2023	\$ 5.0
2024	16.5
2025	11.6
2026	5.0
2027	2.5
2028 and thereafter	1.2
Total	<u>\$ 41.8</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, commercial, 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 condition, or 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 condition, or 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 ("658"); 8,479,969 ("969"); 9,113,874 ("874"); 8,998,058 ("058"); 8,991,677 ("677"); 9,084,601 ("601"); and 8,616,431 ("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 ("PTAB") 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. The PTAB has issued final written decisions finding the asserted claims of Patent Nos. '658, '058, '677, '601, and '431 unpatentable. On October 3, 2023, Ethicon confirmed that it would not further appeal the decisions by the USITC in that proceeding that claim 24 of the '969 Patent and claim 19 of the '874 Patent were not infringed by the asserted Intuitive products and that those patents were invalid. On October 4, 2023, the parties filed a Joint Status Report in the district court in which Ethicon stated that it was prepared to proceed in this case with respect to its allegations that the accused EndoWrist Stapler instruments infringe asserted claim 24 of the '969 Patent and asserted claim 20 of the '874 Patent.

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 ("369"); 7,490,749 ("749"); 8,602,288 ("288"); 8,602,287 ("287"); and 9,326,770 ("658"). 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 ("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. The PTAB has issued final written decisions finding the asserted claims of Patent Nos. '749, '288, '287, and '379 unpatentable. On October 3, 2023, Ethicon confirmed that it would not further appeal the final written decision by the ITC that found, *inter alia*, that the asserted claim of the '969 Patent was invalid and not infringed by the accused product. On October 4, 2023, the parties filed a Joint Status Report notifying the district court that asserted claims 22 and 23 of the '369 Patent are the only asserted claims that remain at issue in this case and that the parties would meet and confer to discuss the activities that remain and to allow Ethicon to determine whether it will pursue the case.

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 October 19, 2022, a jury rendered a verdict against the Company awarding \$10 million in damages to Rex Medical, L.P. in a patent infringement lawsuit. On September 20, 2023, the court granted the Company's post-trial motion and reduced the damages to Rex Medical L.P. to nominal damages of \$1. On October 18, 2023, Rex Medical filed a notice of appeal to the United States Court of Appeals for the Federal Circuit. Based on currently available information, the Company does not believe that any losses arising from this matter would be material.

Commercial Litigation

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. The parties have filed summary judgment and Daubert motions, and the court held a hearing on these motions on September 7, 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 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. The parties have filed summary judgment and Daubert motions, and the court held a hearing on these motions on September 7, 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 this matter.

NOTE 9. STOCKHOLDERS' EQUITY

Stockholders' Equity

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

Three Months Ended September 30, 2023								
	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	351.3	\$ 0.4	\$ 8,150.8	\$ 3,807.7	\$ (79.8)	\$ 11,879.1	\$ 80.6	\$ 11,959.7
Issuance of common stock through employee stock plans	0.7	—	77.4	—	—	77.4	—	77.4
Shares withheld related to net share settlement of equity awards	—	—	(0.6)	(14.2)	—	(14.8)	—	(14.8)
Share-based compensation expense related to employee stock plans	—	—	158.3	—	—	158.3	—	158.3
Net income attributable to Intuitive Surgical, Inc.	—	—	—	415.7	—	415.7	—	415.7
Other comprehensive income (loss)	—	—	—	—	23.3	23.3	(0.2)	23.1
Net income attributable to noncontrolling interest in joint venture	—	—	—	—	—	—	4.1	4.1
Ending balance	352.0	\$ 0.4	\$ 8,385.9	\$ 4,209.2	\$ (56.5)	\$ 12,539.0	\$ 84.5	\$ 12,623.5

Three Months Ended September 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	357.1	\$ 0.4	\$ 7,484.0	\$ 4,682.8	\$ (144.2)	\$ 12,023.0	\$ 59.4	\$ 12,082.4
Issuance of common stock through employee stock plans	0.9	—	82.0	—	—	82.0	—	82.0
Shares withheld related to net share settlement of equity awards	(0.1)	—	(0.4)	(7.9)	—	(8.3)	—	(8.3)
Share-based compensation expense related to employee stock plans	—	—	138.1	—	—	138.1	—	138.1
Repurchase and retirement of common stock	(4.6)	—	(18.9)	(981.1)	—	(1,000.0)	—	(1,000.0)
Net income attributable to Intuitive Surgical, Inc.	—	—	—	324.0	—	324.0	—	324.0
Other comprehensive income (loss)	—	—	—	—	(43.4)	(43.4)	(1.5)	(44.9)
Net income attributable to noncontrolling interest in joint venture	—	—	—	—	—	—	0.7	0.7
Ending balance	353.3	\$ 0.4	\$ 7,684.8	\$ 4,017.8	\$ (187.6)	\$ 11,515.4	\$ 58.6	\$ 11,574.0

Nine Months Ended September 30, 2023

	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	350.0	\$ 0.4	\$ 7,703.9	\$ 3,500.1	\$ (162.5)	\$ 11,041.9	\$ 70.7	\$ 11,112.6
Issuance of common stock through employee stock plans	4.1	—	252.2	—	—	252.2	—	252.2
Shares withheld related to net share settlement of equity awards	(0.6)	—	(6.9)	(148.5)	—	(155.4)	—	(155.4)
Share-based compensation expense related to employee stock plans	—	—	452.5	—	—	452.5	—	452.5
Repurchase and retirement of common stock	(1.5)	—	(15.8)	(334.2)	—	(350.0)	—	(350.0)
Net income attributable to Intuitive Surgical, Inc.	—	—	—	1,191.8	—	1,191.8	—	1,191.8
Other comprehensive income (loss)	—	—	—	—	106.0	106.0	(1.0)	105.0
Net income attributable to noncontrolling interest in joint venture	—	—	—	—	—	—	14.8	14.8
Ending balance	352.0	\$ 0.4	\$ 8,385.9	\$ 4,209.2	\$ (56.5)	\$ 12,539.0	\$ 84.5	\$ 12,623.5

Nine Months Ended September 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	3.5	—	188.6	—	—	188.6	—	188.6
Shares withheld related to net share settlement of equity awards	(0.7)	—	(7.1)	(180.2)	—	(187.3)	—	(187.3)
Share-based compensation expense related to employee stock plans	—	—	385.6	—	—	385.6	—	385.6
Repurchase and retirement of common stock	(7.2)	—	(46.3)	(1,560.3)	—	(1,606.6)	—	(1,606.6)
Net income attributable to Intuitive Surgical, Inc.	—	—	—	997.4	—	997.4	—	997.4
Other comprehensive income (loss)	—	—	—	—	(163.4)	(163.4)	(2.1)	(165.5)
Net income attributable to noncontrolling interest in joint venture	—	—	—	—	—	—	10.3	10.3
Ending balance	353.3	\$ 0.4	\$ 7,684.8	\$ 4,017.8	\$ (187.6)	\$ 11,515.4	\$ 58.6	\$ 11,574.0

Stock Repurchase Program

The Company's Board of Directors (the "Board") has authorized an aggregate of \$10.0 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 July 2022, when the Board increased the authorized amount available under the Repurchase Program to \$3.5 billion, including amounts remaining under previous authorization. As of September 30, 2023, the remaining amount of share repurchases authorized by the Board under the Repurchase Program was approximately \$1.1 billion.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Shares repurchased	—	4.6	1.5	7.2
Average price per share	\$ —	\$ 217.5	\$ 238.1	\$ 222.4
Value of shares repurchased	\$ —	\$ 1,000.0	\$ 350.0	\$ 1,606.6

In August 2022, the Company entered into an accelerated share repurchase program (the “ASR Program”) with Goldman, Sachs & Co. (“Goldman”) to repurchase \$1.0 billion of the Company’s common stock. In September 2022, the ASR Program was completed and, in total, 4.6 million shares were repurchased at an average price per share of \$217.52. The total cost of the ASR Program was reflected as a reduction to equity in the Condensed Consolidated Balance Sheets.

As a provision of the Inflation Reduction Act enacted in the U.S. during 2022, the Company is subject to an excise tax on corporate stock repurchases, which is assessed as one percent of the fair market value of net stock repurchases after December 31, 2022. As of September 30, 2023, no excise tax was accrued, as the aggregate fair market value of the Company’s stock issuances exceeded the fair market value of stock repurchases.

Accumulated Other Comprehensive Loss, Net of Tax, Attributable to Intuitive Surgical, Inc.

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

Three Months Ended September 30, 2023					
	Gains (Losses) on Hedge Instruments	Unrealized Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation Gains (Losses)	Employee Benefit Plans	Total
Beginning balance	\$ 5.6	\$ (103.5)	\$ 16.9	\$ 1.2	\$ (79.8)
Other comprehensive income (loss) before reclassifications	2.0	25.6	(6.6)	—	21.0
Amounts reclassified from accumulated other comprehensive income (loss)	2.3	—	—	—	2.3
Net current-period other comprehensive income (loss)	4.3	25.6	(6.6)	—	23.3
Ending balance	\$ 9.9	\$ (77.9)	\$ 10.3	\$ 1.2	\$ (56.5)

Three Months Ended September 30, 2022					
	Gains (Losses) on Hedge Instruments	Unrealized Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation Gains (Losses)	Employee Benefit Plans	Total
Beginning balance	\$ 9.9	\$ (140.1)	\$ (9.3)	\$ (4.7)	\$ (144.2)
Other comprehensive income (loss) before reclassifications	(5.7)	(37.3)	(8.5)	—	(51.5)
Amounts reclassified from accumulated other comprehensive income (loss)	8.0	—	—	0.1	8.1
Net current-period other comprehensive income (loss)	2.3	(37.3)	(8.5)	0.1	(43.4)
Ending balance	\$ 12.2	\$ (177.4)	\$ (17.8)	\$ (4.6)	\$ (187.6)

Nine Months Ended September 30, 2023					
	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)	\$ (154.2)	\$ (6.6)	\$ 1.2	\$ (162.5)
Other comprehensive income (loss) before reclassifications	12.6	76.5	16.9	—	106.0
Amounts reclassified from accumulated other comprehensive income (loss)	0.2	(0.2)	—	—	—
Net current-period other comprehensive income (loss)	12.8	76.3	16.9	—	106.0
Ending balance	\$ 9.9	\$ (77.9)	\$ 10.3	\$ 1.2	\$ (56.5)

Nine Months Ended September 30, 2022					
	Gains (Losses) on Hedge Instruments	Unrealized Gains (Losses) on Available-for- Sale Securities	Foreign Currency Translation Gains (Losses)	Employee Benefit Plans	Total
Beginning balance	\$ 4.5	\$ (16.0)	\$ (7.9)	\$ (4.8)	\$ (24.2)
Other comprehensive income (loss) before reclassifications	(11.0)	(161.4)	(9.9)	—	(182.3)
Amounts reclassified from accumulated other comprehensive income (loss)	18.7	—	—	0.2	18.9
Net current-period other comprehensive income (loss)	7.7	(161.4)	(9.9)	0.2	(163.4)
Ending balance	\$ 12.2	\$ (177.4)	\$ (17.8)	\$ (4.6)	\$ (187.6)

The tax impacts for amounts recognized in other comprehensive income (loss) before reclassifications were as follows (in millions):

Available-for-sale securities	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Income tax benefit (expense) for net gains (losses) recorded in other comprehensive income (loss)	\$ (7.4)	\$ 10.8	\$ (22.0)	\$ 46.1

The tax impacts for amounts recognized in other comprehensive income (loss) before reclassifications for hedge instruments, foreign currency translation, and employee benefit plans for the three and nine months ended September 30, 2023, and 2022, were not material to the Company's Financial Statements. The tax impacts for amounts reclassified from accumulated other comprehensive loss relating to hedge instruments, available-for-sale securities, foreign currency translation, and employee benefit plans for the three and nine months ended September 30, 2023, and 2022, were not material to the Company's Financial Statements.

NOTE 10. SHARE-BASED COMPENSATION

As of September 30, 2023, the total number of shares of common stock reserved for issuance under the 2010 Incentive Award Plan was 110,350,000. Approximately 20.6 million shares were reserved for future issuance under the Company's stock plans, and a maximum of approximately 8.9 million of these shares can be awarded as restricted stock units ("RSUs").

