

INTUITIVE SURGICAL INC
Form 10-Q
April 19, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

March 31, 2012 For the quarterly period ended March 31, 2012

OR

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

For the transition period from to

Commission file number 000-30713

Intuitive Surgical, Inc.

(Exact name of Registrant as specified in its Charter)

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Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

77-0416458
(I.R.S. Employer

Identification Number)

1266 Kifer Road

Sunnyvale, California 94086

(Address of principal executive offices) (Zip Code)

(408) 523-2100

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller Reporting company

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

The Registrant had 39,702,301 shares of Common Stock, \$0.001 par value per share, outstanding as of April 13, 2012.

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Item 1. Financial Statements

INTUITIVE SURGICAL, INC.**CONDENSED CONSOLIDATED BALANCE SHEETS****(IN MILLIONS, EXCEPT PAR VALUES)****(UNAUDITED)**

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 325.9	\$ 465.8
Short-term investments	645.4	563.4
Accounts receivable, net	299.7	297.9
Inventory	118.8	112.1
Prepaid and other current assets	39.9	20.9
Deferred tax assets	6.4	6.2
Total current assets	1,436.1	1,466.3
Property, plant and equipment, net	210.1	197.2
Long-term investments	1,399.7	1,142.6
Long-term deferred tax assets	67.5	69.1
Intangible and other assets, net	81.4	71.0
Goodwill	138.1	116.9
Total assets	\$ 3,332.9	\$ 3,063.1
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 49.8	\$ 45.8
Accrued compensation and employee benefits	57.7	83.1
Deferred revenue	160.5	154.2
Other accrued liabilities	45.6	37.5
Total current liabilities	313.6	320.6
Other long-term liabilities	92.0	96.9
Total liabilities	405.6	417.5
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, 2.5 shares authorized, \$0.001 par value, issuable in series; no shares issued and outstanding as of March 31, 2012 and December 31, 2011		
Common stock, 100.0 shares authorized, \$0.001 par value, 39.7 and 39.3 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively		
Additional paid-in capital	1,880.4	1,742.8
Retained earnings	1,045.4	901.9
Accumulated other comprehensive income	1.5	0.9

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Total stockholders' equity	2,927.3	2,645.6
Total liabilities and stockholders' equity	\$ 3,332.9	\$ 3,063.1

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents**INTUITIVE SURGICAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)****(UNAUDITED)**

	Three Months Ended March 31,	
	2012	2011
Revenue:		
Product	\$ 414.4	\$ 324.5
Service	80.8	63.6
Total revenue	495.2	388.1
Cost of revenue:		
Product	111.7	84.8
Service	27.6	24.5
Total cost of revenue	139.3	109.3
Gross profit	355.9	278.8
Operating expenses:		
Selling, general, and administrative	124.2	99.1
Research and development	38.4	31.4
Total operating expenses	162.6	130.5
Income from operations	193.3	148.3
Interest and other income (expense), net	3.8	5.3
Income before taxes	197.1	153.6
Income tax expense	53.6	49.5
Net income	\$ 143.5	\$ 104.1
Net income per common share:		
Basic	\$ 3.63	\$ 2.66
Diluted	\$ 3.50	\$ 2.59
Shares used in computing net income per common share:		
Basic	39.5	39.1
Diluted	41.0	40.2
Total comprehensive income	\$ 144.1	\$ 101.8

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents**INTUITIVE SURGICAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(IN MILLIONS)****(UNAUDITED)**

	Three Months Ended	
	March 31,	
	2012	2011
Operating Activities:		
Net income	\$ 143.5	\$ 104.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7.5	6.9
Amortization of intangible assets	5.8	4.4
Accretion of discounts and amortization of premiums on investments, net	7.0	5.1
Deferred income taxes	(1.4)	8.2
Income tax benefits from employee stock option plans	20.2	11.6
Excess tax benefit from stock-based compensation	(20.2)	(13.7)
Share-based compensation expense	34.4	32.1
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	1.6	(13.1)
Inventory	(4.5)	(6.5)
Prepays and other assets	(3.4)	(18.3)
Accounts payable	0.5	7.5
Accrued compensation and employee benefits	(25.2)	(20.2)
Deferred revenue	5.4	4.7
Accrued liabilities	(4.7)	(7.4)
Net cash provided by operating activities	166.5	105.4
Investing Activities:		
Purchase of investments	(646.3)	(244.7)
Proceeds from sales of investments	133.2	79.3
Proceeds from maturities of investments	153.2	182.3
Purchase of property and equipment, intellectual property and business	(49.8)	(14.7)
Net cash provided by (used in) investing activities	(409.7)	2.2
Financing Activities:		
Proceeds from issuance of common stock, net	82.9	59.5
Excess tax benefit from stock-based compensation	20.2	13.7
Repurchase and retirement of common stock		(11.6)
Net cash provided by financing activities	103.1	61.6
Effect of exchange rate changes on cash and cash equivalents	0.2	0.8
Net increase (decrease) in cash and cash equivalents	(139.9)	170.0
Cash and cash equivalents, beginning of period	465.8	279.8
Cash and cash equivalents, end of period	\$ 325.9	\$ 449.8

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See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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INTUITIVE SURGICAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In this report, Intuitive Surgical, Intuitive, and the Company refer to Intuitive Surgical, Inc., and its wholly-owned subsidiaries.

NOTE 1. DESCRIPTION OF BUSINESS

Intuitive designs, manufactures and markets *da Vinci* Surgical Systems and related instruments and accessories, which taken together, are advanced surgical systems that the Company believes represent a new generation of surgery. The Company believes that this new generation of surgery, which the Company calls *da Vinci* Surgery, combines the benefits of minimally invasive surgery (MIS) for patients with the ease of use, precision and dexterity of open surgery. A *da Vinci* Surgical System consists of a surgeon's console, a patient-side cart and a high performance vision system. The *da Vinci* Surgical System translates a surgeon's natural hand movements, which are performed on instrument controls at a console, into corresponding micro-movements of instruments positioned inside the patient through small incisions, or ports. The *da Vinci* Surgical System is designed to provide its operating surgeon with intuitive control, range of motion, fine tissue manipulation capability and 3-D, High-Definition (HD) vision while simultaneously allowing them to work through the small ports of MIS.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements (financial statements) of Intuitive Surgical, Inc. and its wholly-owned subsidiaries have been prepared on a consistent basis with the December 31, 2011 audited Consolidated Financial Statements and include all adjustments, consisting of only normal recurring adjustments, necessary to fairly state the information set forth herein. Certain prior year amounts in the financial statements and notes thereto have been reclassified to conform to the current year's presentation. The financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC), and, therefore, omit certain information and footnote disclosure necessary to present the statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP). These financial statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which was filed on February 6, 2012. The results of operations for the first three months of fiscal 2012 are not necessarily indicative of the results to be expected for the entire fiscal year or any future periods.

Revenue Recognition

The Company's revenue consists of product revenue resulting from the sales of systems, instruments and accessories, and service revenue. The Company recognizes revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or service has been rendered; the price is fixed or determinable; and collectability is reasonably assured. The Company's revenue recognition policy generally results in revenue recognition at the following points:

System sales. For system sales directly to end customers, revenue is recognized when acceptance occurs, which is deemed to have occurred upon the receipt by the Company of a form executed by the customer acknowledging delivery and/or installation. For system sales through distrib