

INTUITIVE SURGICAL INC
Form DEF 14A
April 09, 2004

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant
Filed by a Party other than the Registrant
Check the appropriate box:

Preliminary Proxy Statement Confidential, for Use of the Commission Only

(as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

INTUITIVE SURGICAL, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.
 Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

INTUITIVE SURGICAL, INC.

950 Kifer Road

Sunnyvale, California 94086

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 21, 2004

TO THE STOCKHOLDERS OF INTUITIVE SURGICAL, INC.:

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of Intuitive Surgical, Inc. will be held at The Four Points Sheraton, 1250 Lakeside Drive, Sunnyvale, California 94085, on Friday, May 21, 2004, at 2:00 p.m., Pacific time, for the following purposes:

to elect two Class I members of the Board of Directors to serve until the 2007 annual meeting of stockholders; and

to transact any other business which is properly brought before the meeting or any adjournment or postponement thereof.

Please refer to the attached proxy statement, which forms a part of this Notice and is incorporated herein by reference, for further information with respect to the business to be transacted at the annual meeting.

Stockholders of record at the close of business on April 5, 2004 are entitled to notice of, and to vote at, the annual meeting or any adjournment or postponement thereof. The Board of Directors of Intuitive Surgical unanimously recommends that you vote **FOR** the nominees to the Board of Directors listed in the attached proxy statement.

The presence, in person or by proxy, of shares of Intuitive Surgical common stock representing a majority of shares of Intuitive Surgical common stock issued and outstanding on the record date will be required to establish a quorum at the annual meeting. The candidates for director receiving the highest number of votes, up to the number of directors to be elected, will be elected to Intuitive Surgical's Board of Directors.

Your vote is important. Please sign, date and return the enclosed proxy card as soon as possible to make sure that your shares are represented at the annual meeting. If you are a stockholder of record of Intuitive Surgical common stock, you also may cast your vote in person at the annual meeting. If your shares are held in an account at a brokerage firm or bank, you should instruct it on how to vote your shares.

By Order of the Board of Directors

/s/ Lonnie M. Smith

Lonnie M. Smith

President, Chief Executive Officer and

Chairman of the Board

Sunnyvale, California

April 9, 2004

Please note that attendance at the annual meeting will be limited to stockholders as of the record date, or their authorized representatives, and guests of Intuitive Surgical.

INTUITIVE SURGICAL, INC.

PROXY STATEMENT

FOR

ANNUAL MEETING OF STOCKHOLDERS

MAY 21, 2004

INTRODUCTION

General

This proxy statement is furnished to our stockholders in connection with the solicitation of proxies for use at our annual meeting of stockholders to be held on May 21, 2004 at 2:00 p.m., Pacific time, for the purposes of:

electing two Class I members of the Board of Directors to serve until the 2007 annual meeting of stockholders; and

transacting any other business which is properly brought before the meeting or any adjournment or postponement thereof.

A copy of our Annual Report on Form 10-K for the year ended December 31, 2003 and this proxy statement and accompanying proxy card will be first mailed to stockholders on or about April 15, 2004.

This solicitation is made on behalf of our Board of Directors and we will pay the costs of solicitation. Our directors, officers and employees may also solicit proxies by telephone, telegraph, fax or personal interview. We will reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy material to our stockholders. We have retained Computershare Trust Co. to assist in the solicitation of proxies with respect to shares of our common stock held of record by brokers, nominees and institutions for a customary fee not to exceed \$3,000.

Our principal executive offices are located at 950 Kifer Road, Sunnyvale, California 94086, telephone (408) 523-2100.

Shares Entitled to Vote and Required Vote

Our outstanding common stock constitutes the only class of securities entitled to vote at the annual meeting. Stockholders of record of the common stock at the close of business on April 5, 2004 are entitled to notice of, and to vote at, the annual meeting. A list of our stockholders will be available for review at our principal executive offices during regular business hours for a period of 10 days prior to the annual meeting. As of March 31, 2004, 33,502,943 shares of our common stock were issued and outstanding. The presence at the meeting, in person or by proxy, of a majority of the shares of the common stock issued and outstanding on April 5, 2004 will constitute a quorum. Each share of common stock is entitled to one vote.

