

INTUITIVE SURGICAL INC
Form DEF 14A
February 26, 2010

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

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-12

INTUITIVE SURGICAL, INC.

Edgar Filing: INTUITIVE SURGICAL INC - Form DEF 14A

(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:

(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:

Edgar Filing: INTUITIVE SURGICAL INC - Form DEF 14A

(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:

1266 Kifer Road
Sunnyvale, California 94086

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON APRIL 21, 2010

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 Marriott Santa Clara, 2700 Mission College Boulevard, Santa Clara, California 95054 on Wednesday, April 21, 2010, at 3:00 p.m., Pacific Daylight Time, for the following purposes:

to elect three Class I members to the Board of Directors (the Board) to serve until the 2013 Annual Meeting of Stockholders (Proposal No. 1);

to approve Intuitive Surgical's 2010 Incentive Award Plan (Proposal No. 2); and

to transact any other business which is properly brought before the Annual Meeting or adjournments or postponements thereof. Stockholders of record at the close of business on February 22, 2010 are entitled to notice of, and to vote at, the Annual Meeting or any adjournments or postponements thereof. The Board of Directors of Intuitive Surgical unanimously recommends that you vote **FOR** the nominees to the Board of Directors listed in Proposal No. 1 and **FOR** the approval of the 2010 Incentive Award Plan listed in Proposal No. 2 in the attached proxy statement.

We are pleased to continue to take advantage of the Securities and Exchange Commission (the SEC) rules that allow companies to furnish proxy materials to their stockholders over the Internet. As a result, we are mailing to most of our stockholders a Notice of Internet Availability of Proxy Materials (the Notice) instead of a paper copy of this proxy statement and our 2009 Annual Report. The notices are being mailed to stockholders starting on or about March 5, 2010. We believe that this process allows us to provide our stockholders with the information they need in a more timely manner, while reducing the environmental impact and lowering the costs of printing and distributing our proxy materials. The Notice contains instructions on how to access those documents over the Internet. The Notice also contains instructions on how to request a paper copy of our proxy materials, including the attached proxy statement, our 2009 Annual Report and a form of proxy card or voting instruction card. All stockholders who have previously requested a paper copy of our proxy materials will continue to receive a paper copy of the proxy materials by mail.

Your vote is important. Whether or not you are able to attend the Annual Meeting in person, it is important that your shares be represented. Please vote as soon as possible.

On behalf of our Board of Directors, thank you for your participation in this important annual process.

Edgar Filing: INTUITIVE SURGICAL INC - Form DEF 14A

By Order of the Board of Directors

/s/ Gary S. Guthart
Gary S. Guthart
President and Chief Executive Officer

Sunnyvale, California

February 26, 2010

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

2010 ANNUAL MEETING OF STOCKHOLDERS

GENERAL INFORMATION

Why am I receiving these materials?

Our Board of Directors (as sometimes referred to in this proxy statement as the Board) has made these materials available to you on the Internet or has delivered printed versions of these materials to you by mail, in connection with the solicitation of proxies for use at our Annual Meeting of Stockholders to be held on April 21, 2010 at 3:00 p.m., Pacific Daylight Time, at the location and for the purposes as set forth in the Notice of Annual Meeting of Stockholders. This solicitation is made on behalf of our Board of Directors and we will pay the entire cost of solicitation. Our directors, officers and employees may also solicit proxies by telephone, fax or personal interview. No additional compensation will be paid to these directors, officers and employees for these services. We have retained MacKenzie Partners, Inc. to assist in the solicitation of proxies for a fee of approximately \$12,500 plus reasonable out-of-pocket costs and expenses. Our stockholders are invited to attend the Annual Meeting and are requested to vote on the proposals described in this proxy statement. The approximate date on which this proxy statement and form of proxy will be first sent and made available to stockholders is March 5, 2010.

What is included in these materials?

These materials include:

This proxy statement for the Annual Meeting; and

Our 2009 Annual Report to Stockholders, which includes our audited consolidated financial statements.

If you received printed versions of these materials by mail, these materials also include the proxy card or vote instruction form for the Annual Meeting.

What items will be voted on at the Annual Meeting?

You will be voting for the following proposals:

1. The election of three Class I members to the Board of Directors to serve until the 2013 Annual Meeting of Stockholders (Proposal No. 1 on page 37); and

Edgar Filing: INTUITIVE SURGICAL INC - Form DEF 14A

2. The approval of the 2010 Incentive Award Plan (Proposal No. 2 on page 37).

What are the Board's voting recommendations?

The Board recommends that you vote your shares:

FOR the election of each of the nominees to the Board (Proposal No. 1); and

FOR the approval of the 2010 Incentive Award Plan (Proposal No. 2).

Where are Intuitive Surgical's principal executive offices located, and what is Intuitive Surgical's main telephone number?

Our principal executive offices are located at 1266 Kifer Road, Sunnyvale, California 94086, and our main telephone number is (408) 523-2100.

Why did I receive a notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?

We are pleased to continue to take advantage of the SEC rule that allows companies to furnish their proxy materials over the Internet. Accordingly, we have sent to most of our stockholders of record and beneficial owners a Notice regarding Internet availability of proxy materials. Instructions on how to access the proxy materials on the website referred to in the Notice or to request a paper copy may be found in the Notice. In addition, stockholders may request to receive proxy materials in printed form by mail or electronically on an ongoing basis. A stockholder's election to receive proxy materials by mail or electronically by email will remain in effect until the stockholder terminates such election.

How can I get electronic access to the proxy materials?

You can view the proxy materials for the meeting on the Internet at www.proxyvote.com. Please have your 12 digit control number available. Your 12 digit control number can be found on your Notice. If you received a paper copy of your proxy materials, your 12 digit control number can be found on your proxy card or voting instruction card.

Why did I receive a full set of proxy materials in the mail instead of a Notice regarding the Internet availability of proxy materials?

We are providing stockholders who have previously requested to receive paper copies of the proxy materials with printed copies of the proxy materials instead of a Notice. If you would like to reduce the environmental impact and the costs incurred by us in mailing proxy materials, you may elect to receive all future proxy materials electronically via email or the Internet. To sign up for electronic delivery, please follow the instructions provided with your proxy materials and on your proxy card or voting instruction card, to vote using the Internet and, when prompted, indicate that you agree to receive or access stockholder communications electronically in future years.

Who may vote at the Annual Meeting?

The Board of Directors set February 22, 2010 as the record date for the Annual Meeting. All stockholders of record who owned Intuitive Surgical common stock at the close of business on February 22, 2010 are entitled to receive notice of, to attend, and to vote at the Annual Meeting. Each share of the Intuitive Surgical common stock has one vote on each matter, and there is no cumulative voting. At the close of business on the record date, there were 38,933,871 shares of common stock outstanding.

What is the difference between a stockholder of record and a beneficial owner of shares held in street name?

Stockholder of Record. If your shares are registered directly in your name with the Company's transfer agent, Computershare Investor Services, LLC (*Computershare*), you are considered the stockholder of record with respect to those shares, and the Notice was sent directly to you by the Company. If you request printed copies of the proxy materials by mail, you will receive a proxy card.

Beneficial Owner of Shares Held in Street Name. If your shares are held in an account at a brokerage firm, bank, broker-dealer, or other similar organization, then you are the beneficial owner of shares held in street name, and the Notice was forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to instruct that organization on how to vote the shares held in your account. If you request printed copies of the proxy materials by mail, you will receive a vote instruction form.

How can I vote my shares?

In Person If you are a stockholder of record, you may vote in person at the meeting. If your shares are held in a brokerage account or by another nominee or trustee, you are considered the beneficial owner of shares held in street name. If you are a beneficial owner, you are also invited to attend the meeting. Since a beneficial

owner is not the stockholder of record, you may not vote these shares in person at the meeting unless you obtain a legal proxy from the organization that holds your shares, giving you the right to vote the shares at the meeting.

Via the Internet You may vote by proxy via the Internet by visiting www.proxyvote.com and entering the control number found in the Notice.

By Telephone If you requested printed copies of the proxy materials by mail, you may vote by proxy by calling the toll free number found on the vote instruction form.

By Mail If you requested printed copies of the proxy materials by mail, and if you are a stockholder of record, you may vote by proxy by filling out the proxy card and sending it back in the envelope provided. If you requested printed copies of the proxy materials by mail and you are a beneficial owner, you may vote by proxy by filling out the vote instruction form and sending it back in the envelope provided.

How are proxies voted?

All shares represented by valid proxies received prior to the Annual Meeting will be voted and, where a stockholder specifies by means of the proxy a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the stockholder's instructions.

What happens if I do not give specific voting instructions?

Stockholders of Record. If you are a stockholder of record and you:

Indicate when voting on the Internet or by telephone that you wish to vote as recommended by the Board, or

Sign and return a proxy card without giving specific voting instructions, then the proxy holders will vote your shares in the manner recommended by the Board of Directors on all matters presented in this Proxy Statement and as the proxyholders may determine in their discretion with respect to any other matters properly presented for a vote at the Annual Meeting.

