

INTUITIVE SURGICAL INC

Form S-4

March 28, 2003

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As filed with the Securities and Exchange Commission on March 28, 2003

Registration No. 333-

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**Form S-4**  
**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**Intuitive Surgical, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**3842**  
*(Primary Standard Industrial  
Classification Code Number)*

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

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**950 Kifer Road**  
**Sunnyvale, California 94086**  
**(408) 523-2100**  
*(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)*

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**Lonnie M. Smith**  
**President and Chief Executive Officer**  
**Intuitive Surgical, Inc.**  
**950 Kifer Road**  
**Sunnyvale, California 94086**  
**(408) 523-2100**  
*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

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*Copies to:*

**Alan C. Mendelson, Esq.**  
**Latham & Watkins LLP**  
**135 Commonwealth Drive**  
**Menlo Park, California 94025**  
**(650) 328-4600**

**Robert W. Duggan**  
**Chairman of the Board and**  
**Chief Executive Officer**  
**Computer Motion, Inc.**  
**130-B Cremona Drive**  
**Goleta, California 93117**  
**(805) 968-9600**

**David E. Lafitte, Esq.**  
**Stradling Yocca Carlson & Rauth, P.C.**  
**302 Olive Street**  
**Santa Barbara, California 93101**  
**(805) 564-0065**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effectiveness of this registration statement and the satisfaction or waiver of all other conditions under the merger agreement described herein.

If the securities being registered on this form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

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If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o \_\_\_\_\_

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o \_\_\_\_\_

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, par value \$0.001 per share(3)	20,438,802	\$5.28	\$107,916,875	\$8,731

- (1) This registration statement covers the estimated maximum number of shares of Intuitive Surgical common stock to be issued in connection with the merger described in this registration statement, calculated as (a) the quotient obtained by dividing (i) the aggregate number of shares of Intuitive Surgical common stock outstanding on a fully diluted basis as of March 21, 2003 by (ii) sixty-eight percent (68%) less (b) the aggregate number of shares of Intuitive Surgical common stock outstanding on a fully diluted basis as of March 21, 2003.
- (2) Estimated solely for purposes of calculating the registration fee pursuant to Rules 457(f) and 457(c) under the Securities Act of 1933, based on \$5.28, the average of the high and low prices of Intuitive Surgical common stock as reported on the Nasdaq National Market on March 21, 2003.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this joint proxy statement/ prospectus is not complete and may be changed. Intuitive Surgical may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This joint proxy statement/ prospectus is not an offer to sell these securities nor the solicitation of an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated March 28, 2003

**MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

Intuitive Surgical, Inc. and Computer Motion, Inc. have agreed to a combination of the two companies under the terms of a merger agreement. We are proposing the merger because we believe it will benefit the stockholders of both companies by combining the strengths of the companies in operative surgical robotics, telesurgery and operating room integration to better serve hospitals, doctors and patients.

Upon completion of the merger, Computer Motion stockholders will be entitled to receive a fraction of a share of Intuitive Surgical common stock for each share of Computer Motion common stock owned as of the effective time of the merger. The fraction of a share of Intuitive Surgical common stock to be issued with respect to each share of Computer Motion common stock will be determined by a formula described in the merger agreement and this joint proxy statement/ prospectus. Based on the capitalization of Intuitive Surgical and Computer Motion and the market price of Computer Motion common stock as of the date of this joint proxy statement/ prospectus and assuming that the merger is completed on June 20, 2003, we estimate that the exchange ratio will be approximately 0.52. The exchange ratio will be adjusted proportionately in the event that the proposed reverse split of Intuitive Surgical's common stock is approved by Intuitive Surgical's stockholders and implemented by Intuitive Surgical's board of directors. After \_\_\_\_\_, 2003, stockholders may visit Intuitive Surgical's website, [www.intuitivesurgical.com](http://www.intuitivesurgical.com), or Computer Motion's website, [www.computermotion.com](http://www.computermotion.com), for announcements regarding the exchange ratio. Stockholders of Intuitive Surgical will continue to own their existing shares.

Based on the estimated exchange ratio of approximately 0.52, we estimate that, on a pre-reverse split basis, Intuitive Surgical will issue approximately 14.7 million shares of Intuitive Surgical common stock in the merger and reserve an additional approximately 5.7 million shares of Intuitive Surgical common stock for future issuance in connection with Intuitive Surgical's assumption of Computer Motion's outstanding options and warrants (including out-of-the-money options and warrants).

Intuitive Surgical common stock is traded on the Nasdaq National Market under the trading symbol ISRG. On March 27, 2003, Intuitive Surgical common stock closed at \$5.78 per share as reported on the Nasdaq National Market.