Restricted Stock Units

A summary of RSU activity under all stock plans for the nine months ended September 30, 2023, is presented as follows (in millions, except per share amounts):

	Shares	Weighted-Average Grant-Date Fair Value
Unvested balance as of December 31, 2022	4.6	\$ 241.47
RSUs granted	2.4	\$ 235.57
RSUs vested	(1.8)	\$ 222.84
RSUs forfeited	(0.2)	\$ 246.83
Unvested balance as of September 30, 2023	5.0	\$ 244.89

Stock Options

A summary of stock option activity under all stock plans for the nine months ended September 30, 2023, 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, 2022	10.8	\$ 144.86
Options granted	1.4	\$ 267.32
Options exercised	(1.9)	\$ 80.91
Options forfeited/expired	(0.1)	\$ 259.12
Balance as of September 30, 2023	10.2	\$ 171.54

As of September 30, 2023, options to purchase an aggregate of 7.9 million shares of common stock were exercisable at a weighted-average price of \$144.89 per share.

Performance Stock Units

In 2022, the Company began granting performance stock 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 do 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 2022 PSU grant metrics are focused on relative total shareholder return (“TSR”), year-over-year da Vinci procedure growth for 2023, and two-year compound annual da Vinci procedure growth for 2024. The 2023 PSU grant metrics are focused on relative TSR, da Vinci and Ion procedure growth in 2024 compared to 2022, and da Vinci and Ion procedure growth in 2025 compared to 2022. The TSR metric is considered a market condition, and the expense is determined at the grant date. The procedure growth metrics are considered performance conditions, and the expense is recorded based on the forecasted performance, which is reassessed each reporting period based on the probability of achieving the 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.

A summary of PSU activity for the nine months ended September 30, 2023, is presented as follows (in millions, except per share amounts):

	Shares	Weighted-Average Grant Date Fair Value Per Share	
Unvested balance as of December 31, 2022	0.1	\$	299.32
Granted	0.1	\$	240.45
Vested	—	\$	—
Performance change	—	\$	—
Forfeited	—	\$	235.84
Unvested balance as of September 30, 2023	0.2	\$	259.60

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan (“ESPP”), employees purchased approximately 0.5 million shares for \$104.5 million and approximately 0.4 million shares for \$87.9 million during the nine months ended September 30, 2023, and 2022, respectively.

Share-based Compensation Expense

The following table summarizes share-based compensation expense for the three and nine months ended September 30, 2023, and 2022 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cost of sales – products (before capitalization)	\$ 24.7	\$ 22.0	\$ 70.4	\$ 61.0
Amounts capitalized into inventory ⁽¹⁾	(23.2)	—	(63.1)	—
Amounts recognized in income for amounts previously capitalized in inventory	21.1	—	53.0	—
Cost of sales – products	\$ 22.6	\$ 22.0	\$ 60.3	\$ 61.0
Cost of sales – services	7.3	6.3	21.3	17.7
Total cost of sales	29.9	28.3	81.6	78.7
Selling, general, and administrative	71.9	68.0	206.6	191.0
Research and development	55.3	42.3	157.7	117.6
Share-based compensation expense before income taxes	157.1	138.6	445.9	387.3
Income tax benefit	28.7	26.9	85.2	75.0
Share-based compensation expense after income taxes	\$ 128.4	\$ 111.7	\$ 360.7	\$ 312.3

⁽¹⁾ Share-based compensation expense subject to capitalization into inventory was not material during the three and nine months ended September 30, 2022, and, therefore, not recorded. The Company commenced capitalization of share-based compensation expense into inventory during the quarter ended December 31, 2022, on a prospective basis.

The Black-Scholes-Merton option pricing model is used to estimate the fair value of stock options granted under the Company's share-based compensation plans and the 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 nine months ended September 30, 2023, and 2022, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Stock Options				
Risk-free interest rate	4.5%	3.4%	4.6%	2.5%
Expected term (in years)	2.9	3.0	3.2	3.2
Expected volatility	32%	42%	33%	38%
Fair value at grant date	\$82.63	\$66.00	\$77.41	\$73.51
ESPP				
Risk-free interest rate	5.2%	2.9%	5.0%	2.1%
Expected term (in years)	1.2	1.2	1.2	1.2
Expected volatility	31%	40%	33%	39%
Fair value at grant date	\$98.96	\$75.01	\$89.42	\$80.61

NOTE 11. INCOME TAXES

Income tax expense for the three months ended September 30, 2023, was \$102.2 million, or 19.6% of income before taxes, compared to \$78.1 million, or 19.4% of income before taxes, for the three months ended September 30, 2022. Income tax expense for the nine months ended September 30, 2023, was \$236.4 million, or 16.4% of income before taxes, compared to \$204.4 million, or 16.9% of income before taxes, for the nine months ended September 30, 2022.

The effective tax rates for the three and nine months ended September 30, 2023, and 2022, differed from the U.S. federal statutory rate of 21% primarily due to the 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 credit benefit, partially offset by U.S. tax on foreign earnings and state income taxes (net of the federal benefit).

The provision for income taxes for the three months ended September 30, 2023, and 2022, included excess tax benefits associated with employee equity plans of \$22.0 million and \$18.1 million, respectively, which reduced the Company's effective tax rate by 4.2 and 4.5 percentage points, respectively.

The provision for income taxes for the nine months ended September 30, 2023, and 2022, included excess tax benefits associated with employee equity plans of \$86.2 million and \$80.4 million, respectively, which reduced the Company's effective tax rate by 6.0 and 6.6 percentage points, respectively.

On August 16, 2022, the Inflation Reduction Act was enacted in the U.S. and introduced a 15% alternative minimum tax based on the financial statement income of certain large corporations ("CAMT"), effective January 1, 2023. There is no impact on the Company's provision for income taxes from the CAMT for the three and nine months ended September 30, 2023.

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 evolving interpretations of existing tax laws in the jurisdictions in which the Company operates, 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 changes 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 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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Numerator:				
Net income attributable to Intuitive Surgical, Inc.	\$ 415.7	\$ 324.0	\$ 1,191.8	\$ 997.4
Denominator:				
Weighted-average shares outstanding used in basic calculation	351.7	355.3	351.0	357.2
Add: dilutive effect of potential common shares	6.5	5.2	6.1	6.5
Weighted-average shares outstanding used in diluted calculation	358.2	360.5	357.1	363.7
Net income per share attributable to Intuitive Surgical, Inc.:				
Basic	\$ 1.18	\$ 0.91	\$ 3.40	\$ 2.79
Diluted	\$ 1.16	\$ 0.90	\$ 3.34	\$ 2.74

Share-based compensation awards of approximately 1.4 million and 4.7 million shares for the three months ended September 30, 2023, and 2022, respectively, and approximately 1.9 million and 3.7 million shares for the nine months ended September 30, 2023, and 2022, 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

Management's discussion and analysis of financial condition as of September 30, 2023, and results of operations for the three and nine months ended September 30, 2023, and 2022, 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, 2022.

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 include, but are not limited to, statements related to future results of operations, future financial condition, the expected impacts of the COVID-19 pandemic on our business, financial condition, and results of operations, 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 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 should be considered in light of various important factors, including, but not limited to, the following: the overall macroeconomic environment, which may impact customer spending and our costs, including the levels of inflation and interest rates; the conflict in Ukraine; the conflict in Israel; disruption to our supply chain, including increased difficulties in obtaining a sufficient supply of materials in the semiconductor and other markets; curtailed or delayed capital spending by hospitals; the impact of global and regional economic and credit market conditions on healthcare spending; the risk that the COVID-19 pandemic could lead to material delays and cancellations of, or reduced demand for, procedures; 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. FDA, comparable regulatory authorities, or notified bodies; diversion of resources to respond to COVID-19 outbreaks; 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; procedure counts; 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 risks and uncertainties, including those listed under the caption "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, 2022, as updated by our other filings with the Securities and Exchange Commission. Our actual results may differ materially and adversely from those expressed in any forward-looking statement, and we undertake no obligation to publicly update or release any revisions to these forward-looking statements, except as required by law.

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

Overview

As part of our mission, we believe that minimally invasive care is life-enhancing care. We are 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.

We bring 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 nearly three 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 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 in the early stages of launching our da Vinci SP surgical system, and we have an installed base of 158 da Vinci SP surgical systems as of September 30, 2023. We have received FDA clearance for the da Vinci SP surgical system for urologic and certain transoral procedures, and we have received regulatory clearance in South Korea where the da Vinci SP surgical system may be used for a broad set of procedures. In September 2022, we also received regulatory clearance for the da Vinci SP surgical system in Japan for the same set of procedures as can be performed on the da Vinci Xi surgical system in Japan. We plan to seek FDA clearances for additional indications for da Vinci SP over time. We also plan to seek clearances (including for additional indications) 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 X and da Vinci Xi 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.

In 2019, the FDA cleared our Ion endoluminal system, which is a flexible, robotic-assisted, catheter-based platform that utilizes instruments and accessories for which the first cleared indication is minimally invasive biopsies in the lung. Our Ion system extends our commercial offering beyond surgery into diagnostic, endoluminal procedures. The system features an ultra-thin, ultra-maneuverable catheter that can articulate 180 degrees in all directions and allows navigation far into the peripheral lung and provides the stability necessary for precision in a biopsy. Many suspicious lesions found in the lung may be small and difficult to access, which can make diagnosis challenging, and Ion helps physicians obtain tissue samples from deep within the lung, which could help enable earlier diagnosis. In March 2023, we obtained European certification for our Ion endoluminal system and, in September 2023, we received regulatory clearance for the our Ion endoluminal system in South Korea. We plan to seek additional clearances, approvals, and certifications for the Ion endoluminal 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 and geopolitical factors in the U.S. and globally characterized by the supply chain environment, inflationary pressure, higher interest rates, instability in the global financial markets, significant disruptions in the commodities' markets as a result of the conflict between Russia and Ukraine and the conflict in Israel, labor shortages, and the introduction of or changes in tariffs or trade barriers may result in a recession, which could have a material adverse effect on our long-term business.

While the supply chain challenges facing us have shown signs of improvement during the first three quarters of 2023, relative to 2022, certain semiconductor materials, specialty metals, and polymers continue to face supply constraints due to various factors, including limited labor availability, equipment shortages, capacity limitations among sub-tier suppliers, and difficulties in sourcing raw materials and component parts to meet demand requirements. Additionally, prices of such materials remain elevated due to increased demand and production-related cost inflation. With higher interest rates, access to credit may become more difficult and any insolvency of our key suppliers, including sole-sourced and single-sourced suppliers, may exacerbate current supply chain challenges. Also, liquidity concerns in the broader financial services industry could result in delayed access or loss of access to our key suppliers' uninsured deposits or loss of their ability to draw on existing credit facilities involving a troubled or failed financial institution. We are actively engaged in activities to seek to mitigate the impact of any supply chain disruptions on our operations.

Such global shortages in important components have resulted in, and will continue to cause, inflationary cost pressure in our supply chain. To date, these supply chain challenges have not materially impacted our results of operations or ability to deliver products and services to our customers. However, supply constraints with certain materials, many of which may be unavoidable, could delay the timing of finished product deliveries, which could result in deferred or canceled procedures. Additionally, if inflationary pressures in component costs persist, we may not be able to quickly or easily adjust pricing, reduce costs, or implement countermeasures. Additionally, there is continued 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.

Fluctuations in labor availability globally, including labor shortages and 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. 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.

Many hospitals continue to experience challenges with staffing and cost pressures that could affect their ability to provide patient care; however, the staffing challenges have shown signs of improvement during the third quarter of 2023, relative to the first two quarters of 2023 and to the prior year. Additionally, hospitals are facing significant financial pressure as supply chain constraints and inflation drive up operating costs, higher 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. Hospitals may also be adversely affected by the liquidity concerns in the broader financial services industry that could result in delayed access or loss of access to uninsured deposits or loss of their ability to draw on existing credit facilities involving a troubled or

failed financial institution. 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, or results of operations resulting in failure to achieve our anticipated financial results.

We maintain the majority of our cash and cash equivalents in accounts with major U.S. and multi-national financial institutions, and our deposits exceed insured limits. Market conditions could impact the viability of these institutions. To date, these market conditions and liquidity concerns have not impacted our results of operations. However, in the event of the failure of any of the financial institutions where we maintain our cash and cash equivalents, there can be no assurance that we would be able to access uninsured funds in a timely manner or at all. Any inability to access or delay in accessing these funds could adversely affect our business and financial position.

COVID-19 Pandemic

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 2022. 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. In the fourth quarter of 2022, we saw a resurgence in COVID-19 cases in China, which had a significant negative impact on our procedure volumes in the region.