Beneficial Owners of Shares Held in Street Name. If you are a beneficial owner of shares held in street name and do not provide the organization that holds your shares with specific voting instructions, under the rules of various national and regional securities exchanges, the organization that holds your shares may generally vote on routine matters but cannot vote on non-routine matters. If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-routine matter, the organization that holds your shares will inform the inspector of election that it does not have the authority to vote on this matter with respect to your shares. This is generally referred to as a broker non-vote.

How are abstentions and broker non-votes treated?

Shares represented by proxies that reflect abstentions or broker non-votes will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum. Shares voted ABSTAIN on proposals other than the election of directors will have the same effect as voting against the matter. 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 for purposes of determining whether proposals have been approved. In order to minimize the number of broker non-votes, the Company encourages you to provide voting instructions to the organization that holds your shares by carefully following instructions provided on the Notice.

Which ballot measures are considered routine or non-routine ?

Both the election of directors (Proposal No.1) and the approval of our 2010 Incentive Award Plan (Proposal No. 2) are matters considered non-routine under applicable rules. A broker or other nominee cannot vote without instructions on non-routine matters, and therefore there may be broker non-votes on these two proposals.

What is the quorum requirement for the Annual Meeting?

The holders of a majority of the shares entitled to vote at the Annual Meeting must be present at the Annual Meeting for the transaction of business. This is called a quorum. Your shares will be counted for purposes of determining if there is a quorum, whether representing votes for, withheld or abstained, if you:

are present and vote in person at the Annual Meeting; or

have voted on the Internet, by telephone or by properly submitting a proxy card or vote instruction form by mail.
If a quorum is not present, the Annual Meeting will be adjourned until a quorum is obtained.

How many votes are required to pass a proposal?

A plurality of the votes is required to elect the directors (Proposal No.1). This means that the nominees who receive the greatest number of votes for each open seat will be elected.

Approval of Proposal No. 2 requires the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the proposal.

Can I change my vote?

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

delivering written notice of revocation to our Secretary at 1266 Kifer Road, Sunnyvale, California 94086;

submitting a later dated proxy; or

attending the Annual Meeting and voting in person.

Your attendance at the Annual Meeting will not, by itself, constitute revocation of your proxy. You may also be represented by another person present at the Annual 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 holder in accordance with the beneficial holder's instructions.

Who will serve as the inspector of election?

A representative from Broadridge Financial Solutions, Inc. will serve as the inspector of election to determine whether or not a quorum is present and to tabulate votes cast by proxy or in person at the Annual Meeting.

Where can I find the voting results of the Annual Meeting?

Edgar Filing: INTUITIVE SURGICAL INC - Form DEF 14A

The preliminary voting results will be announced at the Annual Meeting. The final voting results will be tallied by the inspector of election and published in our current report on Form 8-K within four business days after the Annual Meeting.

How can I attend the Annual Meeting?

Attendance at the Annual Meeting is limited to stockholders. Admission to the Annual Meeting will be on a first-come, first-served basis. Each stockholder may be asked to present valid picture identification such as a driver's license or passport and proof of stock ownership as of the record date. The use of cell phones, smartphones, pagers, recording and photographic equipment, and/or computers is not permitted in the meeting rooms at the Annual Meeting.

Deadline for receipt of stockholder proposals for 2011 Annual Meeting of Stockholders.

Any stockholder who meets the requirements of the proxy rules under the Securities Exchange Act of 1934 may submit to the Board of Directors proposals to be considered for submission to the stockholders at the Annual Meeting in 2011. In order to be considered for inclusion in the proxy material to be disseminated by the Board of Directors, your proposal must comply with the requirements of Rule 14a-8 under the Exchange Act and be submitted in writing by notice delivered or mailed by first-class United States mail, postage prepaid, to our Secretary at Intuitive Surgical, Inc., 1266 Kifer Road, Sunnyvale, California 94086 and must be received no later than October 29, 2010. Your notice must include:

your name and address and the text of the proposal to be introduced;

the number of shares of stock you hold of record, beneficially own and represent by proxy as of the date of your notice; and

a representation that you intend to appear in person or by proxy at the Annual Meeting to introduce the proposal specified in your notice.

The chairperson of the meeting may refuse to acknowledge the introduction of your proposal if it is not made in compliance with the foregoing procedures or the applicable provisions of our Bylaws. Our Bylaws also provide for separate notice procedures to recommend a person for nomination as a director or to propose business to be considered by stockholders at a meeting outside the processes of Rule 14a-8. To be considered timely under these provisions, the stockholder's notice must be received by our Corporate Secretary at our principal executive offices at the address set forth below no earlier than December 22, 2010 and no later than January 21, 2011. If the date of our 2011 Annual Meeting is more than 30 days before or more than 60 days after April 21, 2011, the stockholder's notice must be received by not later than the 90th day prior to such annual meeting or, if later, the 10th day following the day on which public announcement of the date of such annual meeting was first made. A stockholder providing such notice must also further update and supplement such notice so that the information provided or required to be provided is true and correct as of the record date for the meeting and as of the date that is 10 business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement must be received by our Corporate Secretary at our principal executive offices not later than 5 business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date) and not later than 8 business days prior to the date for the meeting or, if practicable, any adjournment or postponement thereof (and, if not practicable, on the first practicable date prior to the date to which the meeting has been adjourned or postponed). Our Bylaws also specify requirements as to the form and content of a stockholder's notice. We recommend that any stockholder wishing to make a nomination for director or to bring any other item before an annual meeting, other than proposals intended to be included in the proxy materials pursuant to Rule 14a-8, review a copy of our Bylaws, as amended and restated to date, which can be found at www.intuitivesurgical.com or, without charge, from our Corporate Secretary at the address below:

Intuitive Surgical, Inc.

Attn: Corporate Secretary

1266 Kifer Road, Building 101

Sunnyvale, CA 94086-5304

DIRECTORS AND CORPORATE GOVERNANCE
General Information

The Board of Directors, which is divided into three classes, has nine authorized seats. Three Class I directors are to be elected at the Annual Meeting to serve a three-year term expiring at the 2013 Annual Meeting of Stockholders or until a successor has been elected and qualified. The remaining six directors will continue to serve their respective terms.

Proxies cannot be voted for more than the three nominees. The names of the nominees and directors, their ages as of February 15, 2010 and certain other information about them are set forth below:

Name of Director	Age	Principal Occupation	Director Since
Class I Directors with term expiring at the 2010 Annual Meeting:			
Alan J. Levy, Ph.D.	72	Venture Partner, Frazier Healthcare Ventures	2000
Eric H. Halvorson	60	Former President and Chief Operating Officer, Salem Communications Corporation	2003
D. Keith Grossman*	49	Managing Director, TPG Biotech, L.P., and former Chief Executive Officer and President of Thoratec Corporation	2004
Class II Directors with term expiring at the 2011 Annual Meeting:			
Robert W. Duggan	65	Chief Executive Officer and Chairman of the Board of Directors, Pharmacyclics	2003
Floyd D. Loop, M.D.	73	Former Chief Executive Officer, The Cleveland Clinic	2005
George J. Stalk Jr.	59	Senior Advisor, Boston Consulting Group	2007
Class III Directors with term expiring at the 2012 Annual Meeting:			
Gary S. Guthart, Ph.D.	44	President and Chief Executive Officer, Intuitive Surgical, Inc.	2009
Mark J. Rubash	52	Chief Financial Officer, Shutterfly, Inc.	2007
Lonnie M. Smith	65	Chairman of the Board and Former Chief Executive Officer, Intuitive Surgical, Inc.	1997

* Ms. Amal M. Johnson, age 57, has been nominated by the Board to serve as a Class I director effective following her election at the Annual Meeting in the place of current director D. Keith Grossman.

The principal occupations and positions and directorships for at least the past five years of our directors and director nominees, as well as certain information regarding their individual experience, qualifications, attributes and skills that led our Board of Directors to conclude that they should serve on the board, are described below. There are no family relationships among any of our directors or executive officers.

Class I Directors Nominees for Election for a Three-Year Term Expiring at the 2013 Annual Meeting of Stockholders

Alan J. Levy, Ph.D. has been a Venture Partner at Frazier Healthcare Ventures since 2007. He served as Chairman of the Board of Directors of Northstar Neuroscience, Inc., a medical device company he co-founded, from 2007 to 2009. Prior to that, he was the President and Chief Executive Officer of Northstar Neuroscience, Inc. from 1999 to 2007. 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. Dr. Levy currently serves as a director of several private companies and non-for-profit organizations.

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. He has been an Adjunct Professor of Law at Pepperdine University School of Law since August 2009. Mr. Halvorson was President and Chief Operating Officer of Salem Communications Corporation from 2007 to 2008. He was Executive Vice President and Chief Operating Officer of Salem Communications Corporation from 1995 to 2000. Prior to becoming Chief Operating Officer, he was the company's Vice President and General Counsel for 10 years. Mr. Halvorson resigned from the Board of Directors of Salem Communications Corporation in November 2008, where he had been a director since 1988. From 2000 to 2003 and 2005 to 2007, he was a Visiting Professor of Business Law and Accounting and Executive in Residence at Pepperdine University and the Pepperdine Law School. From June 2003 to February 2005, Mr. Halvorson served as President and Chief Executive Officer of The Thomas Kinkadee Company. Mr. Halvorson was a partner at Godfrey and Kahn, a law firm based in Milwaukee, Wisconsin from 1976 until 1985. Mr. Halvorson holds a B.S. in Accounting from Bob Jones University and a J.D. from Duke University School of Law.