The merger cannot be completed unless Intuitive Surgical stockholders approve the issuance of shares of Intuitive Surgical common stock pursuant to the merger agreement and Computer Motion stockholders approve and adopt the merger agreement. The obligations of Intuitive Surgical and Computer Motion to complete the merger are also subject to the satisfaction or waiver of several conditions. More information about Intuitive Surgical, Computer Motion and the merger, as well as additional business to be conducted at the Intuitive Surgical stockholder meeting, is contained in this joint proxy statement/ prospectus. **We encourage you to read this joint proxy statement/ prospectus, including the section entitled Risk Factors beginning on page 19, before voting.**

The board of directors of Intuitive Surgical has approved the merger agreement and the issuance of shares of Intuitive Surgical common stock pursuant to the merger agreement. The board of directors of Computer Motion has approved the merger agreement. Intuitive Surgical's board of directors unanimously recommends that Intuitive Surgical stockholders vote **FOR** the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement. Computer Motion's board of directors unanimously recommends that Computer Motion stockholders vote **FOR** the proposal to approve and adopt the merger agreement.

Intuitive Surgical and Computer Motion have each scheduled a stockholder meeting in connection with the respective votes required. Your vote is very important. Whether or not you plan to attend your respective company's stockholder meeting, please take the time to vote by marking your votes on the enclosed proxy card, signing and dating the proxy card, and returning it to your respective company in the enclosed envelope.

Sincerely,

LONNIE M. SMITH  
*President and Chief Executive Officer*  
Intuitive Surgical, Inc.

Sincerely,

ROBERT W. DUGGAN  
*Chairman of the Board and*  
*Chief Executive Officer*

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Computer Motion, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this joint proxy statement/ prospectus or determined if this joint proxy statement/ prospectus is truthful or complete. Any representation to the contrary is a criminal offense. This joint proxy statement/ prospectus is dated \_\_\_\_\_, 2003, and is first being mailed to Intuitive Surgical and Computer Motion stockholders on or about \_\_\_\_\_, 2003.

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**INTUITIVE SURGICAL, INC.**

**950 Kifer Road  
Sunnyvale, California 94086**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON \_\_\_\_\_, 2003**

To the Stockholders of Intuitive Surgical, Inc.:

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of Intuitive Surgical, Inc. will be held at the Summerfield Suites by Wyndham, 900 Hamlin Court, Sunnyvale, California 94086 on \_\_\_\_\_ at \_\_\_\_\_ a.m., local time, for the following purposes:

1. to approve the issuance of shares of Intuitive Surgical common stock, par value \$0.001 per share, pursuant to the Agreement and Plan of Merger, dated as of March 7, 2003, by and among Intuitive Surgical, Intuitive Merger Corporation, which is a wholly owned subsidiary of Intuitive Surgical, and Computer Motion, Inc.;
2. to approve an amendment to Intuitive Surgical's Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split of Intuitive Surgical's common stock;
3. to elect three Class III members of the board of directors of Intuitive Surgical to serve until the annual meeting of stockholders of Intuitive Surgical to be held in 2006 and until their successors are elected and qualified;
4. to approve an amendment to Intuitive Surgical's 2000 Non-Employee Directors' Stock Option Plan to increase the annual stock option grant for non-employee directors from 5,000 to 10,000 shares, to provide for an additional annual grant of options to purchase 5,000 shares to committee chairs and to amend the automatic share increase provision, subject to adjustment in the event that the proposed reverse stock split is approved by Intuitive Surgical's stockholders and implemented by Intuitive Surgical's board of directors;
5. to ratify the selection of Ernst & Young LLP as the independent auditors of Intuitive Surgical for the current fiscal year ending December 31, 2003; and
6. to transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

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

Stockholders of record at the close of business on \_\_\_\_\_, which we refer to as the record date, are entitled to notice of, and to vote at, the annual meeting or any adjournment or postponement of the annual meeting. Directors and executive officers of Intuitive Surgical owning Intuitive Surgical common stock representing approximately 7% of the Intuitive Surgical common stock outstanding as of the record date have agreed to vote their shares in favor of the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement.

The board of directors of Intuitive Surgical unanimously recommends that you vote **FOR** the proposal to approve the issuance of Intuitive Surgical common stock pursuant to the merger agreement, **FOR** the proposal to approve the amendment to Intuitive Surgical's Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split of Intuitive Surgical's common stock, **FOR** the nominees to the board of directors listed in this joint proxy statement/prospectus, **FOR** the proposal to approve the amendment to Intuitive Surgical's 2000 Non-Employee Directors' Stock Option Plan and **FOR** the proposal to ratify Ernst & Young LLP as the independent auditors of Intuitive Surgical for the current fiscal year ending December 31, 2003.