In the first quarter of 2023, the most recent COVID-19 resurgences in China continued to negatively impact our procedure volumes in January 2023. However, in February and March, as infections and hospitalization started to decrease, we saw a recovery of procedure volumes. During the second and third quarters of 2023, we did not experience significant disruptions from COVID-19.

We expect the depth and extent to which the COVID-19 pandemic impacts individual markets to vary based on the availability of vaccinations, personal protective equipment, intensive care units and operating rooms, and medical staff, as well as other government interventions. Additionally, COVID-19 has, and may continue to, contribute to hospital staffing shortages, which impacts hospitals' ability to provide patient care and, in some cases, results in the deferral of elective surgeries. When COVID-19 infection rates have spiked in a particular region in the past, procedure volumes were often negatively impacted and the diagnoses of new conditions and their related treatments were sometimes deferred. While we believe that there is a backlog of patients that remains to be treated, and that such a backlog has positively contributed to 2023 procedure volumes, it is difficult to determine if and when any remaining backlog of patients will ultimately seek diagnosis and treatment and whether they will be treated through surgery. Based on our experience during the last three years, we do not expect all markets, regions, and procedure types to recover at the same time or at the same pace.

Business Model

Overview

We generate revenue from the placement of da Vinci surgical systems, in sales or sales-type lease arrangements where revenue is recognized up-front or in fixed-payment or usage-based operating lease arrangements 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 on 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. In 2020, we launched our Extended Use Program in the U.S. and Europe, which consists of select da Vinci Xi and da Vinci X instruments possessing 12 to 18 uses compared to the previous 10 uses, with the intention to reduce the cost for customers to treat patients, which in turn reduced 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 on the configuration of the underlying system and the 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 or in fixed-payment or usage-based operating lease arrangements where revenue is recognized over time. We earn recurring revenue from the sales of instruments, accessories, and services, as well as revenue from operating leases. The Ion endoluminal system generally sells for between \$0.5 million and \$0.6 million. Our instruments and accessories have limited lives and will either expire or wear out as they are used in procedures, at which point they need to be replaced. We typically enter into service contracts at the time systems are sold or leased at an annual fee between \$60,000 and \$70,000. For the three and nine months ended September 30, 2023, and 2022, 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.

Recurring Revenue

Recurring revenue consists of instruments and accessories revenue, service revenue, and operating lease revenue. Recurring revenue increased to \$4.9 billion, or 79% of total revenue in 2022, compared to \$4.3 billion, or 75% of total revenue in 2021, and \$3.4 billion, or 77% of total revenue in 2020.

Instruments and accessories revenue has grown at a faster rate than systems revenue over time. Instruments and accessories revenue increased to \$3.52 billion in 2022, compared to \$3.10 billion in 2021 and \$2.46 billion in 2020. The increase in instruments and accessories revenue largely reflects continued procedure adoption.

Service revenue was \$1.02 billion in 2022, compared to \$0.92 billion in 2021 and \$0.72 billion in 2020. The increase in service revenue was primarily driven by the growth of the base of installed da Vinci surgical systems producing service revenue, as well as the effects of the Customer Relief Program in 2020, which resulted in an \$80 million decrease in service revenue. The installed base of da Vinci surgical systems grew 12% to approximately 7,544 as of December 31, 2022; 12% to approximately 6,730 as of December 31, 2021; and 7% to approximately 5,989 as of December 31, 2020.

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 medical procedures as well as an indicator of future recurring 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 installed systems 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 GAAP.

Intuitive System Leasing

Since 2013, we have entered into sales-type and fixed-payment 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 operating lease 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 systems placed under fixed-payment and usage-based operating lease arrangements as well as sales-type lease arrangements in our system placement and installed base disclosures. We exclude operating lease-related revenue, including usage-based revenue, and Ion system revenue from our da Vinci surgical system average selling price ("ASP") computations.

The following table summarizes our system placements under leasing arrangements for the years ended December 31, 2022, 2021, and 2020:

	Year Ended December 31,		
	2022	2021	2020
Da Vinci System Placements Under Leasing Arrangements			
Fixed-payment operating lease arrangements	276	333	218
Usage-based operating lease arrangements	216	184	99
Total da Vinci system placements under operating lease arrangements	492	517	317
% of Total da Vinci system placements	39 %	38 %	34 %
Sales-type lease arrangements	99	151	115
Total da Vinci system placements under leasing arrangements	591	668	432
Ion System Placements Under Leasing Arrangements			
Fixed-payment operating lease arrangements	61	43	7
Usage-based operating lease arrangements	40	7	2
Total Ion system placements under operating lease arrangements	101	50	9
% of Total Ion system placements	53 %	54 %	35 %
Sales-type lease arrangements	11	7	—
Total Ion system placements under leasing arrangements	112	57	9

Revenue from fixed-payment operating lease arrangements is recognized on a straight-line basis over the lease term, and revenue from usage-based operating lease arrangements is recognized as the systems are used. We generally set fixed-payment and usage-based operating lease arrangement pricing at a modest premium relative to purchased systems reflecting the time value of money and, in the case of usage-based operating lease arrangements, the risk that system utilization may fall short of anticipated levels. Variable lease revenue recognized from usage-based operating lease 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 \$377 million, \$277 million, and \$177 million for the years ended December 31, 2022, 2021, and 2020, respectively, of which \$133 million, \$78 million, and \$28 million, respectively, was variable lease revenue. As revenue for fixed-payment and usage-based operating lease arrangements is recognized over time, total systems revenue growth is reduced in a period when the number of operating lease placements increases as a proportion of total system placements. Generally, lease transactions generate similar gross margins as our sale transactions.

The following table summarizes our systems installed at customers under operating leasing arrangements for the years ended December 31, 2022, 2021, and 2020:

	Year Ended December 31,		
	2022	2021	2020
Da Vinci System Installed Base under Operating Leasing Arrangements			
Fixed-payment operating lease arrangements	1,018	841	653
Usage-based operating lease arrangements	665	453	248
Total da Vinci system installed base under operating lease arrangements	1,683	1,294	901
Ion System Installed Base under Operating Leasing Arrangements			
Total Ion system installed base under operating lease arrangements	132	61	11

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. As a result of these macroeconomic factors impacting our customers, we may be exposed to defaults under our lease financing arrangements. Moreover, usage-based operating lease arrangements generally contain no minimum payments; therefore, customers may exit such arrangements without paying a financial penalty to us.

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 \$72 million, \$96 million, and \$52 million for the years ended December 31, 2022, 2021,

and 2020, 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. On an annual basis, we typically place a higher proportion of systems 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 arrangements, operating lease revenue, Lease Buyouts, product mix, ASPs, trade-in activities, and customer mix. Systems revenue declined 1% to \$1.68 billion in 2022. Systems revenue grew 44% to \$1.69 billion in 2021. Systems revenue declined 12% to \$1.18 billion in 2020.

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, gynecologic, urologic, cardiothoracic, 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 economical 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 toward 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 the 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 of the U.S. varies and is more pronounced around local holidays and vacation periods, which have lower procedure volume. 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 Italy, Spain, Portugal, Greece, and all Eastern European countries), China (through our Intuitive-Fosun Pharma joint venture), Japan, South Korea, India, Taiwan, and 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 with 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 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 Europe.

Clearances, Approvals, and Certifications

We have generally obtained the regulatory clearances, approvals, and certifications required to market our products associated with our da Vinci Surgical Multiport Systems (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 2021, we have obtained regulatory clearances, approvals, and certifications for the following products:

- In September 2023, we received regulatory clearances in South Korea for our Ion endoluminal system. We expect the introduction of the Ion system in South Korea to be extended as we refine our training pathways in the region and gather local clinical and economic data. In March 2023, we obtained European certification for our Ion endoluminal system. In Europe, we plan to initially focus on the United Kingdom (“UK”) market and on the collection of clinical data in support of our European reimbursement strategy. The Ion system previously received FDA clearance in the U.S. in 2019.
- Following approval in June 2023 by China’s National Medical Products Administration (“NMPA”) for a local version of the da Vinci Xi surgical system, in August 2023, our Intuitive-Fosun Pharma joint venture received a manufacturing license that permits the joint venture to manufacture the da Vinci Xi surgical system for sale to customers in China.
- In April 2023, we obtained FDA clearance for our da Vinci SP surgical system for use in simple prostatectomy procedures. We also obtained FDA clearance for use of the SP surgical system in transvesical approaches to simple and radical prostatectomy.
- In September 2022, we obtained regulatory clearance for the da Vinci SP surgical system in Japan for use in general surgeries, thoracic surgeries (excluding cardiac procedures and intercostal approaches), urologic surgeries, gynecological surgeries, and trans-oral head and neck surgeries.
- 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. We completed initial evaluations of the 8 mm SureForm 30 stapler with certain customers in the U.S. in 2022. The full U.S. product launch is expected to occur in 2024, with other countries to follow. In October 2022, we received regulatory clearance in Japan to market our 8 mm SureForm 30 Curved-Tip and Straight-Tip Stapler instruments and reloads for use in general, thoracic (except for cardiac), gynecologic, and urologic surgery.
- In late 2020 and early 2021, we obtained FDA clearance, European certification, and other regulatory clearances in most of our significant markets to market our Extended Use Instruments.
- In July 2019, we obtained FDA clearance for our SureForm 45 Curved-Tip Stapler and SureForm 45 Gray reload, which round out our SureForm 45 portfolio. We have also obtained European certification for our SureForm 45 Curved-Tip Stapler and SureForm 45 Gray reload. In September 2019, we received regulatory clearance in Japan to market both our SureForm 45 Curved-Tip Stapler and SureForm 45 Gray reload. We received regulatory clearance in South Korea to market our SureForm 45 Curved-Tip Stapler and SureForm 45 Gray reload in June 2021 and July 2021, respectively.
- In June 2019, we obtained European certification 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.

Refer to the descriptions of our new products that received regulatory clearances, approvals, or certifications in 2023, 2022, and 2021 in the Recent Product Introductions section below.

In June 2023, the China National Health Commission published the 14th five-year plan quota for major medical equipment to be sold in China on its official website (the “2023 Quota”). Under the 2023 Quota, the government will allow for the sale of 559 new surgical robots into China, which could include da Vinci surgical systems as well as surgical systems introduced by others. As of September 30, 2023, including systems that were sold in prior quarters, we have placed 66 da Vinci surgical systems under the 2023 Quota, and we believe that 15 system quotas are no longer available; therefore, 478 surgical robots should still be available for sale under the 2023 Quota. Future sales of da Vinci surgical systems under this and any previously published open quotas are uncertain, as they are open to other medical device companies that have introduced robotic-assisted

surgical systems and are dependent on hospitals completing a tender process and receiving associated approvals. Also, our ability to track the number of systems that could be sold under these quotas in the future will be limited by provincial and national agencies making such information publicly available.

Since 2022, several provinces, including the Hunan Provincial Healthcare Security Administration, have implemented significant limits on what hospitals can charge patients for surgeries using robotic surgical technology, including soft tissue surgery and orthopedics. These limits have significantly impacted the number of procedures performed and have impacted our instruments and accessories revenue in those provinces. As of the date of this report, these limits have not had a material impact on our business, financial condition, or results of operations, as only a small portion of our installed base in China is currently located in the impacted provinces. Companies providing robotic surgical technology, including our joint venture in China, have been meeting with Chinese government healthcare agencies to discuss these developments and to provide feedback. We cannot assure you that additional provincial or national healthcare agencies and administrations will not impose similar limits, and we expect to continue to face increased pricing pressure, both of which could further impact the number of procedures performed and our instruments and accessories revenue in China.

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 robotic-assisted procedure is greater than that of alternative treatment options, patients may benefit from seeking out surgeons and hospitals that offer robotic-assisted medical procedures, which could potentially result in a local market share shift. Adoption of robotic-assisted procedures occurs procedure by procedure and market by market and is driven by the relative patient value and total treatment costs of robotic-assisted 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 medical procedures as well as an indicator of future revenue (including revenue from usage-based operating lease 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 our installed systems 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 installed systems 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 GAAP.

Our 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 our products and is not intended to promote for sale or use any Intuitive product outside of its licensed or cleared labeling and indications for use.