Amal M. Johnson has over 20 years of executive management experience with technology companies. She currently serves as the Chairman of the Board of Directors of MarketTools, a software and services company. From 2005 to 2008, she was President and Chief Executive Officer of MarketTools, Inc. Previously, she was General Partner at Lightspeed Venture Partners, President of Baan Americas, President of ASK Inc, and General Manager of the Silicon Valley Trading Area at IBM Corporation. She currently serves on the boards of MarketTools, Inc. and Mellanox Technologies. She is a member of the board of trustees at the World Affairs Council and a senior fellow at the American Leadership Forum. She received a B.A. in Mathematics from Montclair State University and did her graduate work in computer science at Stevens Institute of Technology. In 2008, she was an E&Y Entrepreneur of the Year Finalist and was named one of the 50 Top Women in Technology by Corporate Board Member Magazine.

Class II Directors Continuing in Office until the 2011 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 is currently the Chief Executive Officer and Chairman of the Board of Directors of Pharmacyclics, Inc., a pharmaceutical company that focuses on the treatment of cancer and immune-mediated diseases. Mr. Duggan has been a member of the Board of Directors at Pharmacyclics since September 2007. Mr. Duggan is the Founder of the investment firm Robert W. Duggan & Associates. Mr. Duggan has been a private venture investor for more than 30 years and has participated as a director of, investor in and advisor to numerous small and large businesses in the medical equipment, computer local and wide area network, PC hardware and software distribution, digital encryption, 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 2000 he was named a Knight of the Legion of Honor by President Jacques Chirac. He is a member of the University of California at Santa Barbara Foundation Board of Trustees.

Dr. Floyd D. Loop has been a member of our Board of Directors since 2005. Until his retirement in 2004, Dr. Loop served the Cleveland Clinic Foundation for 35 years, holding leadership positions including Chairman of the Department of Thoracic and Cardiovascular Surgery, Chief Executive Officer and Chairman of the Board of Governors (1989-2004). Dr. Loop and his colleagues at the Cleveland Clinic were responsible for developing the use of arterial conduits in coronary artery surgery, for innovations in valve repair and for pioneering technical improvements for re-operations. Dr. Loop has served as the President of the American Association for Thoracic

Surgery, as a Director of the American Board of Thoracic Surgery, and as a member of the Medicare Payment Advisory Commission. He has received Honorary Doctor of Science degrees from Cleveland State University, St. Louis University and Purdue University. Dr. Loop is an internationally recognized cardiovascular surgeon, a recipient of the American Heart Association Citation for International Service, and the American College of Cardiology Cummings Humanitarian Award. Dr. Loop received his undergraduate degree from Purdue University and his M.D. from The George Washington University, Washington, D.C. Dr. Loop currently serves on the public boards of directors of Tenet Healthcare Corporation, and Athersys, Inc., and other private corporate boards. In 2009, his book *Leadership and Medicine* was published.

George J. Stalk Jr. is currently a Senior Advisor and Fellow at The Boston Consulting Group (BCG) in the Toronto Office. Prior to that, until December 2008, Mr. Stalk served as a Senior Partner and Fellow at BCG. Mr. Stalk started with BCG in Boston in 1978 and has been with the firm's Tokyo and Chicago offices as well. In addition, Mr. Stalk is also an Adjunct Professor of Strategy at the Rotman School of Business-University of Toronto. Mr. Stalk received a B.S. in Engineering Mechanics from the University of Michigan, M.S. in Aeronautics and Astronautics from Massachusetts Institute of Technology and M.B.A. from Harvard Business School. Mr. Stalk has led BCG's worldwide innovation efforts and co-authored several best-selling books on business strategy including *Kaisha: the Japanese Corporation*, *Competing Against Time*, *Hardball: Are You Playing to Play or Playing to Win?* and *Five Future Strategies You Need Right Now*.

Class III Directors Continuing in Office until the 2012 Annual Meeting of Stockholders

Lonnie M. Smith joined Intuitive Surgical in June 1997 from Hillenbrand Industries, where he was Senior Executive Vice President. Mr. Smith joined Hillenbrand in 1978 and during his tenure he was also a member of the Executive Committee, the Office of the President and the Board of Directors. Mr. Smith has also held positions with The Boston Consulting Group and IBM Corporation. Mr. Smith received his B.S.E.E. from Utah State University and an M.B.A. from Harvard Business School. In January 2010, Mr. Smith resigned as the Chief Executive Officer of Intuitive Surgical. Mr. Smith remains as the Chairman of the Board as well as an executive officer of the Company.

Gary S. Guthart, Ph.D. joined Intuitive Surgical in April 1996. Effective January 2010, Dr. Guthart was appointed as the Chief Executive Officer. In July 2007, he was promoted to President. Prior to that, in February 2006, Dr. Guthart assumed the role of Chief Operating Officer. Prior to joining Intuitive, Dr. Guthart was part of the core team developing foundation technology for computer enhanced-surgery at SRI International (formerly Stanford Research Institute). Dr. Guthart is currently a member of the Board of Directors of Affymetrix, Inc. He received 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.

Mark J. Rubash joined our board in October 2007. Mr. Rubash is the Chief Financial Officer at Shutterfly, Inc. Prior to joining Shutterfly in November 2007, Mr. Rubash was the Chief Financial Officer of Rearden Commerce from August 2007 to November 2007 and previous to that, Mr. Rubash was a Senior Vice President at Yahoo! Inc. from February 2007 to August 2007. Prior to joining Yahoo!, Mr. Rubash held various senior positions at eBay Inc from February 2001 to July 2005. From January 2000 to November 2000, Mr. Rubash was the Chief Financial Officer at Critical Path, Inc. From October 1987 to January 2000, Mr. Rubash was an audit partner at PriceWaterhouseCoopers, where he was most recently the Global Leader for their Internet Industry Practice and Practice Leader for their Silicon Valley Software Industry Practice. Mr. Rubash received his B.S. in Accounting from California State University Sacramento. Mr. Rubash is currently a member of the Board of Directors and Chairman of the Audit Committee of Line 6 Corporation, a privately-held music products manufacturer located in Calabasas, CA.

Board Size

The number of directors constituting the full Board is currently set at nine. The Board of Directors will evaluate the appropriateness of the size of the Board from time to time. In establishing its size, the Board, as

recommended by the Governance and Nominating Committee, considers a number of factors, including (i) resignations and retirements from the current Board; (ii) the availability of appropriate and qualified candidates; (iii) balancing the desire of having a small enough Board to facilitate deliberations with, at the same time, having a large enough Board to have the diversity of knowledge, experience, skills and expertise so that the Board and its committees can effectively perform their responsibilities in overseeing the Company's business and (iv) the goal of having an appropriate mix of inside and independent directors.

Nomination Process

The Governance and Nominating Committee identifies director nominees by reviewing the desired experience, mix of skills and other qualities to assure appropriate Board composition, taking into consideration the current Board members and the specific needs of the Company and the Board. Among the qualifications to be considered in the selection of candidates, the Committee shall consider the following attributes and criteria of candidates: experience, knowledge, skills, expertise, diversity, personal and professional integrity, character, business judgment and independence. Our Board recognizes that nominees for the Board should reflect a reasonable diversity of backgrounds and perspectives, including those backgrounds and perspectives with respect to business experience, professional expertise, age, gender and ethnic background.

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 Stock 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 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 our 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 Stock Market; and

Board balance in light of our Company's current and anticipated needs and the attributes of the other directors and executives, including those backgrounds and perspectives with respect to age, gender and ethnic background.

Board Responsibilities

The Board's primary responsibility is to seek to maximize long-term stockholder value. The Board selects senior management of the Company, monitors management's and the Company's performance, and provides advice and counsel to management. Among other things, the Board at least annually reviews the Company's long-term strategy, longer-term business plan and an annual budget for the Company. The Board also reviews and approves transactions in accordance with guidelines that the Board may adopt from time to time. In fulfilling the Board's responsibilities, directors have full access to the Company's management, external auditors and outside advisors. With respect to the Board's role in risk oversight of the Company, the Board of Directors discusses the Company's risk exposures and risk management of various parts of the business, including appropriate guidelines and policies to minimize business risks and major financial risks and the steps management has undertaken to control them.

Board Leadership

The Company is focused on its corporate governance practices and values independent board oversight as an essential component of strong corporate performance to enhance stockholder value. Our commitment to independent oversight is demonstrated by the fact that all of our directors, except our Chairman and President and Chief Executive Officer, are independent. In addition, all of the members of our Board's committees are independent. Our Board of Directors acts independently of management and regularly holds independent director sessions of the Board without members of management present.