The presence, in person or by proxy, of shares of Intuitive Surgical common stock representing a majority of shares of Intuitive Surgical common stock issued and outstanding on the record date will be required to establish a quorum at the annual meeting. Approval of the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement requires the affirmative vote of a majority of the total votes cast at the annual meeting by holders of Intuitive Surgical's common stock outstanding as of the record date. Approval of the proposal to amend Intuitive Surgical's Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split requires the affirmative vote of a majority of the shares of Intuitive Surgical common stock outstanding as of the record date. The candidates for director receiving the highest

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number of votes, up to the number of directors to be elected, will be elected to Intuitive Surgical's board of directors. Approval of the proposal to amend Intuitive Surgical's 2000 Non-Employee Directors' Stock Option Plan and the proposal to ratify Ernst & Young LLP as the independent auditors of Intuitive Surgical for the current fiscal year ending December 31, 2003 requires the affirmative vote of a majority of the shares of Intuitive Surgical common stock represented and entitled to vote at the annual meeting.

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

By Order of the Board of Directors,

LONNIE M. SMITH

*President and Chief Executive Officer*

, 2003

**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.**

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**COMPUTER MOTION, INC.**

130-B Cremona Drive  
Goleta, California 93117

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**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
TO BE HELD ON \_\_\_\_\_, 2003**

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To the Stockholders of Computer Motion, Inc.:

NOTICE IS HEREBY GIVEN that a special meeting of stockholders of Computer Motion, Inc. will be held at its corporate headquarters, 130-B Cremona Drive, Goleta, California 93117 on \_\_\_\_\_ at \_\_\_\_\_ a.m., local time, for the following purposes:

1. to approve and adopt the Agreement and Plan of Merger, dated as of March 7, 2003, by and among Intuitive Surgical, Inc., Intuitive Merger Corporation, which is a wholly owned subsidiary of Intuitive Surgical, and Computer Motion; and
2. to transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

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

Stockholders of record at the close of business on \_\_\_\_\_, which we refer to as the record date, are entitled to notice of, and to vote at, the special meeting or any adjournment or postponement of the special meeting. Directors and executive officers of Computer Motion owning Computer Motion common and preferred stock representing approximately 14% of the voting power of the Computer Motion common and preferred stock outstanding as of the record date have agreed to vote their shares in favor of the proposal to approve and adopt the merger agreement.

The board of directors of Computer Motion recommends that you vote **FOR** the proposal to approve and adopt the merger agreement.

The presence, in person or by proxy, of a majority of the votes of outstanding shares of Computer Motion common stock and preferred stock entitled to vote will be required to establish a quorum at the Computer Motion special meeting. The affirmative vote of the holders of a majority of the votes of the outstanding shares of Computer Motion common stock and preferred stock, voting together as a single class, is required to approve and adopt the merger agreement.

Your vote is important. Please sign, date and return the enclosed proxy card as soon as possible to make sure that your shares are represented at the special meeting. To do so, you may complete and return the enclosed proxy card. If you are a stockholder of record of Computer Motion common or preferred stock, you also may cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct it on how to vote your shares. If you do not vote or do not instruct your broker or bank how to vote, it will have the same effect as voting against the proposal to approve and adopt the merger agreement.

**Please do not send any certificates representing your Computer Motion common stock at this time.**

By Order of the Board of Directors,

LARRY REDFERN  
*Secretary*

, 2003

**Please note that attendance at the special meeting will be limited to stockholders as of the record date, or their authorized representatives, and guests of Computer Motion.**

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**ADDITIONAL INFORMATION**

This joint proxy statement/prospectus incorporates important business and financial information about Intuitive Surgical and Computer Motion from other documents that are not included in or delivered with this joint proxy statement/prospectus. For a listing of the documents incorporated by reference into this joint proxy statement/prospectus, please see the section entitled "Where You Can Find More Information."

Intuitive Surgical will provide you with copies of the information relating to Intuitive Surgical, without charge, upon written or oral request to:

Intuitive Surgical, Inc.  
950 Kifer Road  
Sunnyvale, California 94086  
(408) 523-2100  
Attention: Investor Relations

In addition, you may obtain copies of the information relating to Intuitive Surgical, without charge, by sending an e-mail to [ir@intusurg.com](mailto:ir@intusurg.com). Furthermore, you may obtain copies of this information by making a request through the Intuitive Surgical investor relations web site, [www.intuitivesurgical.com](http://www.intuitivesurgical.com).

Computer Motion will provide you with copies of the information relating to Computer Motion, without charge, upon written or oral request to:

Computer Motion, Inc.  
130-B Cremona Drive  
Goleta, California 93117  
(805) 968-9600  
Attention: Investor Relations

In addition, you may obtain copies of the information relating to Computer Motion, without charge, by sending an e-mail to [ir@computermotion.com](mailto:