Voting Procedures

A proxy card is enclosed for your use. We ask that you complete, sign, date and return the proxy card in the accompanying envelope, which is postage prepaid if you mail it in the United States.

You have choices on the matter to be voted upon at the annual meeting. By checking the appropriate box on your proxy card you may:

vote for the director nominees; or

withhold authority to vote for some or all of the director nominees.

Unless there are different instructions on the proxy, all shares represented by valid proxies (and not revoked before they are voted) will be voted at the meeting **FOR** the election of the director nominees listed in Proposal No. 1. With respect to any other business which may properly come before the annual meeting and be submitted to a vote of stockholders, proxies will be voted in accordance with the best judgment of the designated proxy holders.

Shares represented by proxies that reflect abstentions or broker non-votes (*i.e.*, shares held by a broker or nominee which are represented at the meeting, but with respect to which the broker or nominee is not empowered to vote on a particular proposal) will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum. Broker non-votes are not deemed to be entitled to vote for purposes of determining whether stockholder approval of a matter has been obtained. As a result, broker non-votes are not included in the tabulation of voting results on any proposal. The director nominees will be elected by a plurality of the votes of the shares present or represented by proxy at the meeting and entitled to vote on the election of a director.

Stockholders of record may vote by either completing and returning the enclosed proxy card prior to the meeting, voting in person at the meeting, or submitting a signed proxy card at the meeting.

Your vote is important. Accordingly, please complete, sign, date and return the accompanying proxy card whether or not you plan to attend the annual meeting in person.

You may revoke your proxy at any time before it is actually voted at the meeting by:

delivering written notice of revocation to our Secretary at 950 Kifer Road, Sunnyvale, California 94086;

submitting a later dated proxy; or

attending the meeting and voting in person.

Your attendance at the meeting will not, by itself, constitute revocation of your proxy. You may also be represented by another person present at the meeting by executing a form of proxy designating that person to act on your behalf. Shares may only be voted by or on behalf of the record holder of shares as indicated in our stock transfer records. If you are a beneficial stockholder but your shares are held of record by another person, such as a stock brokerage firm or bank, that person must vote the shares as the record holders in accordance with the beneficial holder's instructions.

All votes cast at the meeting will be tabulated by the persons appointed by us to act as inspectors of election for the meeting.

PROPOSAL NO. 1:**ELECTION OF DIRECTORS****General Information**

The Board of Directors currently consists of eight members, divided into three classes. Two Class I directors are to be elected at the annual meeting to serve a three-year term expiring at the 2007 annual meeting of stockholders or until a successor has been elected and qualified. Scott S. Halsted has advised us of his intention not to stand for re-election to the Board of Directors at the end of his current term expiring at the annual meeting. The remaining five directors will continue to serve their respective terms.

Alan J. Levy, Ph.D. and Eric H. Halvorson have been nominated by the Board of Directors to serve as Class I directors.

Shares represented by the accompanying proxy will be voted for the election of the nominees recommended by the Board of Directors unless the proxy is marked in such a manner so as to withhold authority to vote. In the event that any nominee should be unavailable for election as a result of an unexpected occurrence, such shares will be voted for the election of such substitute nominee as management may propose. Each person nominated for election has agreed to serve if elected, and management has no reason to believe that any nominee will be unable to serve.