During fiscal 2009, Mr. Smith was our Chairman and Chief Executive Officer. In this dual role, Mr. Smith was able to utilize the in-depth focus and perspective gained in running the Company to effectively and efficiently guide the board. In January 2010, as part of our succession plan, Mr. Smith resigned from his role as the Chief Executive Officer and remains as the Chairman of the Board of Directors as well as an executive officer of the Company. The Board of Directors appointed Dr. Guthart as the President and Chief Executive Officer of the Company. Dr. Guthart is also a member of the Board of Directors. Our Board of Directors has determined that Mr. Smith's continued role as Chairman while Dr. Guthart serves as President and Chief Executive Officer and a director further benefits the Company and provides continuity of leadership at the Board level. We do not have a lead independent director. Our Board believes that the current board leadership structure is best for the Company and its stockholders at this time.

Board Committees

Our Board of Directors has established an Audit Committee, a Compensation Committee and a Governance and Nominating committee. Our Board of Directors and its committees set schedules to meet throughout the year and also can hold special meetings and act by written consent from time to time, as appropriate. Our Board of Directors has delegated various responsibilities and authority to its committees as generally described below. The committees will regularly report on their activities and actions to the full Board of Directors. Each committee of our Board of Directors has a written charter approved by our Board of Directors which is available on our website at www.intuitivesurgical.com.

During 2009, our Board of Directors held five meetings and each director attended all of those meetings, except Mr. Levy did not attend one meeting. Members of the Board and its committees also consulted informally with management from time to time and acted at various times by written consent without a meeting during fiscal 2009.

The following table reflects the current membership of each Board committee:

Name	Committee Membership		
	Audit Committee	Governance and Nominating Committee	Compensation Committee
Alan J. Levy, Ph.D.		Chair	ü
Eric H. Halvorson	ü		ü
D. Keith Grossman			Chair
Floyd D. Loop, M.D.		ü	
George J. Stalk Jr.	ü	ü	
Mark J. Rubash	Chair		

Audit Committee

The Audit Committee assists the full Board of Directors in its general oversight of our financial reporting, internal controls, and audit functions, and is directly responsible for the appointment, compensation and oversight of the work of our independent registered public accounting firm. The Audit Committee reviews and discusses with management and our independent registered public accounting firm the annual audited and quarterly financial statements (including the disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations), reviews the integrity of the financial reporting processes, both internal and external, reviews the qualifications, performance and independence of our registered public accounting firm, and prepares the Audit Committee Report included in our proxy statement in accordance with rules and regulations of the Securities and Exchange Commission (the SEC).

All of the Audit Committee members meet the existing independence and experience requirements of the NASDAQ Stock Market and the SEC. In 2009, the Audit Committee met eight times and each then-current member of the Audit Committee attended all of those meetings, except Mr. Stalk did not attend one meeting. The Board of Directors has determined that Mr. Rubash is an Audit Committee Financial Expert, as defined in Item 407(d)(5)(ii) of Regulation S-K. The Audit Committee has engaged Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2010. A copy of the Audit Committee charter can be found on the Company's website at www.intuitivesurgical.com.

Governance and Nominating Committee

The Governance and Nominating Committee is responsible for matters relating to the corporate governance of our Company and the nomination of members of the Board and committees thereof. All of the Governance and Nominating Committee members meet the existing independence and experience requirements of the NASDAQ Stock Market and the SEC. The Governance and Nominating Committee met three times during the fiscal year ended December 31, 2009 and all members of the Committee attended all of those meetings, except Mr. Stalk did not attend one meeting. The Governance and Nominating Committee operates under a charter that was amended during February 2010 and a copy of this charter is attached as Annex A to the proxy statement.

Compensation Committee

The Compensation Committee establishes our executive compensation policy, determines the salary and bonuses of our executive officers, approves corporate goals and recommends to the Board of Directors stock option grants for our executive officers. The Compensation Committee reviews and discusses with management the disclosure regarding executive compensation and inclusion of the Compensation Discussion and Analysis (CD&A) included in our annual proxy statements.

All of the Compensation Committee members meet the existing independence and experience requirements of the NASDAQ Stock Market and the SEC. In 2009, the Compensation Committee met five times and all

members of the Compensation Committee attended all of those meetings. The Compensation Committee operates under a charter that was amended during June 2009 and a copy of this charter is attached as Annex B to the proxy statement.

Compensation Committee Interlocks and Insider Participation

During 2009, the Compensation Committee consisted of Alan J. Levy, Ph.D., Eric H. Halvorson and D. Keith Grossman, none of whom is a present or former officer or employee of our Company. In addition, during 2009, none of our officers had an interlock relationship, as that term is defined by the SEC, to report.

Attendance at the Annual Meeting

We encourage, but do not require, our Board members to attend the annual meeting of stockholders. All members of the Board of Directors attended our 2009 Annual Meeting of Stockholders.

COMPENSATION OF NON-EMPLOYEE DIRECTORS

Director Compensation Table

The following Director Compensation Table sets forth summary information concerning the compensation paid to our non-employee directors in 2009 for services to our Company.

Name	Fees earned or paid in cash (\$)	Option Awards (\$)(7)	Total (\$)
D. Keith Grossman(1)	54,500	256,756	311,256
Alan J. Levy(2)	61,000	256,756	317,756
Robert W. Duggan(3)	45,500	256,756	302,256
Eric H. Halvorson(1)	55,000	256,756	311,756
Floyd D. Loop(4)	48,000	256,756	304,756
Mark J. Rubash(5)	66,500	256,756	323,256
George J. Stalk Jr.(5)	50,500	256,756	307,256
Richard J. Kramer(6)	26,000		26,000
Total	407,000	1,797,292	2,204,292

(1) 9,250 options were outstanding as of 12/31/09, of which 5,000 were exercisable as of 12/31/09

(2) 21,750 options were outstanding as of 12/31/09, of which 17,500 were exercisable as of 12/31/09

(3) 26,750 options were outstanding as of 12/31/09, of which 22,500 were exercisable as of 12/31/09

(4) 24,250 options were outstanding as of 12/31/09, of which 20,000 were exercisable as of 12/31/09

(5) 24,250 options were outstanding as of 12/31/09, of which 15,833 were exercisable as of 12/31/09

(6) Mr. Kramer's directorship with the Company ceased on April 22, 2009. As a result, he did not receive any option awards in 2009.

(7) The amounts in this column represent the grant date fair value of options granted in 2009. Each continuing non-employee director received an option to purchase 4,250 shares of the Company's common stock, granted on April 23, 2009 with an exercise price of \$135.39 per share, based on the NASDAQ close price on the day prior to the grant date, pursuant to the 2000 Non-Employee Directors' Stock Option Plan (the Directors' Plan). See Note 9 of the notes to our Consolidated Financial Statements contained in our Annual Report on Form 10-K filed on January 29, 2010 for a discussion of all assumptions made by us in the valuation of the equity awards.

The Company reimburses its non-employee directors for all reasonable out-of-pocket expenses incurred in the performance of their duties as directors of the Company. Employee directors are not compensated for Board services in addition to their regular employee compensation.

Annual cash compensation: During fiscal 2009, each non-employee member of the Board of Directors was eligible to receive the following cash compensation: (1) annual retainer for each member of the Board of \$25,000; (2) additional retainers for service as a committee chairperson (\$15,000 for Audit Committee, \$10,000 for all other committees); (3) meeting fees for attendance at meetings of the Board of \$5,000; (4) meeting fees for the attendance of committee meetings \$1,000; and (5) meeting fees for telephonic attendance of each Board or committee meetings of \$500.

Equity Compensation: During fiscal 2009, each non-employee member of the Board of Directors was eligible to receive stock awards under the terms of the Directors' Plan. New non-employee members of the Board receive an initial option grant to purchase 10,000 shares, decreased in February 2010 to 7,500 shares of the Company's common stock with one-third of the shares vesting after one year from the date of grant and 1/36th of the shares vesting monthly thereafter. Continuing non-employee members of the Board of the Directors who have served at least six months receive an annual option grant of 4,250 shares of common stock, decreased in February 2010 to 3,188 shares of common stock, to be granted on the date of the Annual Meeting. In October 2009, the automatic evergreen increase provisions were eliminated so that no further automatic increases will be made to the number of shares reserved for issuance under the Directors' Plan. In addition, the common stock authorized for issuance under the Directors' Plan was reduced to 150,000. The Directors' Plan expires in March 2013.

EXECUTIVE OFFICERS OF THE COMPANY

The Company's executive officers as of December 31, 2009 and their ages as of February 15, 2010, are as follows:

Name	Age	Position
Lonnie M. Smith(1)	65	Chairman of the Board and Chief Executive Officer
Gary S. Guthart(2)	44	President and Chief Operating Officer
Jerome J. McNamara	52	Executive Vice President, Worldwide Sales and Marketing
Marshall L. Mohr	54	Senior Vice President and Chief Financial Officer
Mark J. Meltzer	60	Senior Vice President and General Counsel
Augusto V. Castello	52	Senior Vice President, Product Operations

- (1) Mr. Smith served as the Chairman of the Board and Chief Executive Officer until December 31, 2009. Effective January 1, 2010, Mr. Smith resigned from his role as the Chief Executive Officer and remained as the Chairman of the Board as well as an executive officer of the Company.
- (2) Dr. Guthart served as our President and Chief Operating Officer until December 31, 2009. Effective January 1, 2010, Dr. Guthart was appointed as the President and Chief Executive Officer upon Mr. Smith's resignation as the CEO.