Da Vinci Procedures

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, urologic, gynecologic, cardiothoracic, and head and neck surgeries. 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, cholecystectomy, and bariatric procedures. 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 2022, approximately 1,875,000 surgical procedures were performed with da Vinci surgical systems, compared to approximately 1,594,000 and 1,243,000 surgical procedures performed with da Vinci surgical systems in 2021 and 2020, respectively. The increase in our overall procedure volume in 2022 reflects the disruption caused by the COVID-19 pandemic in 2022 and 2021, as noted in the *COVID-19 Pandemic* section above, and was driven by growth in U.S. general surgery, OUS urology, and OUS general surgery (particularly cancer) procedures.

U.S. da Vinci Procedures

Overall U.S. procedure volume with da Vinci surgical systems grew to approximately 1,282,000 in 2022, compared to approximately 1,109,000 in 2021 and approximately 876,000 in 2020. General surgery was our largest and fastest growing U.S. specialty in 2022 with procedure volume that grew to approximately 720,000 in 2022, compared to approximately 588,000 in 2021 and approximately 434,000 in 2020. Gynecologic surgery was our second largest U.S. surgical specialty in 2022 with procedure volume that grew to approximately 341,000 in 2022, compared to approximately 316,000 in 2021 and approximately 267,000 in 2020. Urologic surgery was our third largest U.S. surgical specialty in 2022 with procedure volume that grew to approximately 162,000 in 2022, compared to approximately 153,000 in 2021 and approximately 134,000 in 2020.

OUS da Vinci Procedures

Overall OUS procedure volume with da Vinci surgical systems grew to approximately 593,000 in 2022, compared to approximately 485,000 in 2021 and approximately 367,000 in 2020. Urologic surgery was our largest OUS specialty in 2022 with procedure volume that grew to approximately 316,000 in 2022, compared to approximately 264,000 in 2021 and approximately 215,000 in 2020. General surgery was our second largest OUS specialty in 2022 with procedure volume that

grew to approximately 133,000 in 2022, compared to approximately 101,000 in 2021 and approximately 68,000 in 2020. Gynecology procedures also contributed to OUS procedure growth.

Ion Procedures

The adoption of robotic-assisted bronchoscopy using the Ion system has the potential to grow if it can offer greater patient value than non-Ion alternatives and competitive total economics for healthcare providers.

In 2022, approximately 23,500 biopsy procedures were performed with Ion systems, compared to approximately 7,400 and 1,700 biopsy procedures performed with Ion systems in 2021 and 2020, respectively. The increase in our overall procedure volume in 2022 reflects a larger installed base of approximately 321 systems, an increase of 149% compared to the installed base of approximately 129 systems as of 2021. Currently, the vast majority of Ion biopsy procedures are performed in the U.S.

Recent Business Events and Trends

Procedures

Overall. Total da Vinci procedures performed by our customers grew approximately 19% for the three months ended September 30, 2023, compared to approximately 20% for the three months ended September 30, 2022. Total da Vinci procedures performed by our customers grew approximately 22% for the nine months ended September 30, 2023, compared to approximately 18% for the nine months ended September 30, 2022. The growth in the third quarter 2022 procedure results partially reflect disruption caused by the COVID-19 pandemic in the comparative third quarter 2021 procedure results. The third quarter 2023 procedure growth was largely attributable to growth in U.S. general surgery, OUS urologic surgery, OUS general surgery, and U.S. gynecologic surgery.

U.S. Procedures. U.S. da Vinci procedures grew approximately 17% for the three months ended September 30, 2023, compared to approximately 18% for the three months ended September 30, 2022. U.S. da Vinci procedures grew approximately 20% for the nine months ended September 30, 2023, compared to approximately 15% for the nine months ended September 30, 2022. The growth in the third quarter 2022 procedure results partially reflect disruption caused by the COVID-19 pandemic in the comparative third quarter 2021 procedure results. The third quarter 2023 U.S. procedure growth was largely attributable to growth in general surgery procedures, most notably cholecystectomy and hernia repair procedures. Growth in bariatric procedures slowed during the second and third quarters of 2023, as compared to the growth we have experienced in recent prior quarters. It is unclear whether the slowing growth is a temporary pause as patients evaluate new drug therapies or if growth in U.S. bariatric procedures will continue to slow in future periods. Growth in the more mature gynecologic procedure category was more moderate but continued to exceed our recent historical trends.

OUS Procedures. OUS da Vinci procedures grew approximately 24% for the three months ended September 30, 2023, compared to approximately 24% for the three months ended September 30, 2022. OUS da Vinci procedures grew approximately 27% for the nine months ended September 30, 2023, compared to approximately 24% for the nine months ended September 30, 2022. The growth in the third quarter 2022 procedure results partially reflect disruption caused by the COVID-19 pandemic in the comparative third quarter 2021 procedure results. The third quarter 2023 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) and gynecologic procedures. The third quarter 2023 OUS procedure growth rate reflects continued da Vinci adoption in European and Asian markets. We saw strong procedure growth in Japan, Germany, and the UK during the third quarter of 2023. We believe that growth in these 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 as well as increased surgeon training.

System Demand

We placed 312 da Vinci surgical systems in the third quarter of 2023, compared to 305 systems in the third quarter of 2022. The increase in system placements reflects an increase in demand for additional capacity by our customers as a result of procedure growth. This increase was partially offset by the impacts of a smaller number of third generation da Vinci systems available for trade-in and the macroeconomic challenges impacting our customers. We continue to see our customers challenged by staffing shortages, inflation, debt servicing costs, and other financial pressures, particularly in the U.S. As a result, we expect our customers to continue to be cautious in their overall capital spending. In addition, in July 2023, the Chinese government launched a one-year anti-corruption campaign targeting the healthcare sector. As a result of this anti-corruption campaign, medical device companies, including our Company, have experienced longer timelines in completing the tender process for capital equipment in China. In the third quarter of 2023, the effect of this anti-corruption campaign contributed to fewer systems being placed in China, and we expect tender delays to continue to impact system placements in China in the fourth quarter of 2023. Currently, the extent of the impact of this anti-corruption campaign on our business remains uncertain.

We expect that 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; the 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, such as in Japan; the timing around governmental tenders and authorizations, as well as governmental actions impacting the tender process, such as the anti-corruption campaign in China; the timing of when we receive regulatory clearance in our other OUS markets for our da Vinci Xi, X, and SP surgical systems and related instruments; and the 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 competition, including from companies that have introduced products in the field of robotic-assisted medical procedures 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; Beijing Surgerii Robotics Company Limited; CMR Surgical Ltd.; Johnson & Johnson; Medtronic Corporation; Medtronic plc; meerecompany Inc.; Noah Medical; Shandong Weigao Group Medical Polymer Company Ltd.; Shanghai Microport Medbot (Group) Co., Ltd.; and Shenzhen Edge Medical Co., Ltd.

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.

Recent 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. We designed this instrument 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 our 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 completed initial evaluations of the 8 mm SureForm 30 stapler with certain customers in the U.S. in 2022. The full U.S. product launch is expected to occur in 2024, with other countries to follow. In October 2022, we received regulatory clearance in Japan to market our 8 mm SureForm 30 Curved-Tip and Straight-Tip Stapler instruments and reloads for use in general, thoracic (except for cardiac), gynecologic, and urologic surgery.

Third Quarter 2023 Operational and Financial Highlights

- Total revenue increased by 12% to \$1.74 billion for the three months ended September 30, 2023, compared to \$1.56 billion for the three months ended September 30, 2022.
- Approximately 567,000 da Vinci procedures were performed during the three months ended September 30, 2023, an increase of 19% compared to approximately 475,000 da Vinci procedures for the three months ended September 30, 2022.
- Approximately 14,500 Ion procedures were performed during the three months ended September 30, 2023, an increase of 125% compared to approximately 6,500 Ion procedures for the three months ended September 30, 2022.
- Instruments and accessories revenue increased by 23% to \$1.07 billion for the three months ended September 30, 2023, compared to \$0.87 billion for the three months ended September 30, 2022.
- Systems revenue decreased by 11% to \$379 million for the three months ended September 30, 2023, compared to \$426 million during the three months ended September 30, 2022.
- During the three months ended September 30, 2023, we placed 312 da Vinci surgical systems compared to 305 systems during the three months ended September 30, 2022.
- As of September 30, 2023, we had a da Vinci surgical system installed base of approximately 8,285 systems, an increase of 13% compared to the installed base of approximately 7,364 systems as of September 30, 2022.
- Utilization of da Vinci surgical systems, measured in terms of procedures per system per year, increased 6% relative to the third quarter of 2022.
- During the three months ended September 30, 2023, we placed 55 Ion systems compared to 50 systems during the three months ended September 30, 2022.
- As of September 30, 2023, we had an Ion system installed base of approximately 490 systems, an increase of 93% compared to the installed base of approximately 254 systems as of September 30, 2022.
- Gross profit as a percentage of revenue was 66.9% for the three months ended September 30, 2023, compared to 67.6% for the three months ended September 30, 2022.
- Operating income increased by 17% to \$466 million for the three months ended September 30, 2023, compared to \$399 million during the three months ended September 30, 2022. Operating income included \$157 million and \$139 million of share-based compensation expense related to employee stock plans and \$12.6 million and \$8.2 million of intangible asset-related charges for the three months ended September 30, 2023, and 2022, respectively.
- As of September 30, 2023, we had \$7.52 billion in cash, cash equivalents, and investments. Cash, cash equivalents, and investments increased by \$0.78 billion, compared to \$6.74 billion as of December 31, 2022, primarily as a result of cash provided by operating activities, proceeds from stock option exercises and employee stock purchases, and unrealized gains on interest bearing debt securities classified as available for sale, partially offset by cash used in capital expenditures, share repurchases of \$0.35 billion, and taxes paid related to net share settlements of equity awards.

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 September 30,				Nine Months Ended September 30,			
	2023	% of Total Revenue	2022	% of Total Revenue	2023	% of Total Revenue	2022	% of Total Revenue
Revenue:								
Product	\$ 1,450.8	83 %	\$ 1,297.5	83 %	\$ 4,332.4	83 %	\$ 3,806.3	83 %
Service	292.9	17 %	259.9	17 %	863.4	17 %	760.9	17 %
Total revenue	1,743.7	100 %	1,557.4	100 %	5,195.8	100 %	4,567.2	100 %
Cost of revenue:								
Product	489.5	28 %	421.6	27 %	1,480.5	29 %	1,239.9	27 %
Service	87.0	5 %	83.7	5 %	263.2	5 %	242.2	5 %
Total cost of revenue	576.5	33 %	505.3	32 %	1,743.7	34 %	1,482.1	32 %
Product gross profit	961.3	55 %	875.9	56 %	2,851.9	54 %	2,566.4	56 %
Service gross profit	205.9	12 %	176.2	12 %	600.2	12 %	518.7	12 %
Gross profit	1,167.2	67 %	1,052.1	68 %	3,452.1	66 %	3,085.1	68 %
Operating expenses:								
Selling, general and administrative	452.0	26 %	436.1	28 %	1,396.8	27 %	1,245.6	27 %
Research and development	249.4	14 %	217.1	14 %	738.7	14 %	634.9	15 %
Total operating expenses	701.4	40 %	653.2	42 %	2,135.5	41 %	1,880.5	42 %
Income from operations	465.8	27 %	398.9	26 %	1,316.6	25 %	1,204.6	26 %
Interest and other income, net	56.2	3 %	3.9	— %	126.4	2 %	7.5	— %
Income before taxes	522.0	30 %	402.8	26 %	1,443.0	27 %	1,212.1	26 %
Income tax expense	102.2	6 %	78.1	5 %	236.4	4 %	204.4	4 %
Net income	419.8	24 %	324.7	21 %	1,206.6	23 %	1,007.7	22 %
Less: net income attributable to noncontrolling interest in joint venture	4.1	— %	0.7	— %	14.8	— %	10.3	— %
Net income attributable to Intuitive Surgical, Inc.	\$ 415.7	24 %	\$ 324.0	21 %	\$ 1,191.8	23 %	\$ 997.4	22 %

Total Revenue

Total revenue increased by 12% to \$1.74 billion for the three months ended September 30, 2023, compared to \$1.56 billion for the three months ended September 30, 2022, resulting from 23% higher instruments and accessories revenue and 13% higher service revenue, partially offset by 11% lower systems revenue.

Total revenue increased by 14% to \$5.20 billion for the nine months ended September 30, 2023, compared to \$4.57 billion for the nine months ended September 30, 2022, resulting from 22% higher instruments and accessories revenue and 13% higher service revenue, partially offset by 2% lower systems revenue.