The names of the nominees and directors, their ages as of March 31, 2004 and certain other information about them are set forth below:

Name of Nominee or Director	Age	Principal Occupation	Director Since
Scott S. Halsted ⁽¹⁾⁽²⁾	44	General Partner, Morgan Stanley Dean Witter Venture Partners	1997
Alan J. Levy, Ph.D. ⁽²⁾⁽³⁾	66	President and Chief Executive Officer of Northstar Neuroscience, Inc.	2000
Robert W. Duggan	59	President, Robert Duggan & Associates	2003
Eric H. Halvorson ⁽¹⁾⁽³⁾	54	President and Chief Executive Officer, The Thomas Kinkade Company	2003
Lonnie M. Smith	59	President, Chief Executive Officer and Chairman of the Board of Intuitive Surgical, Inc.	1996
Richard J. Kramer ⁽¹⁾	61	President, R.J. Kramer Associates	2000
William J. Mercer	55	Founder and Managing Member, Avocet Ventures, LLC	2004
William C. Meyers, M.D.	54	Dean of Clinical Affairs and Chairman of the Department of Surgery, Drexel University College of Medicine	2004

⁽¹⁾member of audit committee

⁽²⁾member of compensation committee

⁽³⁾member of governance and nominating committee

The principal occupations and positions for at least the past five years of the director nominees named above are as follows:

Nominees for Election for a Three-Year Term Expiring at the 2007 Annual Meeting of Stockholders

Alan J. Levy, Ph.D. has been a member of our Board of Directors since February 2000. Dr. Levy has been President, Chief Executive Officer and a member of the Board of Directors of Northstar Neuroscience, Inc., a

biotechnology company he co-founded since 1999. From 1993 to 1998, Dr. Levy served as President and Chief Executive Officer of Heartstream, Inc., a medical device company that was acquired by Hewlett-Packard in 1998. Prior to joining Heartstream, he was President of Heart Technology, Inc., a medical device company that was acquired by Boston Scientific in 1995. Before joining Heart Technology, Dr. Levy was Vice President of Research and New Business Development and a member of the board of Ethicon, a division of Johnson & Johnson. Dr. Levy holds a B.S. in chemistry from City University of New York and a Ph.D. in organic chemistry from Purdue University.

Eric H. Halvorson has been a member of our Board of Directors since our acquisition of Computer Motion in June 2003. Mr. Halvorson joined Computer Motion in July 2002 as a member of its Board of Directors. Since June 2003, Mr. Halvorson has been the President and Chief Executive Officer of The Thomas Kinkade Company, formerly Media Arts Group, Inc., an art publishing company. From 2000 to 2003, Mr. Halvorson was a Visiting Professor of Business Law and Accounting at Pepperdine University in Malibu, California, where he taught classes in Business Law, Business Ethics and Financial Accounting. Before teaching at Pepperdine, he was the Executive Vice President and Chief Operating Officer at Salem Communications Corporation from 1995 to 2000. Prior to becoming Chief Operating Officer, he was Vice President and General Counsel for 10 years. Mr. Halvorson is currently a director of Salem Communications Corp. Mr. Halvorson was a partner at Godfrey and Kahn, a law firm based in Milwaukee, Wisconsin from 1976 until 1985. Mr. Halvorson is a Certified Public Accountant and holds a B.S. in Accounting from Bob Jones University and a J.D. from Duke University School of Law.

Class II Director Continuing in Office until the 2005 Annual Meeting of Stockholders

Robert W. Duggan has been a member of our Board of Directors since our acquisition of Computer Motion in June 2003. Prior to our acquisition of Computer Motion, Mr. Duggan had been Chairman of the Board of Directors of Computer Motion since 1990 and Chief Executive Officer since 1997. Mr. Duggan has been a private venture investor for more than 25 years and has participated as a director of, investor in and advisor to numerous small and large businesses in the medical products, computer technologies, consumer retail goods and outdoor media communication industries. Mr. Duggan has also assisted in corporate planning, capital formation and management for his various investments. He received the Congressman's Medal of Merit and in year 2000 he was named a Knight of the Legion of Honor by President Chirac of the French government. He is a member of the University of California at Santa Barbara Foundation Board of Trustees.