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

Lonnie M. Smith. Please see *Directors and Corporate Governance* section above.

Gary S. Guthart, Ph.D. Please see *Directors and Corporate Governance* section above.

Jerome J. McNamara joined Intuitive Surgical in April 1999. In July 2007, Mr. McNamara was promoted as Executive Vice President, Worldwide Sales and Marketing. Prior to joining Intuitive, Mr. McNamara was the Vice President at Valleylab. Prior to Valleylab, 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.

Marshall L. Mohr joined Intuitive Surgical in March 2006. Prior to that, Mr. Mohr was Vice President and Chief Financial Officer of Adaptec, Inc. Prior to joining Adaptec in July 2003, Mr. Mohr was an audit partner with PricewaterhouseCoopers where he was most recently the managing partner of the firm's west region technology industry group and led its Silicon Valley accounting and audit advisory practice. Mr. Mohr received his B.B.A. in Accounting and Finance from Western Michigan University. Mr. Mohr serves on the corporate boards of Plantronics, Inc. and Atheros Communications, Inc.

Mark J. Meltzer joined Intuitive Surgical in December 2007. Prior to joining Intuitive, Mr. Meltzer served as General Counsel of FoxHollow Technologies Inc from October 2004. Prior to FoxHollow, Mr. Meltzer has also served as General Counsel for Epicor Medical Inc. and Ventritex Inc. Mr. Meltzer graduated cum laude from UC Berkeley with a B.S. degree in electrical engineering. He received his J.D. from UC Hastings where he served on the law review. Mr. Meltzer, a registered patent attorney, was appointed as a special master in federal court where he assisted in the evaluation and administration of complex patent cases. Mr. Meltzer has tried cases to juries and has argued before the Ninth Circuit Court of Appeals. His pro bono work has included the representation of indigents and non-profits before courts and administrative agencies and volunteer service in federal anti-poverty programs.

Augusto V. Castello joined Intuitive Surgical, Inc. in May of 2002 from US Surgical, where he was General Manager for their Puerto Rico manufacturing operations from 1998 to 2002. During his 10 years at US Surgical, Mr. Castello acted in the capacity of Engineering Director, Materials Director, Manufacturing Director and General Manager. Prior to US Surgical, Mr. Castello acted as Operations Manager for Clayton Industries and Engineering Manager for Ormco/Sybron. Mr. Castello received a B.S.M.E. from California State University at Long Beach.

EXECUTIVE COMPENSATION

Compensation Committee Report

The following report of the Compensation Committee shall not be deemed to be soliciting material or to otherwise be considered filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 (the Securities Act) or the Exchange Act except to the extent that the Company specifically incorporates it by reference into such filing.

The Compensation Committee consists of three Non-Employee Directors: Messrs. Grossman, Halvorson and Levy, each of whom the Board has determined is independent under the applicable NASDAQ and SEC rules. The Compensation Committee has certain duties and powers as described in its written charter adopted by the Board. A copy of the charter can be found on the Company's website at www.intuitivesurgical.com.

The Compensation Committee has reviewed and discussed with management the disclosures contained in the section entitled "Compensation Discussion and Analysis" of this proxy statement. Based upon this review and discussion, the Compensation Committee recommended to the Board that the section entitled "Compensation Discussion and Analysis" be included in this proxy statement for the Annual Meeting.

Members of the Compensation Committee

D. Keith Grossman (Chairman)

Eric H. Halvorson

Alan J. Levy, Ph.D.

This proxy statement contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements relate to expectations concerning matters that are not historical facts. Words such as projects, believes, anticipates, plans, expects, intends, may, will, could, should, would, 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 risks associated with our compensation programs. Readers are cautioned that these forward-looking statements are based on current expectation and are subject to risks, uncertainties, and assumptions that are difficult to predict. We undertake no obligation to revise or update any forward-looking statements for any reason.

Compensation Discussion & Analysis

The following discussion and analysis of compensation arrangements of our named executive officers for 2009 should be read together with the compensation tables and related disclosures set forth below. This discussion contains forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt may differ materially from currently planned programs as summarized in this discussion.

This section explains the Company's executive compensation program as it relates to the following named executive officers (NEOs) as of December 31, 2009 whose compensation information is presented in the tables following this discussion in accordance with SEC rules:

Name	Position
Lonnie M. Smith	Chairman of the Board and Chief Executive Officer
Gary S. Guthart	President and Chief Operating Officer
Jerome J. McNamara	Executive Vice President, Worldwide Sales and Marketing
Marshall L. Mohr	Senior Vice President and Chief Financial Officer
Mark J. Meltzer	Senior Vice President and General Counsel

Executive Summary

The Company's goal for its executive compensation program is to attract and retain a talented, entrepreneurial and creative team of executives who will provide leadership for the Company's success in driving *da Vinci* surgery to the broadest number of patients. The Company seeks to accomplish this goal in a way that is aligned with the long-term interests of the Company's stockholders. The Compensation Committee oversees the executive compensation program and determines the compensation for the Company's executive officers. The Company believes the compensation program for the named executive officers was instrumental in helping the Company achieve strong financial performance in the challenging macroeconomic environment in 2009.

In 2009, the Company's revenue grew to \$1,052 million, an increase of 20% over the prior year. Net income also increased to \$233 million in 2009, an increase of 14% over the prior year. The Company generated cash flows from operating activities of \$385 million driving a cash and investments balance at the end of 2009 of \$1,172 million, an increase of \$270 million over the prior year, after utilizing \$150 million to buyback 1.4 million shares of stock. Further, the Company's total stockholder return over the prior one-, three- and five-year periods was 139%, 216% and 658%, respectively.

In 2009, each named executive officer was a member of the Company's executive team. Each named executive officer is expected to contribute as a member of the executive team to the Company's overall success rather than merely achieve specific objectives within that officer's area of responsibility.

The Company continues to rely on long-term equity awards in the form of stock options to attract and retain an outstanding executive team and to ensure a strong connection between the executive compensation program and the long-term interests of the Company's stockholders. Stock options are granted to the named executive officers annually, on February 15th (or the next business day if February 15th is not a business day) and vest 1/8 at the end of six months and 1/48 each month through the end of a four-year vesting period.

The Company places less emphasis on total cash compensation than on long-term equity awards. The design of the Company's annual performance-based cash bonus program (Corporate Incentive Plan or CIP) for 2009 was set at 60% of base salary for the CEO, 50% of base salary for the COO and 40% of base salary for the Senior Vice Presidents. Mr. McNamara is not subject to the CIP; instead, Mr. McNamara's incentive plan is based on the Company's Commission Plan (the Commission Plan). As noted below, these target bonus opportunities are lower than the range commonly provided by peer companies.

The CIP is funded based on a predetermined increase in operating income goal, excluding non-cash stock compensation expense, and paid out to executives based on predetermined team performance goals. The team performance goals are related to market expansion, product development, manufacturing and quality, efficiency and cost performance and other areas directed at long-term stockholder value growth. Target and maximum levels are established for operating income and most performance goals which drive bonuses to be paid anywhere from 80% to 125% of the targets outlined above.

The Company achieved the 125% operating income goal and most of the team performance goals resulting in the Compensation Committee awarding the NEOs CIP payout at 125% of the individual goals outlined above. Mr. McNamara exceeded all of his sales and performance targets and the Compensation Committee awarded him a Commission Plan payout at 167% of his target. See The Role of Cash Compensation section below for more discussion on the CIP.

In 2009, each of the named executive officers received an increase in base salary following a review of each named executive officer's performance, the Company's financial results and the competitive environment, as discussed above. See Base Salaries and Base Salary Increases sections below for more discussion on the determination of NEO base salaries.

The first part of the Compensation Discussion and Analysis, titled "Executive Compensation Philosophy," discusses in greater detail the Company's philosophy and approach to executive compensation. The second part of the Compensation Discussion and Analysis, entitled "Compensation Decisions for 2009," discusses the Compensation Committee's compensation decisions for the named executive officers in 2009.

EXECUTIVE COMPENSATION PHILOSOPHY

Goal of Executive Compensation Program

The Company's goal for its executive compensation program is to attract and retain a talented, entrepreneurial and creative team of executives who will provide leadership for the Company's success in driving *da Vinci* surgery to the broadest number of patients. The Company seeks to accomplish this goal in a way that is aligned with the long-term interests of the Company's stockholders.

Determining Compensation for the Named Executive Officers

Team-Based Approach and Performance Expectations. Each of the named executive officers is a member of the Company's executive team. The compensation program for the named executive officers rests on two principles. First, each executive officer must demonstrate exceptional personal performance in order to remain part of the executive team. The Company believes that executives who underperform should be removed from the executive team and have their compensation adjusted accordingly, or be dismissed from the Company. Second, each executive officer must contribute as a member of the team to the Company's overall success rather than merely achieve specific objectives within that officer's area of responsibility. Because of this team-based approach, the Company carefully considers the relative compensation levels among all members of the executive team. Accordingly, the Company's executive compensation program is designed to be internally consistent and equitable in order to further the Company's success and achieve the goal of the executive compensation program. The reasons for differences in the amounts awarded to each of the named executive officers relate primarily to the experience, responsibilities and performance of each named executive officer.