Revenue denominated in foreign currencies as a percentage of total revenue was approximately 24% and 25% for the three and nine months ended September 30, 2023, respectively, and 22% and 23% for the three and nine months ended September 30, 2022, 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 a favorable impact on OUS total revenue of \$8 million and an unfavorable impact on OUS total revenue of \$49 million for the three months ended September 30, 2023, and 2022, respectively. Foreign currency rate fluctuations, net of the impacts from foreign currency hedging, had an unfavorable impact on OUS total revenue of \$38 million and an unfavorable impact on OUS total revenue of \$102 million for the nine months ended September 30, 2023, and 2022, respectively.

Revenue generated in the U.S. accounted for 68% and 66% of total revenue in the three and nine months ended September 30, 2023, respectively, and 70% and 67% of total revenue in the three and nine months ended September 30, 2022, 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 nine months ended September 30, 2023, and 2022, respectively (in millions, except percentages and unit placements):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue				
Instruments and accessories	\$ 1,071.4	\$ 871.6	\$ 3,132.9	\$ 2,577.2
Systems	379.4	425.9	1,199.5	1,229.1
Total product revenue	1,450.8	1,297.5	4,332.4	3,806.3
Services	292.9	259.9	863.4	760.9
Total revenue	\$ 1,743.7	\$ 1,557.4	\$ 5,195.8	\$ 4,567.2
U.S.	\$ 1,180.2	\$ 1,083.0	\$ 3,432.6	\$ 3,058.9
OUS	563.5	474.4	1,763.2	1,508.3
Total revenue	\$ 1,743.7	\$ 1,557.4	\$ 5,195.8	\$ 4,567.2
% of Revenue – U.S.	68%	70%	66%	67%
% of Revenue – OUS	32%	30%	34%	33%
Instruments and accessories	\$ 1,071.4	\$ 871.6	\$ 3,132.9	\$ 2,577.2
Services	292.9	259.9	863.4	760.9
Operating lease revenue	127.1	97.5	361.8	273.7
Total recurring revenue	\$ 1,491.4	\$ 1,229.0	\$ 4,358.1	\$ 3,611.8
% of Total revenue	86%	79%	84%	79%
Da Vinci Surgical System Placements by Region				
U.S. unit placements	159	175	457	511
OUS unit placements	153	130	498	384
Total unit placements*	312	305	955	895
*Systems placed under fixed-payment operating lease arrangements (included in total unit placements)	70	59	212	192
*Systems placed under usage-based operating lease arrangements (included in total unit placements)	93	54	246	146
Da Vinci Surgical System Placements involving System Trade-ins				
Unit placements involving trade-ins	62	71	189	235
Unit placements not involving trade-ins	250	234	766	660
Ion System Placements**	55	50	169	125
**Systems placed under fixed-payment operating lease arrangements (included in total unit placements)	17	19	49	50
**Systems placed under usage-based operating lease arrangements (included in total unit placements)	10	8	39	17

Product Revenue

Three Months Ended September 30, 2023

Product revenue increased by 12% to \$1.45 billion for the three months ended September 30, 2023, compared to \$1.30 billion for the three months ended September 30, 2022.

Instruments and accessories revenue increased by 23% to \$1.07 billion for the three months ended September 30, 2023, compared to \$0.87 billion for the three months ended September 30, 2022. The increase in instruments and accessories revenue was primarily driven by approximately 19% higher da Vinci procedure volume and higher pricing for instruments and accessories, partially offset by customer buying patterns. The third quarter 2023 U.S. da Vinci procedure growth was approximately 17%, driven by growth in general surgery procedures, most notably cholecystectomy and hernia repair procedures, as well as moderate growth in the more mature gynecologic procedure category. The third quarter 2023 OUS da Vinci procedure growth was approximately 24%, driven by continued growth in urologic procedures, including prostatectomies and partial nephrectomies, and earlier stage growth in general surgery (particularly colorectal) and gynecologic procedures. Geographically, the third quarter 2023 OUS da Vinci procedure growth was driven by procedure expansion in a number of markets with particular strength in Japan, Germany, and the UK.

Systems revenue was \$379 million for the three months ended September 30, 2023, compared to \$426 million for the three months ended September 30, 2022. The lower third quarter 2023 system revenue was primarily driven by a higher proportion of da Vinci system placements under operating leases (partially offset by more systems placements), lower third quarter 2023 ASPs, and lower sales-type lease revenue, partially offset by higher operating lease revenue.

During the third quarter of 2023, 312 da Vinci surgical systems were placed compared to 305 systems during the third quarter of 2022. By geography, 159 systems were placed in the U.S., 60 in Europe, 72 in Asia, and 21 in other markets during the third quarter of 2023, compared to 175 systems placed in the U.S., 54 in Europe, 64 in Asia, and 12 in other markets during the third quarter of 2022. The increase in system placements was primarily driven by the demand for additional capacity by our customers due to the procedure growth, partially offset by a smaller number of third generation da Vinci systems available for trade-in, the macroeconomic challenges impacting our U.S. customers, and the effect of the anti-corruption campaign in China. As of September 30, 2023, we had a da Vinci surgical system installed base of approximately 8,285 systems, compared to an installed base of approximately 7,364 systems as of September 30, 2022. The incremental system placements reflect continued procedure growth and further customer validation that robotic-assisted surgery addresses their quadruple aim objectives.

The following table summarizes our da Vinci system placements and systems installed at customers under leasing arrangements for three months ended September 30, 2023, and 2022:

	Three Months Ended September 30,	
	2023	2022
Da Vinci System Placements Under Leasing Arrangements		
Fixed-payment operating lease arrangements	70	59
Usage-based operating lease arrangements	93	54
Total da Vinci system placements under operating lease arrangements	163	113
% of Total da Vinci system placements	52%	37%
Sales-type lease arrangements	11	17
Total da Vinci system placements under leasing arrangements	174	130
Da Vinci System Installed Base under Operating Leasing Arrangements		
Fixed-payment operating lease arrangements	1,151	967
Usage-based operating lease arrangements	913	595
Total da Vinci system installed base under operating leasing arrangements	2,064	1,562

Operating lease revenue, including the contribution from Ion systems, was \$127 million for the three months ended September 30, 2023, compared to \$98 million for the three months ended September 30, 2022. Revenue from Lease Buyouts was \$17.2 million for the three months ended September 30, 2023, compared to \$17.4 million for the three months ended September 30, 2022. We expect revenue from Lease Buyouts to fluctuate from 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 systems placed under fixed-payment or usage-based operating lease arrangements and Ion systems, was approximately \$1.40 million for the three months ended September 30, 2023, compared to approximately \$1.50 million for the three months ended September 30, 2022. The lower third quarter 2023 ASP was largely

driven by higher pricing discounts and unfavorable geographic 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 third quarter of 2023, 55 Ion systems were placed compared to 50 systems during the third quarter of 2022. As of September 30, 2023, we had an Ion system installed base of approximately 490 systems, compared to an installed base of approximately 254 systems as of September 30, 2022.

The following table summarizes our Ion system placements and systems installed at customers under leasing arrangements for three months ended September 30, 2023, and 2022:

	Three Months Ended September 30,	
	2023	2022
Ion System Placements Under Leasing Arrangements		
Fixed-payment operating lease arrangements	17	19
Usage-based operating lease arrangements	10	8
Total Ion system placements under operating lease arrangements	27	27
% of Total Ion system placements	49%	54%
Sales-type leases	—	2
Total Ion system placements under leasing arrangements	27	29
Ion System Installed Base under Operating Leasing Arrangements		
Total Ion system installed base under leasing arrangements	194	112

Nine Months Ended September 30, 2023

Product revenue increased by 14% to \$4.33 billion for the nine months ended September 30, 2023, compared to \$3.81 billion for the nine months ended September 30, 2022.

Instruments and accessories revenue increased by 22% to \$3.13 billion for the nine months ended September 30, 2023, compared to \$2.58 billion for the nine months ended September 30, 2022. The increase in instruments and accessories revenue was primarily driven by approximately 22% higher da Vinci procedure volume and higher pricing for instruments and accessories, partially offset by customer buying patterns and unfavorable foreign currency impacts. The year-to-date 2023 U.S. da Vinci procedure growth was approximately 20%, driven by strong growth in general surgery procedures, most notably cholecystectomy, hernia repair, and bariatric procedures, as well as moderate growth in the more mature gynecologic procedure category. The year-to-date 2023 OUS da Vinci procedure growth was approximately 27%, driven by continued growth in urologic procedures, most notably prostatectomy and partial nephrectomy procedures, and earlier stage growth in general surgery (particularly colorectal) and gynecologic 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 2023 OUS da Vinci procedure growth was driven by procedure expansion in a number of markets with particular strength in Japan, Germany, China, and the UK.

Systems revenue decreased by 2% to \$1.20 billion for the nine months ended September 30, 2023, compared to \$1.23 billion for the nine months ended September 30, 2022. The lower year-to-date 2023 system revenue was primarily driven by lower sales-type lease revenue, lower year-to-date 2023 ASPs, and a higher proportion of da Vinci system placements under operating leases (partially offset by more systems placements), partially offset by higher operating lease revenue.

During the nine months ended September 30, 2023, a total of 955 da Vinci surgical systems were placed compared to 895 systems during the nine months ended September 30, 2022. By geography, 457 systems were placed in the U.S., 237 in Europe, 195 in Asia, and 66 in other markets during the nine months ended September 30, 2023, compared to 511 systems placed in the U.S., 210 in Europe, 152 in Asia, and 22 in other markets during the nine months ended September 30, 2022. The increase in system placements was primarily driven by the demand for additional capacity by our customers due to the procedure growth, partially offset by a smaller number of third generation da Vinci systems available for trade-in along with the macroeconomic challenges impacting our U.S. customers.

The following table summarizes our da Vinci system placements under leasing arrangements for nine months ended September 30, 2023, and 2022:

	Nine Months Ended September 30,	
	2023	2022
Da Vinci System Placements Under Leasing Arrangements		
Fixed-payment operating lease arrangements	212	192
Usage-based operating lease arrangements	246	146
Total da Vinci system placements under operating lease arrangements	458	338
% of Total da Vinci system placements	48%	38%
Sales-type lease arrangements	31	72
Total da Vinci system placements under leasing arrangements	489	410

Operating lease revenue, including the impact of Ion systems, was \$362 million for the nine months ended September 30, 2023, compared to \$274 million for the nine months ended September 30, 2022. Revenue from Lease Buyouts was \$53.5 million for the nine months ended September 30, 2023, compared to \$55.4 million for the nine months ended September 30, 2022. 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 fixed-payment or usage-based operating lease arrangements and Ion systems, was approximately \$1.42 million for the nine months ended September 30, 2023, compared to approximately \$1.52 million for the nine months ended September 30, 2022. The lower year-to-date 2023 ASP was largely driven by higher pricing discounts, unfavorable product mix, foreign currency impacts, and unfavorable geographic mix, partially offset by 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.

The following table summarizes our Ion system placements under leasing arrangements for nine months ended September 30, 2023, and 2022:

	Nine Months Ended September 30,	
	2023	2022
Ion System Placements Under Leasing Arrangements		
Fixed-payment operating lease arrangements	49	50
Usage-based operating lease arrangements	39	17
Total Ion system placements under operating lease arrangements	88	67
% of Total Ion system placements	52%	54%
Sales-type lease arrangements	5	7
Total Ion system placements under leasing arrangements	93	74

Service Revenue

Service revenue increased by 13% to \$293 million for the three months ended September 30, 2023, compared to \$260 million for the three months ended September 30, 2022. The increase in service revenue was primarily driven by a larger installed base of systems producing service revenue.

Service revenue increased by 13% to \$863 million for the nine months ended September 30, 2023, compared to \$761 million for the nine months ended September 30, 2022. The increase in service revenue was primarily driven by a larger installed base of systems producing service revenue, partially offset by unfavorable foreign currency impacts.

Gross Profit

Product gross profit for the three months ended September 30, 2023, increased by 10% to \$961 million, representing 66.3% of product revenue, compared to \$876 million, representing 67.5% of product revenue, for the three months ended September 30, 2022. The higher product gross profit for the three months ended September 30, 2023, was primarily driven by higher product revenue, partially offset by lower product gross profit margin. The lower product gross profit margin for the three months ended September 30, 2023, was primarily driven by lower third quarter 2023 system ASPs, an unfavorable product mix, and higher costs related to scrap and components, partially offset by higher pricing for instruments and accessories.