William J. Mercer joined our Board of Directors in March 2004. Mr. Mercer is the Founder and Managing Member of Avocet Ventures, LLC, a private equity investment firm. Prior to his current position, Mr. Mercer served as Managing Partner of Aberdeen Strategic Capital, LP, a private equity firm. From 1996 through 1999, Mr. Mercer was the President and Chief Executive Officer, and director, of ALARIS Medical, Inc., a manufacturer of advanced medical instruments and devices. From 1995 through 1996, Mr. Mercer was the President and Chief Executive Officer, and director, of IVAC Medical Systems, Inc., an infusion therapy and patient monitoring company. Prior to that, Mr. Mercer spent over 17 years, primarily in medical imaging, with Mallinckrodt, Inc., a global healthcare company. Mr. Mercer serves on the boards of Invitrogen Corporation, a molecular biology and cell culture company, and Rotech Healthcare, Inc., a respiratory therapy and durable medical equipment services company. Mr. Mercer holds a B.S. in Zoology from North Carolina State University and a certificate from the Advanced Management Program of Harvard Business School.

William C. Meyers, M.D. joined our Board of Directors in March 2004. Dr. Meyers is currently the Dean of Clinical Affairs and Chairman of the Department of Surgery at Drexel University College of Medicine, with which he has been associated since January 2001. Prior to his current academic appointment, Dr. Meyers was the Surgeon-in-Chief for UMASS Health System between 1996 and 2001. Prior to that position, Dr. Meyers was Professor of Surgery with Duke University Medical Center for 21 years. Dr. Meyers holds a B.S. in History of Science from Harvard University, and an M.D. from Columbia College of Physicians and Surgeons, and completed his Surgery Residency Program at Duke in 1983. He then served in various capacities through 1996,

including Chief of General Surgery, Chief of Gastrointestinal surgery, and Director of Liver Transplantation. Dr. Meyers holds an MBA from the University of Pennsylvania/Wharton Business School.

Class III Directors Continuing in Office until the 2006 Annual Meeting of Stockholders

Lonnie M. Smith has been our President and Chief Executive Officer since May 1997 and has served as a member of our Board of Directors since December 1996 and has served as our Chairman of the Board of Directors since April 2003. From 1977 until joining Intuitive Surgical, Mr. Smith was with Hillenbrand Industries, Inc., a public holding company, serving as the Senior Executive Vice President, a member of the Office of the President, and director since 1982, as Executive Vice President of American Tourister, Inc., from 1978 to 1982, and as a Senior Vice President of Corporate Planning from 1977 to 1978. Mr. Smith has also held positions with The Boston Consulting Group and IBM. Mr. Smith currently serves as a director of Biosite Diagnostics, Inc. Mr. Smith holds a B.S.E.E. from Utah State University and an M.B.A. from Harvard Business School.

Richard J. Kramer has been a member of our Board of Directors since February 2000. Mr. Kramer is President of R.J. Kramer Associates, a healthcare consulting firm he founded in January 2001. From 1989 to 2000, he served as the President and Chief Executive Officer of Catholic Healthcare West, operating 48 hospitals in the western United States. From 1982 to 1989, Mr. Kramer was Executive Vice President of Allina Health, the largest integrated health care system in Minnesota. Mr. Kramer received a B.S. in Rehabilitation Education from Pennsylvania State University, an M.S. in Rehabilitation Counseling from Syracuse University and an M.S. in Hospital and Health Care Administration from the University of Minnesota.

Class I Director Not Standing for Re-election at 2004 Annual Meeting of Stockholders

Scott S. Halsted has been a member of our Board of Directors since March 1997. Mr. Halsted joined Morgan Stanley in 1987, and has been a general partner at Morgan Stanley Dean Witter Venture Partners since 1997. Mr. Halsted currently serves as a director of several private healthcare companies. Mr. Halsted holds A.B. and B.E. degrees in Biochemical Engineering from Dartmouth College and an M.M. degree from Northwestern University.

Director Compensation

Non-employee directors currently receive \$2,000 for each board meeting they attend in person and \$500 for each meeting they attend telephonically. Committee members currently receive \$500 for each in person or telephonic meeting they attend. Effective with the annual meeting, non-employee directors will receive an annual fee of \$10,000 payable in equal quarterly installments for their services, in addition to \$2,500 for each board meeting they attend in person and \$500 for each meeting they attend telephonically. Committee members will receive \$500 for each committee meeting they attend on a day other than a day on which a board meeting is held.