Emphasis on Long-Term Equity Awards. The Company relies on long-term equity awards in the form of time-vested stock options because the Company believes stock options are the most effective compensation element for attracting entrepreneurial, creative executives and promoting their long-term commitment to the Company. To help promote retention, the Company's stock option awards typically vest 1/8 at the end of six months and 1/48 per month through a four year period. Annual stock option awards are granted on February 15th (or the next business day if February 15th is not a business day). Awards are determined based on the contributions of the NEO during the prior year, on an assessment of the NEO's ability to contribute to the Company in future periods and the retention goals of the Company. The emphasis on long-term equity awards also is designed to align the interests of the named executive officers with the Company's stockholders by ensuring that executives have a significant portion of their compensation tied to long-term stock price performance.

Discretion and Judgment of the Compensation Committee. The Compensation Committee determines all compensation for the named executive officers. All three Compensation Committee members are independent directors under the applicable NASDAQ and SEC rules. Each year, the Compensation Committee conducts an evaluation of each named executive officer to determine if changes in the officer's compensation are appropriate based on the considerations described below. At the Compensation Committee's request, Mr. Smith and Dr. Guthart review with the Compensation Committee the performance of the other named executive officers. The Compensation Committee gives considerable weight to Mr. Smith's and Dr. Guthart's evaluations of the other named executive officers because of their direct knowledge of each executive officer's performance and contributions.

As described below, the Compensation Committee also retains an independent compensation consultant to conduct a comparative study of the Company's executive compensation relative to peer companies.

In exercising its discretion to determine compensation, the Compensation Committee carefully considers the experience, responsibilities and performance of each named executive officer and the Company's overall financial performance. The Company recognizes that executive compensation practices are influenced by a wide range of complex factors, including changes in strategic goals, changing economic and industry conditions, accounting requirements and tax laws, and evolving governance trends. As a result, the Compensation Committee's discretion and judgment are critical to designing an executive compensation program that achieves the Company's goal while also addressing these factors.

Elements of the Compensation Program

The Company's executive compensation program is simple in design. The compensation program for the named executive officers includes:

Long-term equity awards in the form of stock options under the 2000 Equity Incentive Plan (the *2000 Plan*);

Annual performance-based cash bonus awards; and

Base salaries.

The named executive officers are also eligible to participate in the Company's health and welfare programs, Employee Stock Purchase Plan and 401(k) Plan.

The Role of Long-Term Equity Awards

Overview. The Company believes that long-term equity awards in the form of stock options are an extremely important way to attract and retain a talented executive team and align the executives' interests with the Company's stockholders. Accordingly, executive compensation is weighted considerably toward long-term equity awards rather than cash compensation. In 2009, long-term equity awards for the named executive officers represented approximately 80% of the officers' target total compensation. This compares to approximately 50% at peer companies.

Vesting Periods and Ten Year Option Terms Maximize Retention and Support Long-Term Focus. The Company believes granting awards with four year vesting periods and ten year terms creates a substantial retention incentive and also encourages the named executive officers to focus on the Company's long-term business objectives and long-term stock price performance. Stock options are awarded to employees, including the NEOs, each February 15th (or the next business day if the 15th is not a business day). Exceptions are made for executives who are promoted to the executive team or are recent hires. To determine the size of the stock option awards, the Compensation Committee first establishes a target compensation value to be delivered to the named executive officers through long-term equity awards. In doing so, the Compensation Committee considers various factors, including the following:

The emphasis placed on equity in the mix of total compensation;

The officer's experience and performance;

The scope, responsibility and business impact of the officer's position; and

The perceived retention value of the total compensation package.

Once the target value has been established, the Compensation Committee determines the number of shares subjected to the awards by reference to the current value of the Company's common stock.

Option Grant Practice. The Compensation Committee has delegated the authority to the CEO to make initial option grants, within an approved range, to new employees, excluding executive officers. During 2009, all

initial hire grants were granted once a month on the fifth business day of each month for new hires in the previous month, at an exercise price equal to the closing sales price of our stock on the grant date. For annual focal option grants to all employees, the Compensation Committee must review and submit its recommendation for approval by the Board of Directors. These focal grants will be made on February 15th or the next trading day if February 15th is not a business day, at an exercise price equal to the closing sales price of our stock on the grant date. This timing enables management and the Compensation Committee to consider performance by both the Company and the individual and balance it against our expectations for the current year.

We do not time the granting of our options with any favorable or unfavorable news released by the Company. The initial grants are based on the timing of date of hire of our new employees. Proximity of any awards to an earnings announcement or other market events is coincidental.

The Role of Cash Compensation

Overview. The Company believes that cash compensation is less effective than long-term equity awards in achieving the goal of the Company's executive compensation program. Accordingly, target cash compensation for the named executive officers, represented approximately 20% of the officers' target total compensation in 2009 and is approximately 25% below the median of target cash compensation provided by peer companies. The named executive officers' cash compensation includes performance-based cash bonus awards and base salaries.

Performance-Based Cash Bonus Awards. The Company's Cash Incentive Plan (CIP) for non-sales executive officers and Commission Plans for sales executives are designed to reward employees for achieving stretch financial and operating goals that are key to the success of our business and are aligned with the near and long-term interests of our stockholders.

The Company believes that CIP cash bonus awards and commission awards are an important component of the executive compensation program because they reward the named executive officers for achieving the annual performance goals established by the Company. However, the CIP cash bonus awards and commission awards represent a small percentage of the executives' total compensation because the Company believes that cash bonus awards are less effective in attracting new executive talent than equity compensation, and they promote retention only in the short-term (the bonus performance period). In addition, the Company prefers to emphasize long-term stockholder value creation over annual operating results. Accordingly, the plan is modestly funded relative to peer companies, as reflected by the following:

The target bonus of 60% of base salary for the CEO, 50% for the COO and 40% for the Senior Vice Presidents is lower than those of peer companies, where average target bonuses commonly range from 55% to 91% of base salary, with the average CEO target bonus percentage being 91%;

The maximum bonus of 75% of base salary for the CEO, 62.5% for the COO and 50% for the Senior Vice Presidents, although the Compensation Committee has the authority to approve bonus amounts above the maximum for exceptional performance, is lower than those of peer companies where maximum bonuses are typically set at two times target.

The Company has established sales commission plans so that senior sales personnel may earn three to four times their base salary. The Company believes that these commission plans are an important part of compensation program for sales personnel as they incent the achievement of short term sales and represent a significant retention tool. Most of the companies that Intuitive Surgical competes with for sales talent are much larger than Intuitive Surgical and provide substantial compensation packages to their employees. The Company believes that its commission plans are competitive in the medical device industry.

CIP Funding. The first step is comprised of an overall CIP plan funding (Plan Funding) goal tied to operating income, excluding stock-based compensation. Generally, the plan begins funding at the previous year's operating income level, excluding stock-based compensation, to a maximum funding of 125% of the pool at a

predetermined increase in operating income, excluding stock-based compensation. However, given the difficult economic environment and constrained hospital capital spending market at the end of 2008 and the beginning of 2009, funding was set so that it began at 85% of operating income for 2008 of \$327 million, excluding stock-based compensation. Maximum funding of 125% of the pool was set at \$462 million of operating income, excluding stock-based compensation. Funding for 2010 has been set to begin at the actual operating income achieved in 2009, excluding stock-based compensation, of \$473 million, which is consistent with the Company's historical practice.

Payout of Funded Amounts. In the second step, amounts funded in the first step are paid to employees based on goals established in the areas of product and market development, manufacturing and quality, efficiency and cost performance and other areas directed at long-term stockholder value enhancement. The amount of our incentive pool that will be paid out as incentive bonuses (Pay-Out Pool) for each NEO is determined by an equal weighting of achievement of the operating income goal and team performance goals. The size of the Pay-Out Pool generally cannot exceed the size of the Plan Funding.

Team performance goals for the NEOs are established at the corporate level and are comprised of procedural growth, system sales growth and revenue growth, and goals related to fixed costs, marketing objectives, customer training effectiveness, product development, regulatory approvals and compliance, new product introductions, quality of production, applied research and intellectual property. Each NEO must contribute as a member of the team to the Company's overall success rather than merely achieve specific objectives within that officer's area of responsibility. The corporate level goals are initially established by the CEO and then reviewed and approved by the Board of Directors annually at the beginning of the year. Since the specific targets of our corporate performance goals are highly confidential, we do not publicly disclose specific objectives. Revealing specific objectives would provide competitors and other third parties with insights into the Company's confidential planning process and strategies, thereby causing competitive harm.

The nature of goals and the weighting assigned to each is subject to change annually. Recurring goals are generally set above prior year results and budgeted levels. The performance goals are designed to be aggressive, and there is a risk that payments will not be made at all or will be made at less than 100% of the target amount. The achievement of the goals may be affected by several factors including, but not limited to, the impact of the global conditions, credit market and the related impact on health care spending; timing and success of product development and market acceptance of developed products; and regulatory approvals, clearances and restrictions. Due to these factors which are not entirely controlled by the NEOs and the stretch nature of the goal setting, it is relatively difficult to achieve the corporate performance goals. The challenge of the goals and the uncertainty in the environment ensures that any payments under the plan are truly performance-based, consistent with the plan's objectives. Each NEO's share of the Pay-Out Pool will be based upon their individual performance and contribution to the achievement of their goals.