Product gross profit for the nine months ended September 30, 2023, increased by 11% to \$2.85 billion, representing 65.8% of product revenue, compared to \$2.57 billion, representing 67.4% of product revenue, for the nine months ended September 30, 2022. The higher product gross profit for the nine months ended September 30, 2023, was primarily driven by higher product revenue, partially offset by lower product gross profit margin. The lower product gross profit margin for the nine months ended September 30, 2023, was primarily driven by lower year-to-date 2023 system ASPs, an unfavorable product mix, higher costs related to scrap and components, and increased inventory reserves, partially offset by higher pricing for instruments and accessories.

Product gross profit for the three and nine months ended September 30, 2023, included share-based compensation expense of \$22.6 million and \$60.3 million, respectively, compared with \$22.0 million and \$61.0 million for the three and nine months ended September 30, 2022, respectively. Product gross profit for the three and nine months ended September 30, 2023, included intangible assets amortization expense of \$3.6 million and \$10.1 million, respectively, compared with \$5.1 million and \$12.4 million for the three and nine months ended September 30, 2022, respectively.

Service gross profit for the three months ended September 30, 2023, increased by 17% to \$206 million, representing 70.3% of service revenue, compared to \$176 million, representing 67.8% of service revenue, for the three months ended September 30, 2022. The higher service gross profit for the three months ended September 30, 2023, was primarily driven by higher service revenue, reflecting a larger installed base of systems, and higher service gross profit margin. The higher service gross profit margin for the three months ended September 30, 2023, was primarily driven by lower average repair costs and favorable impacts from leveraging volume of repairs.

Service gross profit for the nine months ended September 30, 2023, increased by 16% to \$600 million, representing 69.5% of service revenue, compared to \$519 million, representing 68.2% of service revenue, for the nine months ended September 30, 2022. The higher service gross profit for the nine months ended September 30, 2023, was primarily driven by higher service revenue, reflecting a larger installed base of systems, and higher service gross profit margin. The higher service gross profit margin for the nine months ended September 30, 2023, was primarily driven by favorable impacts from leveraging volume of repairs.

Service gross profit for the three and nine months ended September 30, 2023, included share-based compensation expense of \$7.3 million and \$21.3 million, respectively, compared with \$6.3 million and \$17.7 million for the three and nine months ended September 30, 2022, respectively. Service gross profit for the three and nine months ended September 30, 2023, included intangible assets amortization expense of \$0.1 million and \$0.5 million, respectively, compared with \$0.8 million and \$1.2 million for the three and nine months ended September 30, 2022, 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 September 30, 2023, increased by 4% to \$452 million, compared to \$436 million for the three months ended September 30, 2022. The increase in selling, general and administrative expenses for the three months ended September 30, 2023, was primarily driven by higher headcount, resulting in increased fixed and share-based compensation expense as well as higher variable compensation, and higher travel and training expenses, partially offset by lower legal costs.

Selling, general and administrative expenses for the nine months ended September 30, 2023, increased by 12% to \$1.40 billion, compared to \$1.25 billion for the nine months ended September 30, 2022. The increase in selling, general and administrative expenses for the nine months ended September 30, 2023, was primarily driven by higher headcount, resulting in increased fixed and share-based compensation expense as well as higher variable compensation, and higher travel, training, and marketing expenses, partially offset by lower legal costs.

Selling, general and administrative expenses for the three and nine months ended September 30, 2023, included share-based compensation expense of \$71.9 million and \$206.6 million, respectively, compared with \$68.0 million and \$191.0 million for the three and nine months ended September 30, 2022, respectively. Selling, general and administrative expenses for the three and nine months ended September 30, 2023, included intangible assets amortization expense of \$0.8 million and \$2.5 million, respectively, compared with \$1.4 million and \$4.6 million for the three and nine months ended September 30, 2022, 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. Our main product development initiatives include multi-port, Ion, and SP platform investments and our digital products and services.

Research and development expenses for the three months ended September 30, 2023, increased by 15% to \$249 million, compared to \$217 million for the three months ended September 30, 2022. The increase in research and development expenses for the three months ended September 30, 2023, was primarily driven by higher personnel-related expenses, including share-based compensation expense, and higher intangible asset-related charges.

Research and development expenses for the nine months ended September 30, 2023, increased by 16% to \$739 million, compared to \$635 million for the nine months ended September 30, 2022. The increase in research and development expenses for the nine months ended September 30, 2023, 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 future generations of robotics, Ion and SP platform investments, and digital investments.

Research and development expenses for the three and nine months ended September 30, 2023, included share-based compensation expense of \$55.3 million and \$157.7 million, respectively, compared with \$42.3 million and \$117.6 million for the three and nine months ended September 30, 2022, respectively. Research and development expenses for the three and nine months ended September 30, 2023, included intangible asset charges of \$8.1 million and \$11.0 million, respectively, compared with \$0.9 million and \$11.9 million for the three and nine months ended September 30, 2022, 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 September 30, 2023, and 2022, increased by 1,341% to \$56.2 million, compared to \$3.9 million for the three months ended September 30, 2022. The increase in interest and other income, net, for the three months ended September 30, 2023, was primarily driven by higher interest income earned due to an increase in average interest rates (despite lower average cash and investment balances), as well as lower foreign exchange losses.

Interest and other income, net, for the nine months ended September 30, 2023, increased by 1,585% to \$126.4 million, compared to \$7.5 million for nine months ended September 30, 2022. The increase in interest and other income, net, for the nine months ended September 30, 2023, was primarily driven by higher interest income earned due to an increase in average interest rates (despite lower average cash and investment balances), lower foreign exchange losses, and lower unrealized losses on investments resulting from strategic arrangements.

Income Tax Expense

Income tax expense for the three months ended September 30, 2023, was \$102.2 million, or 19.6% of income before taxes, compared to \$78.1 million, or 19.4% of income before taxes, for the three months ended September 30, 2022. Income tax expense for the nine months ended September 30, 2023, was \$236.4 million, or 16.4% of income before taxes, compared to \$204.4 million, or 16.9% of income before taxes, for the nine months ended September 30, 2022.

Our effective tax rates for the three and nine months ended September 30, 2023, and 2022, differed from the U.S. federal statutory rate of 21% primarily due to the 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 credit benefit, partially offset by U.S. tax on foreign earnings and state income taxes (net of the federal benefit).

Our higher effective tax rate for the three months ended September 30, 2023 compared to the three months ended September 30, 2022, was primarily due to a lower tax rate benefit from excess tax benefits, as discussed below, partially offset by a more favorable jurisdictional earnings mix.

Our provision for income taxes for the three months ended September 30, 2023, and 2022, included excess tax benefits associated with employee equity plans of \$22.0 million and \$18.1 million, respectively, which reduced our effective tax rate by 4.2 and 4.5 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 GAAP, which results in increased income tax expense volatility.

Our lower effective tax rate for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022, was primarily due to a more favorable jurisdictional earnings mix, partially offset by a lower tax rate benefit from excess tax benefits, as discussed below.

Our provision for income taxes for the nine months ended September 30, 2023, and 2022, included excess tax benefits associated with employee equity plans of \$86.2 million and \$80.4 million, respectively, which reduced our effective tax rate by 6.0 and 6.6 percentage points, respectively.

On August 16, 2022, the Inflation Reduction Act was enacted in the U.S. and introduced a 15% alternative minimum tax based on the financial statement income of the CAMT, effective January 1, 2023. There is no impact on our provision for income taxes from the CAMT for the three and nine months ended September 30, 2023.

We file federal, state, and foreign income tax returns in many jurisdictions in the U.S. and OUS. Years before 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 in which 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 changes 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 Internal Revenue Service and other tax authorities. The outcome of these audits cannot be predicted with certainty. Management regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of 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 months ended September 30, 2023, and 2022, was \$4.1 million and \$0.7 million, respectively.

Net income attributable to noncontrolling interest in Joint Venture for the nine months ended September 30, 2023, and 2022, was \$14.8 million and \$10.3 million, respectively.

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 increased by \$0.78 billion to \$7.52 billion as of September 30, 2023, from \$6.74 billion as of December 31, 2022, primarily as a result of cash provided by operating activities, proceeds from stock option exercises and employee stock purchases, and unrealized gains on interest bearing debt securities classified as available for sale, partially offset by cash used in capital expenditures, share repurchases of \$0.35 billion, and taxes paid related to net share settlements of equity awards.

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 our business, will be sufficient to meet our liquidity requirements for the foreseeable future. However, we may experience reduced cash flow from operations as a result of the risk of a recession along with other macroeconomic and geopolitical headwinds.

See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our Form 10-K for the fiscal year ended December 31, 2022, 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 nine months ended September 30, 2023, and 2022 (in millions):

	Nine Months Ended September 30,	
	2023	2022
Net cash provided by (used in):		
Operating activities	\$ 1,585.5	\$ 1,052.9
Investing activities	684.1	796.0
Financing activities	(256.1)	(1,608.8)
Effect of exchange rates on cash, cash equivalents, and restricted cash	8.7	7.9
Net increase in cash, cash equivalents, and restricted cash	<u>\$ 2,022.2</u>	<u>\$ 248.0</u>

Operating Activities

For the nine months ended September 30, 2023, net cash provided by operating activities of \$1.59 billion exceeded our net income of \$1.21 billion, primarily due to the following factors:

1. Our net income included non-cash charges of \$717 million, consisting primarily of the following significant items: share-based compensation of \$442 million; depreciation expense and losses on the disposal of property, plant, and equipment of \$284 million; changes in deferred income taxes of \$(61) million; and deferred commission amortization of \$23 million.
2. The non-cash charges outlined above were partially offset by changes in operating assets and liabilities that resulted in \$338 million of cash used in operating activities during the nine months ended September 30, 2023. Inventory, including the transfer of equipment from inventory to property, plant, and equipment, increased by \$528 million, primarily to address the growth in the business as well as to mitigate risks of disruption that could arise from global supply chain shortages. Refer to Note 4 to the Financial Statements for further details in the supplemental cash flow information. Accrued compensation and employee benefits decreased by \$27 million, primarily due to payments of 2022 incentive compensation. The unfavorable impact of these items on cash provided by operating activities was partially offset by a \$172 million increase in other accrued liabilities, primarily due to an increase in income taxes payable from the timing of income tax payments as a result of tax relief availed to federally declared disaster areas, partially offset by payments of litigation-related fees, a \$38 million decrease in prepaid expenses and other assets increased, primarily due to a decrease in net investments in sales-type leases, and a \$28 million increase in accounts payable, primarily due to the timing of billing and payments.

Investing Activities

Net cash provided by investing activities for the nine months ended September 30, 2023, consisted primarily of proceeds from maturities and sales of investments, net of purchases, of \$1.32 billion, partially offset by \$629 million paid for the acquisition of property, plant, and equipment. 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 for the nine months ended September 30, 2023, consisted primarily of cash used in the repurchase of approximately 1.5 million shares of our common stock for \$350 million and taxes paid on behalf of employees related to net share settlements of equity awards of \$155 million, partially offset by proceeds from stock option exercises and employee stock purchases of \$252 million.

Capital Expenditures

Our capital expenditures are increasing as we continue to build the Company to supply our customers with highly differentiated products manufactured in highly automated factories to facilitate outstanding performance in product quality, availability, and cost. A significant portion of this investment involves the construction of facilities to expand our manufacturing and commercial capabilities. We have also been vertically integrating key technologies to develop a more robust supply chain and bring important products to market at attractive price points. These investments include increased ownership of our imaging pipelines and investments in strategic instruments and accessories technologies that allow us to serve our customers better. We expect these capital investments to increase significantly in 2023 to a range between \$900 million and \$1 billion, over half of which will be facilities-related investments. 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 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, 2022, 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 September 30, 2023, compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2022.

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, 2022, 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, 2022, 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 update, 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, 2022.

RISKS RELATING TO OUR BUSINESS

MACROECONOMIC CONDITIONS COULD HAVE A MATERIALLY ADVERSE IMPACT ON OUR BUSINESS, FINANCIAL CONDITION, OR RESULTS OF OPERATIONS.

Macroeconomic conditions, such as high inflation, changes to monetary policy, high interest rates, volatile currency exchange rates, credit and sovereign debt concerns in certain European countries, concerns about slowed growth in China and other OUS markets, decreasing consumer confidence and spending, including capital spending, concerns about the stability and liquidity of certain financial institutions, and global or local recessions can adversely impact demand for our products, which could negatively impact our business, financial condition, or results of operations. Recent macroeconomic conditions have been adversely impacted by political instability and military hostilities in multiple geographies (including the conflict between Ukraine and Russia and the conflict in Israel), monetary and financial uncertainties, and the ongoing COVID-19 pandemic. The results of these macroeconomic conditions, and the actions taken by governments, central banks, companies, and consumers in response, have, and may continue to, result in higher inflation in the U.S. and globally, which is likely, in turn, to lead to an increase in costs and may cause changes in fiscal and monetary policy, including additional increased interest rates. Other adverse impacts of recent macroeconomic conditions have been, and may continue to be, supply chain constraints, logistics challenges, liquidity concerns in the broader financial services industry, and fluctuations in labor availability.