Pursuant to our 2000 Non-Employee Directors Stock Option Plan, non-employee directors receive (1) an initial option to purchase 15,000 shares of common stock, (2) 7,500 shares of common stock at each annual meeting and (3) committee chairs receive an additional option to purchase 2,500 shares of common stock at each annual meeting.

Committees of the Board of Directors

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During 2003, our Board of Directors held five meetings and each director attended at least 75% of those meetings except Scott S. Halsted who attended three of the five meetings. Our Board of Directors has three standing committees: the Audit Committee, the Compensation Committee and the Governance and Nominating Committee.

The Audit Committee has responsibility for reviewing and making recommendations regarding our employment of independent accountants, the annual audit of our financial statements, and our internal controls,

accounting practices and policies. The members of the Audit Committee are Scott S. Halsted, Richard J. Kramer and Eric H. Halvorson. In 2003, the Audit Committee met ten times and each current member of the Audit Committee attended at least 75% of those meetings. The Board of Directors adopted a new charter for the Audit Committee on July 21, 2003. A copy of the charter is attached as *Annex A* to this proxy statement.

The Compensation Committee has responsibility for determining the nature and amount of compensation for our management and for administering our employee benefit plans. The members of the Compensation Committee are Alan J. Levy, Ph.D. and Scott S. Halsted. In 2003, the Compensation Committee met four times and each current member of the Compensation Committee attended all of those meetings.

The Governance and Nominating Committee has responsibility for matters relating to the corporate governance of our company and the nomination of members of the board and committees thereof. The members of the Governance and Nominating Committee are Alan J. Levy, Ph.D. and Eric H. Halvorson, each an independent director as defined by the listing standards of the Nasdaq National Market. In 2003, the Governance and Nominating Committee met two times and each current member of the Governance and Nominating Committee attended all of those meetings. The Board of Directors adopted a new charter for the Governance and Nominating Committee on August 15, 2003. A copy of the charter is attached as *Annex B* to this proxy statement.

Nomination Process

The Governance and Nominating Committee identifies director nominees by first evaluating the current members of the Board of Directors willing to continue in service. Current members with skills and experience that are relevant to our business and are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board of Directors with that of obtaining a new perspective. If any member of the Board of Directors does not wish to continue in service or the Committee or Board of Directors decides not to re-nominate a member for re-election, the Committee identifies the desired skills and experience of a new nominee consistent with the Committee's criteria for Board of Directors service. Current members of the Board of Directors and management are polled for their recommendations. Research may also be performed or third parties retained to identify qualified individuals. To date, we have not engaged third parties to identify or evaluate potential nominees; however, we may in the future choose to do so.

The Governance and Nominating Committee will consider nominees recommended by stockholders, and any such recommendations should be forwarded to the Governance and Nominating Committee in writing at our executive offices as identified in this proxy statement. Such recommendations should include the following information:

such information as may be reasonably necessary to determine whether the recommended director candidate is independent from the security holder that has recommended the candidate;

such information as may be reasonably necessary to determine whether the director candidate is qualified to serve on the Audit Committee; and

such information as may be reasonably necessary to determine whether the director candidate meets the independence standards of the Nasdaq National Market.

We will also request such other information as may reasonably be required to determine whether each person recommended by a security holder meets the criteria listed below and to enable us to make appropriate disclosures to the security holders entitled to vote in the election of directors. Any recommendations received from stockholders will be evaluated in the same manner as potential nominees suggested by board members, management or other parties.