Our cash incentives for our top sales executives, including one of our NEOs, Mr. McNamara, Executive Vice President, Worldwide Sales and Marketing (EVP of Sales and Marketing) are tied fully to performance plans which are calculated based on the achievement of predetermined sales metrics, including revenue, surgical procedures completed, contribution margins and fixed costs (the Commission Plans). Under these Commission Plans, which are approved by the Compensation Committee at the beginning of the year, the sales executives are assigned target and maximum levels for each metric which is then applied to a scaled bonus rate. The performance pay-out is scaled to the over-achievement of each metric.

Each year, the bonus and commissions structures are reviewed to ensure that the design and payment structure falls in line with our compensation philosophy. At the end of each year, the Compensation Committee determines the amount of the award to be paid to each officer by comparing actual results to the performance goals. The Compensation Committee may, in its discretion, reduce or increase the amount of any individual award based on the officer's overall performance and his contribution to the achievement of the corporate performance goals.

Base Salaries. The Compensation Committee determines base salaries for each named executive officer based on the executive officer's role and responsibilities, market benchmarking and individual job performance. The Company believes that base salaries are less important than long-term equity awards in achieving the goal of the Company's executive compensation program. The de-emphasized role of base salaries as part of the executive compensation program is in the fact that base salaries are below the 50th percentile of peer companies for the named executive officers.

Employment Agreements or Other Arrangements

Change in Control Plan. In December 2008, the Board of Directors approved and adopted the Company's Severance Plan (the Change in Control Plan). The Board believes the adoption of the Change in Control Plan is beneficial to our stockholders because it minimizes the uncertainty presented to our valuable workforce in the case of a change in control. Under this plan, all eligible employees of the Company who have been employed at least six months prior to the separation from service date, including executive officers, are entitled to the following severance benefits in the event of a termination of employment without cause or an involuntary separation from service within twelve months after a change in control of the Company:

A lump sum cash payment in the amount equal to the sum of six months of such eligible employee's base compensation (defined in the Change in Control Plan as base salary and target bonus) plus an additional one month of base compensation for every year of such eligible employee's service with the Company, such severance not to exceed 12 months;

Six months of COBRA premiums, provided that such eligible employee elects continued coverage under COBRA; and

100% vesting of all outstanding unvested equity awards that the eligible employee then holds.

See *Potential Payment Upon Termination or Change in Control* below for detailed discussions of the Change in Control Plan and estimates of the compensation that would have been payable to the NEOs, had they been triggered at December 31, 2009.

Other Arrangements. The named executive officers are employed at will. Based on the Company's philosophy, the compensation program for the named executive officers does *not* include any of the following pay practices:

Employment agreements, except with Mr. Smith as discussed below;

Severance arrangements, except for the Change in Control Plan described above;

Cash payments made upon a change in control of the Company;

Tax reimbursements; and

Supplemental executive retirement benefits.

In addition, the Company does not provide any perquisites or change in control benefits to the named executive officers that are not available to other employees.

Employment Agreement with Lonnie Smith. The Company does not have any employment agreements with any named executive officers, except with Mr. Smith. Upon the commencement of Mr. Smith's new role as Chairman of the Board effective January 2010, the key provisions of his employment agreement with the Company had been amended to an annual salary of \$300,000, a target bonus percentage of 40% (performance-based, not a guaranteed bonus), along with stock options as approved by the Board. Specifically, Mr. Smith was not entitled to any severance under the Company's Change in Control Plan upon the commencement of his new role as Chairman of the Board effective January 1, 2010.

Other Considerations

The Role of Compensation Consultants. The Compensation Committee has selected and directly retains the services of Compensia, an independent executive compensation consulting firm. Compensia only provides compensation consulting services to the Compensation Committee, and works with the Company's management only on matters for which the Compensation Committee is responsible. The Compensation Committee periodically seeks input from Compensia on a range of external market factors, including evolving compensation trends, appropriate peer companies and market survey data. Compensia also provides general observations on the Company's compensation programs, but it does not determine or recommend the amount or form of compensation for the named executive officers.

The Role of Peer Companies and Benchmarking. While we do not believe that it is appropriate to establish compensation levels based solely on benchmarking, we believe that information regarding pay practices at other companies is nevertheless useful in two respects. First, we recognize that compensation practices must be competitive in the marketplace. Second, independent marketplace information is one of several factors we consider in assessing the reasonableness of compensation. Accordingly, our Compensation Committee approved the engagement of Compensia to assist with updating our peer group and assessing the competitiveness of our Executive Compensation program. Peer groups are used for three purposes:

Direct Peer Group

Primary comparison for all aspects of executive compensation

Primary comparison for all aspects of Board compensation

Primary comparison for aggregate company equity utilization

Reference Peer Group

Data source for additional market perspective, in particular labor market competitors

Broad Peer Group

Secondary reference point used to compare executive compensation

Primary comparison for executives not matched to Direct Peers

Two selection criteria were used to establish our Direct Peer Group including:

1. Revenue (\$450 million to \$2.25 billion)

2. Market capitalization (\$3 billion to \$12 billion)

When compared to our 2008 Direct Peer Group, 100% of the existing direct peers met the revenue criterion; conversely 9 of the peers did not meet the market capitalization criterion. Nevertheless, given recent stock market volatility, it was agreed to retain these companies and re-examine in 2010. In 2009, two current peers were acquired (Respironics, Advanced Medicals Optics) and one merged (Invitrogen).

Edgar Filing: INTUITIVE SURGICAL INC - Form DEF 14A

In 2009, our Direct Peer Group included Bio-Rad Laboratories, CONMED, Edwards Lifesciences, Haemonetics, Hologic, IDEXX Laboratories, Illumina, Integra LifeSciences Holdings, Inverness Medical Innovations, Kinetic Concepts, Medicis Pharmaceutical, Millipore, ResMed, Sirona Dental Systems, Varian Medical Systems and Waters Corp.

In addition to our direct peers, we created a reference peer group to gain additional perspective on labor market competitors. In 2009, this peer group consisted of Applied Materials, Boston Scientific, Covidien, Johnson & Johnson, KLA-Tencor, Lam Research, Medtronic, Novellus Systems, Smith & Nephew, St. Jude Medical and Stryker.

Finally in 2009, our Broad Peer Group included life sciences industry (LSI) and technology industry (High-Tech) market norms provided by Radford. A custom data cut from the Radford Life Science Survey

consisting of U.S.-based, public, non-sub subsidiary life science companies with revenues 1/3 to 3x that of the Company was included. Secondly a custom cut from the Radford Executive Compensation Survey was used with scope factors of U.S.-based, public, non-sub subsidiary technology companies with revenues 1/3 to 3x Intuitive and market capitalization to revenues ratio greater than 2x.

References to marketplace or market refer to the review of the peer groups, as discussed above.

Compensia assessed Intuitive Surgical's executive pay and performance relative to the aforementioned Direct Peer Group. Secondly, they collected compensation data for certain key labor market competitors (the Reference Peer Group). Next, Compensia examined competitive pay levels for the five NEOs plus 17 additional executives against current compensation levels; this review led to the following observations:

On average, base salaries are positioned between the 25th and 50th percentiles of the LSI marketplace.

On average, target total cash compensation (base salaries and bonus) is positioned between the 25th and 50th percentiles of the LSI marketplace.

The fiscal 2009 annual equity grant levels exceeded the market 75th percentile in fair values.

The Compensation Committee, however, does not set compensation components to meet specific benchmarks, such as targeting salaries above the median or equity compensation at the 75th percentile. Furthermore, the Compensation Committee believes that over-reliance on benchmarking can result in compensation that is unrelated to the value delivered by the named executive officers.

Tax Deductibility of Compensation Expense. Section 162(m) of the Internal Revenue Code places a limit of \$1 million on the amount of compensation that the Company can deduct in any one year for compensation paid to the chief executive officer and the three most highly-compensated named executive officers employed by the Company at the end of the year (other than the Company's chief financial officer). However, the \$1 million deduction limit does not apply to compensation that is performance-based and provided under a plan that has been approved by the Company's stockholders. While the Compensation Committee considers the deductibility of awards as one factor in determining executive compensation, the Compensation Committee also looks at other factors in making its decisions as noted above and retains the flexibility to grant awards it determines to be consistent with the Company's goal for its executive compensation program even if the award is not deductible by the Company for tax purposes.

The awards under the CIP, Commission Plans and 2000 Equity Incentive Plan are not designed to qualify as performance-based compensation under Section 162(m) for tax deductibility. The awards under the 2010 Incentive Award Plan may qualify as performance-based compensation under Section 162(m) for tax deductibility.