Adverse developments that affect financial institutions, transactional counterparties, or other third parties, or concerns or rumors about these events, have in the past and may in the future lead to market-wide liquidity problems. For example, on March 10, 2023, Silicon Valley Bank (“SVB”) was closed by the California Department of Financial Protection and Innovation, which appointed the U.S. Federal Deposit Insurance Corporation (“FDIC”) as receiver. Similarly, other institutions have been and may continue to be swept into receivership. We have no borrowing or deposit exposure to directly impacted institutions and have not experienced an adverse impact to our liquidity or to our business operations, financial condition, or results of operations as a result of these recent events. However, uncertainty may remain over liquidity concerns in the broader financial services industry, and there may be unpredictable impacts to our business and our industry.

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 countermeasures. A higher inflationary environment can also negatively impact raw material, component, and logistics costs that, in turn, may increase the costs of producing and distributing our products. Recently, the costs of raw materials, transportation, construction, services, and energy necessary for the production and distribution of our products have increased significantly.

Furthermore, hospitals and distributors may choose to postpone or reduce spending due to financial difficulties or difficulties in obtaining credit to finance purchases of our products due to increased interest rates and restraints on credit. Hospitals and distributors may also be adversely affected by the liquidity concerns in the broader financial services industry, as described above, that could result in delayed access or loss of access to uninsured deposits or loss of their ability to draw on existing credit facilities involving a troubled or failed financial institution. Hospitals, in particular, are experiencing and may continue to experience financial and operational pressures as a result of staffing shortages, the supply chain environment, and high inflation, which could impact their ability to access capital markets and other funding sources, increase the 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 face financial pressures, delayed access or loss of access to uninsured deposits, delayed access or loss of ability to draw on existing credit facilities, reductions in government

spending, or higher interest rates, hospitals' ability or willingness to spend on capital equipment may be adversely impacted, all of which could have a material adverse effect on our business, financial condition, or results of operations.

We are unable to predict the impact of efforts by central banks and federal, state, and local governments to combat elevated levels of inflation. If their efforts to create downward pressure on inflation are too aggressive, they may lead to a recession. Alternatively, if they are insufficient or are not sustained long enough to bring inflation to lower, more acceptable levels, hospitals' ability or willingness to spend on capital equipment may be impacted for a prolonged period of time. If a recession occurs, economies weaken, or inflationary trends continue, our business and operating results could be materially adversely affected.

Also, we have, and may continue to, experience supply chain constraints due to the current supply chain environment, including difficulties obtaining a sufficient supply of component materials used in our products. If interest rates continue to rise, access to credit may become more difficult, which may result in the insolvency of key suppliers, including single-source suppliers, which would exacerbate supply chain challenges. Such supply chain constraints could cause us to fail to meet product demand, which could result in deferred or canceled procedures.

OUR RELIANCE ON SOLE-SOURCED AND SINGLE-SOURCED SUPPLIERS AND ABILITY TO PURCHASE AT ACCEPTABLE PRICES A SUFFICIENT SUPPLY OF MATERIALS, PARTS, AND COMPONENTS COULD HARM OUR ABILITY TO MEET PRODUCT DEMAND IN A TIMELY MANNER OR WITHIN BUDGET.

Some of the components necessary for the assembly of our products are currently provided to us by sole-sourced suppliers or single-sourced suppliers. We generally purchase components through purchase orders rather than long-term supply agreements and generally do not maintain large volumes of inventory. While alternative suppliers exist and could be identified for single-sourced components, the disruption or termination of the supply of components, or inflationary pressure in our supply chain, could cause a significant increase in the costs of these components, which could affect our operating results. Certain of our sole-sourced suppliers or single-sourced suppliers could be adversely affected by the macroeconomic conditions, such as liquidity concerns in the broader financial services industry, that could result in delayed access or loss of access to their uninsured deposits or loss of their ability to draw on existing credit facilities involving a troubled or failed financial institution. A disruption or termination in the supply of components could also result in our inability to meet demand for our products, which could harm our ability to generate revenues, lead to customer dissatisfaction, and damage our reputation and our brand. Furthermore, if we are required to change the manufacturer of a key component of our products, we may be required to verify that the new manufacturer maintains facilities and procedures that comply with quality standards and with all applicable regulations and guidelines. The time and processes associated with the verification of a new manufacturer could delay our ability to manufacture our products on schedule or within budget, which may have a material adverse impact on our business, financial condition, or results of operations.

In addition, our ability to meet customers' demands depends, in part, on our ability to timely obtain an adequate delivery of quality materials, parts, and components from our suppliers. An information technology systems interruption, including cyberattacks, could adversely affect the ordering, distribution, and manufacturing processes of our suppliers. Difficulties remain in obtaining a sufficient supply of semiconductor and other component materials, and we expect such difficulties to persist in the foreseeable future. Prices of such materials have also increased, and global supply has become constrained due to the increased demand for materials, including semiconductors, to support expansion of server and cloud networks as a greater proportion of the global population worked remotely, the introduction of 5G, and the continued electrification of vehicles. We engage in activities to seek to mitigate such supply disruptions by, for example, increasing our communications with our suppliers and modifying our purchase order coverage and inventory levels. Such global shortages in important components have resulted in, and will continue to cause, inflationary pressure in our supply chain, which would impact our profits and profit margin. If shortages and price increases in important supply-chain materials in the semiconductor or other markets continue, we could also fail to meet product demand, which would adversely impact our business, financial condition, or results of operations.

WE ARE SUBJECT TO A VARIETY OF RISKS DUE TO OUR OPERATIONS OUTSIDE OF THE U.S.

We manufacture, perform research and development activities, and distribute our products in OUS markets. Revenue from OUS markets accounted for approximately 34%, 33%, and 33% of our revenue for the years ended December 31, 2023, 2022, and 2021, respectively. Our OUS operations are, and will continue to be, subject to a number of risks including:

- the failure to obtain or maintain the same degree of protection against infringement of our intellectual property rights due to differing intellectual property protection laws in OUS countries from those in the U.S.;
- multiple OUS regulatory requirements that are subject to change and that could impact our ability to manufacture and sell our products;
- changes in tariffs, trade barriers, and regulatory requirements;

- protectionist laws, policies, and business practices that favor local competitors or lead to non-U.S. customers favoring domestic technology solutions, which could slow our growth in OUS markets;
- local or national regulations that make it difficult or impractical to market or use our products;
- U.S. relations with the governments of the other countries in which we operate;
- the inability or regulatory limitations on our ability to move goods across borders;
- the risks associated with foreign currency exchange rate fluctuations;
- the difficulty in establishing, staffing, and managing OUS operations, including differing labor relations;
- the expense of establishing facilities and operations in new foreign markets;
- the building and maintenance of an organization capable of supporting geographically dispersed operations, including appropriate business procedures and controls;
- anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act (“FCPA”), and other local laws prohibiting corrupt payments to governmental officials;
- antitrust and anti-competition laws;
- economic weakness, including inflation, or political instability in particular foreign economies and markets, including exposure to a higher degree of financial risk if we extend credit to customers in these economies; and
- business interruptions due to natural disasters, outbreak of disease, climate change, armed conflicts, and other events beyond our control.

For example, in Israel, we have certain research and development operations primarily related to digital products. Depending on the length and extent of the conflict in Israel, there could be impacts to certain research and development timelines.

Also, we have increased, and will continue to increase, our operations in China. There is inherent risk, based on the complex relationships between China and the U.S., that political, diplomatic, military, or other events could result in business disruptions, including increased regulatory enforcement against companies, tariffs, trade embargoes, or export restrictions. Tariffs increase the cost of our products and the components and raw materials that go into making them. These increased costs adversely impact the gross margin that we earn on our products. Tariffs can also make our products more expensive for customers, which could make our products less competitive and reduce consumer demand. Countries may also adopt other measures, such as controls on imports or exports of goods, technology, or data, which could adversely impact our operations and supply chain and limit our ability to offer our products and services as designed. These measures can require us to take various actions, including changing suppliers and restructuring business relationships. Changing our operations in accordance with new or changed trade restrictions can be expensive, time-consuming, disruptive to our operations and distracting to management. Such restrictions can be announced with little or no advance notice, and we may not be able to effectively mitigate all adverse impacts from such measures. Political uncertainty surrounding trade and other international disputes could also have a negative effect on consumer confidence and spending. Any of these events could reduce customer demand, increase the cost of our products and services, or otherwise have a materially adverse impact on our customers’ and suppliers’ businesses or results of operations.

For example, in 2020, the U.S. government amended the Entity List rules to expand the requirement to obtain a license prior to the export of certain technologies. In addition, in 2020, a new U.S. regulation seeks to prohibit the U.S. government from contracting with companies who use the products or services of certain Chinese companies. We believe that these regulations do not materially adversely impact our business at this time but cannot predict the impact that additional regulatory changes may have on our business in the future. These actions or similar actions may result in policies and regulations in response that could adversely affect our business operations in China or may otherwise limit our ability to offer our products and services in China and other parts of the world.

Following a national referendum and enactment of legislation by the government of the UK, the UK formally withdrew from the EU and ratified a trade and cooperation agreement governing its relationship with the EU. The EU–UK Trade and Cooperation Agreement (the “TCA”) was applied provisionally as of January 1, 2021, and entered into force on May 1, 2021. The TCA does not specifically refer to medical devices. However, as a result of Brexit, the EU Medical Devices Regulation will not be implemented in the UK, and previous legislation that sought to mirror the EU Medical Devices Regulation in the UK law has been revoked. The regulatory regime for medical devices in Great Britain continues to be based on the requirements derived from previous EU legislation, and the UK may choose to retain regulatory flexibility or align with the EU Medical Devices Regulation going forward. On June 26, 2022, the MHRA published its response to a 10-week consultation on the future regulation of medical devices in the UK. Regulations implementing the new regime were originally scheduled to come into force in July 2023 but have recently been postponed to July 2024. Devices issued by EU notified bodies are now subject to transitional arrangements. Following these transitional periods, it is expected that all medical devices will require a UKCA mark, but CE marks issued by EU notified bodies will remain valid until this time. Manufacturers may choose to use the UKCA

mark on a voluntary basis until June 30, 2023. However, UKCA marking will not be recognized in the EU. Following the transitional period, compliance with the UK legislation will be a prerequisite to be able to affix the UKCA mark to our products, without which they cannot be sold or marketed in Great Britain. The TCA does provide for cooperation and exchange of information in the area of product safety and compliance, including market surveillance, enforcement activities and measures, standardization-related activities, exchanges of officials, and coordinated product recalls (or other similar actions). For medical devices that are locally manufactured but use components from other countries, the “rules of origin” criteria will need to be reviewed. Depending on which countries products will ultimately be sold in, manufacturers may start seeking alternative sources for components if this would allow them to benefit from no tariffs. The rules for placing medical devices on the Northern Ireland market will differ from those in Great Britain. These developments, or the perception that any related developments could occur, have had and may continue to have a material adverse effect on global economic conditions and financial markets, and our business would likely be impacted and the demand for our products could be depressed.

In addition, the U.S. federal government has made changes to the U.S. trade policy, including entering into a successor to the North American Free Trade Agreement (“NAFTA”), known as the United States-Mexico-Canada Agreement (“USMCA”), effective as of July 1, 2020. In addition, the U.S. federal government has implemented, or is considering the imposition of, tariffs on certain foreign goods. Such tariffs and, if enacted, any further legislation or actions taken by the U.S. federal government that restrict trade, such as additional tariffs, trade barriers, and other protectionist or retaliatory measures taken by governments in Europe, Asia, and other countries, could adversely impact our ability to sell products and services in our OUS markets. Tariffs could increase the cost of our products and the components and raw materials that go into making them. These increased costs could adversely impact the gross margin that we earn on our products, which could make our products less competitive and reduce consumer demand. Countries may also adopt other protectionist measures that could limit our ability to offer our products and services.

Furthermore, a large portion of our OUS sales are denominated in U.S. dollars. As a result, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive and/or less affordable in OUS markets.