The Governance and Nominating Committee evaluates director candidates based upon a number of criteria, including:

commitment to promoting the long term interests of our company's security holders and independence from any particular constituency;

professional and personal reputations that are consistent with our values;

broad general business experience and acumen, which may include experience in management, finance, marketing and accounting, across a broad range of industries with particular emphasis on healthcare and medical device industries, along with experience operating at a policy-making level in an appropriate business, financial, governmental, educational, non-profit, technological or global field;

a high level of personal and professional integrity;

adequate time to devote attention to the affairs of the company;

such other attributes, including independence, relevant in constituting a board that also satisfies the requirements imposed by the Securities and Exchange Commission and the Nasdaq National Market; and

board balance in light of our company's current and anticipated needs and the attributes of the other directors and executives.

Security Holder Communication with Board Members

Any holder of our securities may contact the Board of Directors or a specified individual director by writing to the attention of the Board of Directors or a specified individual director and sending such communication to our investor relations department at our executive offices as identified in this proxy statement. Each communication from a security holder should include the following information in order to permit security holder status to be confirmed and to provide an address to forward a response if deemed appropriate:

the name, mailing address and telephone number of the security holder sending the communication;

the number and type of our securities owned by such security holder; and

if the security holder is not a record owner of our securities, the name of the record owner of our securities beneficially owned by the security holder.

Our investor relations department will forward all appropriate communications to the Board of Directors or individual members of the Board of Directors as specified in the communication. Our investor relations department may (but is not required to) review all correspondence addressed to the Board of Directors, or any individual member of the Board of Directors, for any inappropriate correspondence more suitably directed to management. Communications may be deemed inappropriate for this purpose if it is reasonably apparent from the face of the correspondence that it relates principally to a customer dispute involving the purchase of goods or services from the company or any of its operating units. Our policies regarding the handling of security holder communications were approved by a majority of our independent directors.

Annual Meeting Attendance

The policy of the Board of Directors is that all directors attend the annual meeting of stockholders, absent compelling circumstances that prevent attendance. Three directors attended the annual meeting of stockholders held in 2003.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that our executive officers and directors, and persons who own more than 10% of a registered class of our equity securities, file reports of

ownership and changes in ownership (Forms 3, 4 and 5) with the Securities and Exchange Commission. Executive officers, directors and greater-than-10% holders are required to furnish us with copies of all of these forms which they file.

Based solely on our review of these reports or written representations from certain reporting persons, we believe that during 2003, all filing requirements applicable to our officers, directors, greater-than-10% beneficial owners and other persons subject to Section 16(a) of the Exchange Act were met except as follows:

- i. One Form 4 for Scott S. Halsted, covering the annual grant received at the 2003 Annual Meeting was not timely filed.
- ii. One Form 4 for Alan J. Levy, Ph.D., covering the annual grant received at the 2003 Annual Meeting was not timely filed.
- iii. One Form 4 for James A. Lawrence, covering the annual grant received at the 2003 Annual Meeting was not timely filed.
- iv. One Form 4 for Russell C. Hirsch, M.D., Ph.D., covering the annual grant received at the 2003 Annual Meeting was not timely filed.
- v. One Form 4 for Richard J. Kramer, covering the annual grant received at the 2003 Annual Meeting was not timely filed.
- vi. One Form 4 for Lonnie M. Smith, covering an option granted under the 2000 Equity Incentive Plan was not timely filed.
- vii. One Form 4 for Susan K. Barnes, covering an option granted under the 2000 Equity Incentive Plan was not timely filed.
- viii. One Form 4 for Gary S. Guthart, Ph.D., covering an option granted under the 2000 Equity Incentive Plan was not timely filed.
- ix. One Form 4 for Jerome J. McNamara, covering an option granted under the 2000 Equity Incentive Plan was not timely filed.

RECOMMENDATION OF INTUITIVE SURGICAL S BOARD OF DIRECTORS

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* THE DIRECTORS NOMINATED IN PROPOSAL NO. 1.

**SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS AND MANAGEMENT**

The information in the following table sets forth the ownership of our common stock, as of March 31, 2004, by (i) each person who, to our knowledge, beneficially owns more than 5% of the outstanding shares of our common stock; (ii) each named executive officer (as listed on page 11); (iii) each of our directors; and (iv) all of our directors and executive officers, as a group. As of March 31, 2004, we had 33,502,943 shares of common stock outstanding.