COMPENSATION DECISIONS FOR 2009

Long-Term Equity Awards

In fiscal 2010, 2009 and 2008, the Compensation Committee authorized the following equity grants for the named executive officers based on its assessment of the factors discussed in the section titled *The Role of Long-Term Equity Awards* :

	NEO	Options Granted (#)		
		2010	2009	2008
Lonnie M. Smith		18,000	60,000	60,000
Gary S. Guthart		37,500	60,000	50,000
Jerome J. McNamara		30,000	50,000	40,000
Marshall L. Mohr		18,750	30,000	25,000
Mark J. Meltzer		17,000	30,000	25,000

In February 2010, the Compensation Committee approved annual stock grants for certain eligible employees. Given the increase in the Company's stock price and the Company's commitment of a net burn rate (see below) of 3.0% in the long-term, options grants to employees, including NEOs, were reduced relative to prior years.

We believe the Company's executive compensation policy is closely aligned with stockholders interests. While salary and an annual cash incentive bonus represent the achievement of shorter term goals, stock option awards, with a four-year vesting schedule and ten-year term, represent a longer term compensation structure that promotes retention and continuous commitment to the operating results of the Company. Annual stock option grants occur every February and reflect the value of one's individual contribution to the Company, both present and future. At this phase in the Company's growth cycle, a majority of executive annual compensation is derived from the value of options granted. The following chart displays the historical relationship between our CEO's annual compensation and the change in stockholder value as reflected by the percentage change in value of the Company's common stock price. For comparative purposes, CEO annual compensation consists of salary, accrued bonus, plus the value of equity compensation paid out in February of the following year (the value of the 2010 equity compensation was estimated).

* The CEO Compensation decrease in 2009 reflects the change in responsibilities for Lonnie Smith relative to the transition of Gary Guthart as CEO in January 2010.

Burn rate. In administering our equity program, we actively manage our grants in accordance with a target burn rate. We define burn rate as the number of equity awards granted in the year, net of cancellations and expirations, divided by the sum of the undiluted weighted average shares of our common stock outstanding during the year plus the number of options that have been issued and are outstanding. The burn rate measures the potential dilutive effect of our annual equity grants. The total number of options granted in 2009 was 1,661,596 and the number of options cancelled or expired was 187,180. As of December 31, 2009 the weighted average number of shares outstanding was 38,297,761 and the total number of granted options outstanding was 4,592,656. For fiscal 2009, our burn rate was 3.44%, and our three-year average burn rate from fiscal 2007 through fiscal 2009 was 2.86%. We believe that our burn rate is reasonable in relation to companies in our industry and reflects a judicious use of equity for compensation purposes.

Base Salary Increases

Base salaries for executives are reviewed annually in June or more frequently should there be significant changes in responsibilities. In each case, we take into account the results achieved by the executive, his or her future potential, scope of responsibilities and experience, and competitive salary practices. In 2009, given the poor economic environment, we delayed increases to the executives, including the NEOs' salary increases, from July 1st to October 1st. Increases for all other employees were granted in the normal July 1st timeframe.

With the assistance of Compensia, the Compensation Committee determined that the total cash compensation for the named executive officers was significantly below the median of peer companies despite the Company's superior financial performance. As a result, the Compensation Committee approved base salary increases, reflected in the table below, which take into consideration the Company's team-based approach and the scope of the executive's role and responsibilities relative to other members of the executive team. After giving effect to these increases, the named executive officers' total cash compensation opportunities still remain below median due to the Company's philosophy of setting target and maximum bonus opportunities at levels lower than the range commonly provided by peer companies.

Name	Previous Salary (\$)	New Salary (\$)
Lonnie M. Smith(1)	508,700	508,700
Gary S. Guthart(2)	430,000	430,000
Jerome J. McNamara	335,000	360,000
Marshall L. Mohr	335,000	355,000
Mark J. Meltzer	325,000	340,000

- (1) Mr. Smith did not receive a salary increase in 2009 since he was resigning from the role of Chief Executive Officer effective January 1, 2010. His base salary was decreased to \$300,000 effective January 1, 2010 at the transition of his role to Chairman of the Board exclusively and an executive officer of the Company.
- (2) Dr. Guthart did not receive a salary increase in 2009 since he was being promoted to President and Chief Executive Officer, effective January 1, 2010. In connection with his promotion, Dr. Guthart's base salary increased to \$500,000 on January 1, 2010.

Performance-Based Cash Bonus Awards

The Company's 2009 performance exceeded the Company's goals for operating income, excluding stock-based compensation, established by the Compensation Committee for the bonus program. As a result, the incentive pool was funded at 125% of the total targeted cash amount. The amounts earned are a reflection of the Company's performance as well as the NEO's individual performance against their goals. The Company also exceeded the revenue, surgical procedures, and contribution margins established by the Compensation Committee for Mr. McNamara's Commission Plan. The table below shows each named executive officer's performance-based cash bonus award for 2009, which was earned in fiscal 2009 and paid in fiscal 2010.

Name	2009 Bonus Award (\$)
Lonnie M. Smith	382,000
Gary S. Guthart	269,000
Jerome J. McNamara	741,186
Marshall L. Mohr	180,000
Mark J. Meltzer	170,000

COMPENSATION RISK CONSIDERATIONS

The Compensation Committee considers, in establishing and reviewing the employee compensation programs, whether the programs encourage unnecessary or excessive risk taking. The Company, after reviewing and discussing the compensation programs with the Compensation and Audit Committees of the Board, believes that the programs are balanced and do not motivate or encourage unnecessary or excessive risk taking. Base salaries are fixed in amount and thus do not encourage risk taking. While the performance-based awards focus on achievement of short-term or annual goals, and short-term goals may encourage the taking of short-term risks at the expense of long-term results, the Company's performance-based award programs represent a small percentage of employees' total compensation opportunities. The Company believes that the programs appropriately balance risk and the desire to focus employees on specific short-term goals important to the Company's success, and that it does not encourage unnecessary or excessive risk taking.

Compensation provided to employees is in the form of long-term equity awards that are important to help further align employees' interests with those of the Company's stockholders. The Company believes that these awards do not encourage unnecessary or excessive risk taking since the ultimate value of the awards is tied to the Company's stock price, and since awards are staggered and subject to long-term vesting schedules to help ensure that executives have significant value tied to long-term stock price performance.

COMPENSATION OF NAMED EXECUTIVE OFFICERS
2009 SUMMARY COMPENSATION TABLE

The following Summary Compensation Table sets forth summary information concerning the compensation paid to our NEOs in years ending December 31, 2009, 2008, and 2007 for services to our Company in all capacities.

Name and Principal Position	Year	Salary (\$)	Option Awards (\$ (1))	Non-Equity Incentive Plan Compensation (\$ (2))	Total (\$)
Lonnie M. Smith, Chief Executive Officer and Chairman of the Board(3)	2009	508,700	3,289,842	382,000	4,180,542
	2008	496,850	8,670,948	390,000	9,557,798
Gary S. Guthart, President and Chief Operating Officer(4)	2009	430,000	3,289,842	269,000	3,988,842
	2008	420,000	7,225,790	275,000	7,920,790
	2007	385,000	1,634,808	256,000	2,275,808
Jerome J. McNamara, Executive Vice President, Worldwide Sales and Marketing	2009	341,250	2,741,535	741,186	3,823,971
	2008	327,500	5,780,632	530,823	6,638,955
Marshall L. Mohr, Senior Vice President and Chief Financial Officer	2009	340,000	1,644,921	180,000	2,164,921
	2008	327,500	3,612,895	172,000	4,112,395
Mark J. Meltzer, Senior Vice President, General Counsel	2009	328,750	1,644,921	170,000	2,143,671
	2008	320,000	3,612,895	158,000	4,090,895
	2007	40,587	4,277,781	35,000	4,353,368

- (1) The amounts in this column represent the grant date fair values of the option awards granted to the executive in the fiscal year in accordance with stock compensation accounting. See Note 9 of the Notes to our Consolidated Financial Statements contained in our Annual Report on Form 10-K filed on January 29, 2010 for a discussion of all assumptions made by us in determining the valuation of the equity awards.
- (2) Refers to annual bonus earned in the current fiscal year under the CIP and Commission Plan and paid during February of the next fiscal year. See the Compensation Discussion & Analysis section above for a more detailed discussion.
- (3) Mr. Smith served as the Chairman of the Board and Chief Executive Officer until December 31, 2009. Effective January 1, 2010, Mr. Smith resigned from his role as the Chief Executive Officer and remained as the Chairman of the Board as well as an executive officer of the Company.
- (4) Dr. Guthart served as our President and Chief Operating Officer until December 31, 2009. Effective January 1, 2010, Dr. Guthart was appointed as the President and Chief Executive Officer upon Mr. Smith's resignation as the CEO.

GRANTS OF PLAN-BASED AWARDS TABLE

The following table shows information about the non-equity incentive awards and equity-based awards granted to our NEOs in 2009:

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			All Other Option Awards:		Grant Date Fair Value of Option Awards (3)
		Threshold (\$)	Target (\$)	Maximum (\$)	# of Shares Underlying Options (2)	Price of Options (\$/Sh)	
Lonnie M. Smith	2/17/2009		305,220	381,525	60,000	107.27	3,289,842
Gary S. Guthart	2/17/2009		215,000	268,750	60,000	107.27	3,289,842
Jerome J. McNamara	2/17/2009		442,881	1,284,354	50,000	107.27	2,741,535
Marshall L. Mohr	2/17/2009		142,000	177,500	30,000	107.27	1,644,921