If we are unable to meet and manage these risks, our OUS operations may not be successful, which would limit the growth of our business and could have a material adverse effect on our business, financial condition, or result of operations.

INFORMATION TECHNOLOGY SYSTEM FAILURES, CYBERATTACKS, OR DEFICIENCIES IN OUR CYBERSECURITY COULD HARM OUR BUSINESS, CUSTOMER RELATIONS, FINANCIAL CONDITION, OR RESULTS OF OPERATIONS.

Our information technology systems are critical to the success of our products, help us operate effectively and efficiently, interface with customers, maintain our supply chain and manufacturing operations, maintain financial accuracy and efficiency, and help us produce our Consolidated Financial Statements. If we do not allocate and effectively manage the resources necessary to build and sustain the proper information technology infrastructure, we could be subject to transaction errors, processing inefficiencies, the loss of existing customers, difficulty attracting new customers, business operation disruptions, diversion of the attention of management and key information technology resources, security breaches, or the unauthorized access to, loss of, or damage to intellectual property, confidential information, or personal information. Our information technology systems and those of our third-party service providers, strategic partners, and other contractors or consultants are vulnerable to attack, damage, or interruption from a variety of sources. These sources include computer viruses and malware (e.g., ransomware), malicious code, natural disasters, terrorism, war, telecommunication and electrical failures, hacking, cyberattacks, phishing attacks and other social engineering schemes, employee theft or misuse, human error, fraud, denial or degradation of service attacks, sophisticated nation-state and nation-state-supported actors, or unauthorized access or use by persons inside our organization, or persons with access to systems inside our organization. If our information technology systems do not effectively and securely collect, store, process, and report relevant data for the operation of our business, our ability to effectively plan, forecast, and execute our business plan and comply with applicable laws and regulations could be impaired. Any such impairment could materially and adversely affect our financial condition, results of operations, and the timeliness with which we report our internal and external operating results.

Our business requires us to use and store customer, employee, and business partner personal information. This may include names, addresses, phone numbers, email addresses, contact preferences, tax identification numbers, and payment account information. We require usernames and passwords in order to access our information technology systems. We also use encryption and authentication technologies to secure the transmission and storage of data. These security measures may be compromised as a result of security breaches by unauthorized persons, employee error, malfeasance, faulty password management, or other irregularity and result in persons obtaining unauthorized access to our data or accounts. Third parties may attempt to fraudulently induce employees or customers into disclosing usernames, passwords, or other sensitive information, which may, in turn, be used to access our information technology systems. In addition, our employees, third-party service providers, strategic partners, or other contractors or consultants may input inappropriate or confidential information into an artificial intelligence system (in particular, a system that is managed, owned, or controlled by a third party), thereby compromising our business operations, which may cause business operation disruptions, diversion of the attention of

management and key information technology resources, and possibly lead to security breaches of, or the unauthorized access to, our confidential information or other business data. As a result of the COVID-19 pandemic, we may also face increased cybersecurity risks due to our reliance on internet technology and the number of our employees who are working remotely, which may create additional opportunities for cybercriminals to exploit vulnerabilities.

In addition, unauthorized persons may attempt to hack into our products or systems to obtain personal data relating to patients or employees, our confidential or proprietary information, or confidential information we hold on behalf of third parties. If the unauthorized persons successfully hack into or interfere with our connected products or services, they may create issues with product functionality that could pose a risk of the loss of data, a risk to patient safety, and a risk of product recall or field action, which could adversely impact our business and reputation. We have programs in place to detect, contain, and respond to data security incidents, and we make ongoing improvements to our information-sharing products in order to minimize vulnerabilities, in accordance with industry and regulatory standards. However, because the techniques used to obtain unauthorized access to or steal personal information or intellectual property, or sabotage systems containing personal information or intellectual property, change frequently and may originate from less regulated and remote areas of the world and be difficult to detect, we may not be able to anticipate and prevent these intrusions or mitigate them when and if they occur. Even if identified, we may be unable to adequately investigate or remediate incidents or breaches due to attackers increasingly using tools and techniques that are designed to circumvent controls, avoid detection, and remove or obfuscate forensic evidence.

We also rely on external vendors to supply and/or support certain aspects of our information technology systems. The systems of these external vendors may contain defects in design or manufacture or other problems that could unexpectedly compromise the security of our own information technology systems, and we are dependent on these third parties to deploy appropriate security programs to protect their systems. In addition to potential exposure to data breaches, security and cybersecurity incidents, or other actions that may compromise the security of or interfere with the function of our systems, defects or vulnerabilities in the software or systems of our external vendors may expose failures in our internal controls and risk management processes, which may adversely impact our business, financial condition, or results of operations and may also harm our reputation, brand, and customer relationships.

While we devote significant resources to network security, data encryption, and other security measures to protect our systems and data, these security measures cannot provide absolute security. We and certain of our service providers are, from time to time, subject to cyberattacks and security breaches and incidents. We consider such cyberattacks or security breaches and incidents to be in the ordinary course of business for a company of our size in our industry. While we do not believe that we have experienced any significant system failure, accident, or security breach to date, if such an event were to occur, it could impair our ability to attract and retain customers for our products, impact the price of our stock, materially damage commercial relationships, and expose us to litigation or government investigations, which could result in penalties, fines, or judgments against us. The costs to us to eliminate or alleviate network security problems, bugs, viruses, worms, ransomware and other malicious software programs, and security vulnerabilities could be significant. Our efforts to address these problems may not be successful and could result in unexpected interruptions, delays, cessation of service, and harm to our business operations. Moreover, if a security breach affects our systems or results in the unauthorized release of personal information, our reputation and brand could be materially damaged, and use of our products and services could decrease. We would also be exposed to a risk of loss, litigation and potential liability, and regulatory scrutiny, which could have a material adverse impact on our business, financial condition, or results of operations.

Globally, attacks are expected to continue accelerating in both frequency and sophistication with increasing use of tools and techniques that are designed to circumvent controls, avoid detection, and remove or obfuscate forensic evidence, all of which hinders our ability to identify, investigate, and recover from incidents.

Furthermore, 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 technology systems or the services or information technology systems of our third-party service providers, strategic partners, and other contractors or consultants, if successful, could harm our business, result in the misappropriation of funds, be expensive to remedy, and damage our reputation or brand.

While we maintain cyber insurance coverage that is intended to address data security risks, such insurance coverage may be insufficient to cover all losses or claims that may arise.

WE ARE EXPOSED TO CREDIT RISK AND FLUCTUATIONS IN THE MARKET VALUE OF OUR INVESTMENTS.

Our investment portfolio includes both domestic and international investments. The credit ratings and pricing of our investments can be negatively affected by liquidity concerns, credit deterioration, financial results, economic risk, political risk, or other factors. As a result, the value and liquidity of our cash equivalents and marketable securities could fluctuate substantially. Our other income and expense could also vary materially from expectations depending on gains or losses realized

on the sale or exchange of investments, impairment charges resulting from revaluations of debt and equity securities and other investments, changes in interest rates, increases or decreases in cash balances, volatility in foreign exchange rates, and changes in the fair value of derivative instruments. Increased volatility in the financial markets and overall economic uncertainty could increase the risk that actual amounts realized on our investments may differ significantly from the fair values currently assigned to them.

The value of our investments may also decline due to instability in the global financial markets, which may reduce the liquidity of securities included in our portfolio. The closure of SVB and other institutions swept into receivership and the appointment of the FDIC as receiver created bank-specific and broader financial institution liquidity risk and concerns. Although the U.S. Department of the Treasury, the Federal Reserve, and the FDIC jointly released a statement that depositors at SVB and other banks that have been similarly swept into receivership would have access to their funds, even those in excess of the standard FDIC insurance limits, under a systemic risk exception, future adverse developments with respect to specific financial institutions or the broader financial services industry may impair our ability to access capital needed to support near-term working capital needs, whether from our existing investment and deposit accounts and credit facilities or otherwise, and may lead to market-wide liquidity shortages and create additional market and economic uncertainty. Any decline in available funding or access to our cash and liquidity resources could also result in breaches of our financial and/or contractual obligations.

Our Intuitive Ventures fund plans to invest in early-stage companies, which involve substantial risks and uncertainties. These risks and uncertainties include, among other things, uncertainties inherent in research and development; uncertainties regarding the ability of Intuitive Ventures to identify investment candidates; uncertainties regarding the success of Intuitive Ventures' investments; uncertainties and variables inherent in the operating and financial performance in investments made, including, among other things, competitive developments and general economic, political, business, industry, regulatory and market conditions; future exchange and interest rates; and changes in tax and other laws, regulations, rates and policies.

While we have not realized any significant losses on our cash equivalents, marketable securities, or other investments, future fluctuations in their value could have a material adverse impact on our business, financial condition, or results of operations.

CHANGES IN OUR EFFECTIVE TAX RATE MAY ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION, OR RESULTS OF OPERATIONS.

We are subject to taxes in the U.S. and other jurisdictions around the world. Tax rates in these jurisdictions may be subject to significant change due to economic and/or political conditions. A number of other factors may also impact our future effective tax rate, including:

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- increases in expenses not deductible for tax purposes, including write-offs of acquired intangibles and impairment of goodwill in connection with acquisitions;
- changes in the availability of tax credits, tax holidays, and tax deductions;
- changes in share-based compensation; and
- changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles.

We are unable to predict what changes to the tax laws of the U.S. and other jurisdictions may be proposed or enacted in the future or what effect such changes would have on our business. Changes in the tax laws of foreign jurisdictions could arise as a result of the base erosion and profit shifting ("BEPS") project undertaken by the Organization for Economic Co-operation and Development ("OECD"). The OECD proposed changes to long-standing tax principles and continues to develop new proposals, including allocating greater taxing rights to countries where customers are located and establishing a global minimum tax rate of at least 15%. These changes, if adopted by countries, may increase tax uncertainty and adversely affect our provision for income taxes. Any significant increase in our future effective tax rate could have a material adverse impact on our business, financial condition, or results of operations.

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 September 30, 2023:

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 ⁽¹⁾
July 1 to July 31, 2023	—	\$ —	—	\$ 1.1 billion
August 1 to August 31, 2023	—	\$ —	—	\$ 1.1 billion
September 1 to September 30, 2023	—	\$ —	—	\$ 1.1 billion
Total during quarter ended September 30, 2023	—	\$ —	—	

(1) Since March 2009, we have had an active stock Repurchase Program. As of September 30, 2023, our Board had authorized an aggregate amount of up to \$10.0 billion for stock repurchases, of which the most recent authorization occurred in July 2022, when our Board increased the authorized amount available under our stock Repurchase Program to \$3.5 billion. The remaining \$1.1 billion represents the amount available to repurchase shares under the authorized stock Repurchase Program as of September 30, 2023. The authorized stock Repurchase Program does not have an expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION**Rule 10b5-1 Plans**

On August 11, 2023, Myriam J. Curet, M.D., F.A.C.S., the Company's Chief Medical Officer, adopted a Rule 10b5-1 trading plan. Ms. Curet's trading plan provides for the potential sale of up to 27,077 shares of the Company's common stock, including the potential exercise and sale of up to 21,273 shares of the Company's common stock subject to stock options, until August 12, 2024. This trading plan was entered into during an open insider trading window and is intended to satisfy the affirmative defense of Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended, and the Company's policies regarding transactions in the Company's securities.

ITEM 6. EXHIBITS

Exhibit

Number	Description
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- | | |
|-----|--|
| 3.1 | <u>Amended and Restated Certificate of Incorporation of the Company, as Amended.</u> |
| 3.2 | <u>Amendment to Amended and Restated Certificate of Incorporation of the Company.</u> |
| 3.3 | <u>Amended and Restated Bylaws of the Company.</u> |
| 3.4 | <u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 3.5 | <u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 3.6 | <u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 3.7 | <u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |

The following materials from Intuitive Surgical, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, 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.

The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in Inline XBRL and contained in Exhibit 101.

1. Incorporated by reference to Exhibit 3.1 filed with the Company's Quarterly Report on Form 10-Q filed on July 23, 2020 (File No. 000-30713).
2. Incorporated by reference to Exhibit 3.1 filed with the Company's Quarterly Report on Form 10-Q filed on October 20, 2021 (File No. 000-30713).
3. Incorporated by reference to Exhibit 3.1 filed with the Company's Current Report on Form 8-K filed on February 1, 2021 (File No. 000-30713).

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: October 20, 2023