Name and Address of Beneficial Owner(1)	Number of Shares Beneficially Owned(1)	Percentage Ownership(1)
Directors and Corporate Officers		
Robert W. Duggan(2)	1,224,734	3.7
Lonnie M. Smith(3)	616,403	1.8
Susan K. Barnes(4)	200,161	*
Gary S. Guthart, Ph.D.(5)	108,454	*
Jerome J. McNamara(6)	75,048	*
Scott S. Halsted(7)	54,804	*
Alan J. Levy, Ph.D.(8)	22,309	*
Richard J. Kramer(9)	16,584	*
Eric H. Halvorson(10)	12,054	*
Eric C. Miller(11)	9,792	*
William C. Meyers, M.D.(12)	2,484	*
William J. Mercer(13)	556	*
All executive officers and directors as a group (12 persons)	2,343,383	7%

* Represents less than 1% of the issued and outstanding shares.

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options and warrants which are currently exercisable, or will become exercisable within 60 days of March 31, 2004, are deemed outstanding for computing the percentage of the person or entity holding such securities but are not outstanding for computing the percentage of any other person or entity. Except as indicated by footnote, and subject to the community property laws where applicable, to our knowledge the persons named in the table above have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. Unless otherwise indicated, the address for each person is our address at 950 Kifer Road, Sunnyvale, California 94086.
- (2) Includes 57,404 shares issuable pursuant to options exercisable within 60 days of March 31, 2004, 63,016 shares issuable pursuant to warrants exercisable within 60 days of March 31, 2004 and 28,430 shares managed for individual investors.
- (3) Includes 116,403 shares issuable pursuant to options exercisable within 60 days of March 31, 2004.
- (4) Includes 97,596 shares issuable pursuant to options exercisable within 60 days of March 31, 2004.
- (5) Includes 96,806 shares issuable pursuant to options exercisable within 60 days of March 31, 2004.
- (6) Includes 75,048 shares issuable pursuant to options exercisable within 60 days of March 31, 2004.
- (7) Includes 27,350 shares held by Morgan Stanley Venture Partners III, L.P., 2,627 shares held by Morgan Stanley Venture Investors III, L.P., and 19,584 shares issuable pursuant to options exercisable within 60 days of March 31, 2004.
- (8) Includes 21,875 shares issuable pursuant to options exercisable within 60 days of March 31, 2004.
- (9) Includes 16,584 shares issuable pursuant to options exercisable within 60 days of March 31, 2004.
- (10) Includes 9,483 shares issuable pursuant to options exercisable within 60 days of March 31, 2004.
- (11) Includes 9,375 shares issuable pursuant to options exercisable within 60 days of March 31, 2004.
- (12) Includes 2,484 shares issuable pursuant to options exercisable within 60 days of March 31, 2004.
- (13) Includes 556 shares issuable pursuant to options exercisable within 60 days of March 31, 2004.

Equity Compensation Plans

The following table contains information as of December 31, 2003 for two categories of equity compensation plans. All of the equity compensation plans of the company have been approved by security holders.

<u>Plan Category</u>	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
<u>(a)</u>	<u>(b)</u>	<u>(c)</u>	
Equity compensation plans approved by security holders	4,387,685	\$ 15.27	3,858,294
Equity compensation plans not approved by security holders			
Total	4,387,685	\$ 15.27	3,858,294

EXECUTIVE OFFICERS OF THE COMPANY

Set forth below is information regarding each of our executive officers as of March 31, 2004.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Lonnie M. Smith	59	President, Chief Executive Officer and Chairman of the Board of Directors
Susan K. Barnes	50	Senior Vice President, Chief Financial Officer and Assistant Secretary
Eric C. Miller	45	Senior Vice President, Marketing
Jerome J. McNamara	46	Senior Vice President, Worldwide Sales
Gary S. Guthart, Ph.D.	38	Senior Vice President, Product Operations

The principal occupations and positions for at least the past five years of the executive officers named above are as follows:

Lonnie M. Smith See biographical information under the heading "Class III Directors Continuing in Office until the 2006 Annual Meeting of Stockholders" above.

