

INTUITIVE SURGICAL INC
Form 10-Q
April 19, 2013
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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

For the quarterly period ended March 31, 2013

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

77-0416458
(I.R.S. Employer

Incorporation or Organization)

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 40,161,022 shares of Common Stock, \$0.001 par value per share, outstanding as of April 10, 2013.

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Item 1. Financial Statements

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

	March 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 427.5	\$ 553.7
Short-term investments	930.7	770.7
Accounts receivable, net	345.1	370.3
Inventories	135.5	121.5
Prepays and other current assets	46.5	67.3
Deferred tax assets	9.4	9.3
Total current assets	1,894.7	1,892.8
Property, plant and equipment, net	249.9	241.8
Long-term investments	1,757.8	1,596.1
Long-term deferred tax assets	95.6	87.0
Intangible and other assets, net	99.8	103.4
Goodwill	138.0	138.1
Total assets	\$ 4,235.8	\$ 4,059.2
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 67.9	\$ 57.6
Accrued compensation and employee benefits	66.0	104.0
Deferred revenue	192.1	185.7
Other accrued liabilities	51.6	54.3
Total current liabilities	377.6	401.6
Other long-term liabilities	86.0	77.5
Total liabilities	463.6	479.1
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, 2013 and December 31, 2012, respectively		
Common stock, 100.0 shares authorized, \$0.001 par value, 40.2 shares and 40.2 shares outstanding as of March 31, 2013 and December 31, 2012, respectively		
Additional paid-in capital	2,378.5	2,240.1
Retained earnings	1,385.6	1,333.4
Accumulated other comprehensive income	8.1	6.6

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Total stockholders' equity	3,772.2	3,580.1
Total liabilities and stockholders' equity	\$ 4,235.8	\$ 4,059.2

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

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	Three Months Ended March 31,	
	2013	2012
Revenue:		
Product	\$ 517.0	\$ 414.4
Service	94.4	80.8
Total revenue	611.4	495.2
Cost of revenue:		
Product	146.3	111.7
Service	30.8	27.6
Total cost of revenue	177.1	139.3
Gross profit	434.3	355.9
Operating expenses:		
Selling, general and administrative	141.5	124.2
Research and development	41.6	38.4
Total operating expenses	183.1	162.6
Income from operations	251.2	193.3
Interest and other income (expense), net	4.3	3.8
Income before taxes	255.5	197.1
Income tax expense	66.6	53.6
Net income	\$ 188.9	\$ 143.5
Net income per share:		
Basic	\$ 4.69	\$ 3.63
Diluted	\$ 4.56	\$ 3.50
Shares used in computing net income per share:		
Basic	40.3	39.5
Diluted	41.4	41.0
Total comprehensive income	\$ 190.4	\$ 144.1

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

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	Three Months Ended March 31,	
	2013	2012
Operating activities:		
Net income	\$ 188.9	\$ 143.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10.4	7.5
Amortization of intangible assets	5.6	5.8
Accretion of discounts and amortization of premiums on investments, net	9.8	7.0
Deferred income taxes	(9.5)	(1.4)
Income tax benefits from employee stock option plans	19.9	20.2
Excess tax benefit from stock-based compensation	(20.6)	(20.2)
Stock-based compensation expense	38.2	34.4
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	25.3	1.6
Inventories	(15.8)	(6.0)
Prepays and other assets	18.5	(3.4)
Accounts payable	10.3	0.5
Accrued compensation and employee benefits	(38.0)	(25.2)
Other liabilities	15.0	0.7
Net cash provided by operating activities	258.0	165.0
Investing activities:		
Purchase of investments	(576.0)	(646.3)
Proceeds from sales of investments	50.0	133.2
Proceeds from maturities of investments	194.7	153.2
Purchase of property, plant and equipment, intellectual property and business	(16.7)	(48.3)
Net cash used in investing activities	(348.0)	(408.2)
Financing activities:		
Proceeds from issuance of common stock, net	89.3	82.9
Excess tax benefit from stock-based compensation	20.6	20.2
Repurchase and retirement of common stock	(145.7)	
Net cash provided by (used in) provided by financing activities	(35.8)	103.1
Effect of exchange rate changes on cash and cash equivalents	(0.4)	0.2
Net increase (decrease) in cash and cash equivalents	(126.2)	(139.9)
Cash and cash equivalents, beginning of period	553.7	465.8
Cash and cash equivalents, end of period	\$ 427.5	\$ 325.9

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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 surgeons 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 audited Consolidated Financial Statements for the fiscal year ended December 31, 2012 and include all adjustments, consisting of only normal recurring adjustments, necessary to fairly state the information set forth herein. The financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC), and, therefore, omit certain information and footnote disclosure necessary to present the 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, 2012, which was filed on February 4, 2013. The results of operations for the first three months of fiscal 2013 are not necessarily indicative of the results to be expected for the entire fiscal year or any future periods.

New Accounting Standards Recently Adopted

Effective January 1, 2013 the Company adopted the accounting guidance which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The Company elected to present the information in the notes to the Company's unaudited condensed consolidated financial statements.

Effective January 1, 2013 the Company adopted the accounting standard which requires an entity to provide enhanced disclosures about certain financial instruments and derivative instruments that are offset in the statement of financial position or that are subject to enforceable master netting arrangements. The adoption did not have any impact on the Company's unaudited condensed consolidated financial statements.

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NOTE 3. FINANCIAL INSTRUMENTS

Cash, Cash Equivalents and Investments

The following tables summarize the Company's cash and available-for-sale securities' amortized cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short-term or long-term investments as of March 31, 2013 and December 31, 2012 (in millions):