Susan K. Barnes, Senior Vice President, has been our Chief Financial Officer and Assistant Secretary since May 1997. From January 1995 to September 1996, Ms. Barnes founded and served as Managing Director of the Private Equity Group of Jefferies and Company, Inc., an investment bank. From January 1994 to January 1995, she founded and served as Managing General Partner of Westwind Capital Partners, a private equity fund. From June 1991 to January 1994, Ms. Barnes served as Chief Financial Officer and Managing Director of BLUM Capital Partners, L.P., formerly Richard C. Blum & Associates, Inc., a merchant banking firm. From September 1985 to June 1991, she served as Vice President and Chief Financial Officer of NeXT Computer, Inc., a computer company. Prior to forming NeXT with Steve Jobs, Ms. Barnes was Controller of the Macintosh Division at Apple Computer. Ms. Barnes holds a B.A. from Bryn Mawr College and an M.B.A. from the Wharton School, University of Pennsylvania.

Eric C. Miller, Senior Vice President, Marketing, joined our company in August 2003. Prior to joining our company, Mr. Miller served as the President and Chief Executive Officer of Optimize, Inc. Mr. Miller also worked at United States Surgical Corporation for 11 years where he held senior positions in both sales and marketing. Mr. Miller holds an M.S. in Applied Physiology and a B.S. in Health Sciences from Ohio State University.

Jerome J. McNamara, Senior Vice President, Worldwide Sales, joined our company in April 1999 from Valley Lab where he was Vice President of Marketing. Prior to this, Mr. McNamara worked at United States Surgical Corporation for nearly 17 years where he held positions in senior sales management, marketing, and national accounts. Mr. McNamara graduated from the University of Pennsylvania with a B.A. degree in Biology.

Gary S. Guthart, Ph.D., Senior Vice President, Product Operations, joined our company in April 1996 and became Vice President, Engineering in November 1999. Previously, Dr. Guthart was part of the core team developing foundation technology for computer enhanced-surgery at SRI

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International (formally Stanford Research Institute). While at SRI, he also developed technologies for vibration and acoustic control of large-scale systems. Upon receiving his doctorate degree from the California Institute of Technology, he was honored with the Richard Bruce Chapman Memorial Award. In addition, Dr. Guthart holds a B.S. in Engineering from the University of California, Berkeley, and an M.S. and Ph.D. in Engineering Science from the California Institute of Technology.

EXECUTIVE COMPENSATION

The following table sets forth summary information concerning the compensation paid to our chief executive officer and other executive officers, which we collectively refer to as our named executive officers, for services to the Company in all capacities.

Name and Principal Position	Year	Annual Compensation		Long-term Compensation Awards
		Salary	Bonus	Securities Underlying
				Options
Lonnie M. Smith President, Chief Executive Officer and Chairman of the Board	2003	\$ 358,000	\$ 80,000	60,000
	2002	354,000	22,500	62,500
	2001	350,000		75,000
Susan K. Barnes Senior Vice President, Chief Financial Officer and Assistant Secretary	2003	\$ 225,000	\$ 45,000	50,000
	2002	225,833	15,000	50,000
	2001	220,000	37,989	50,000
Eric C. Miller(1) Senior Vice President, Marketing	2003	\$ 87,135	\$ 17,498	50,000
	2002			
	2001			
Jerome J. McNamara Senior Vice President, Worldwide Sales	2003	\$ 215,000	\$ 178,125	37,500
	2002	239,750	136,000	37,500
	2001	190,000	96,661	30,000
Gary S. Guthart, Ph.D. Senior Vice President, Product Operations	2003	\$ 230,000	\$ 50,000	37,500
	2002	225,417	15,000	37,500
	2001	190,000	36,278	37,500

(1) Mr. Miller joined the company in August 2003.

Employment Agreements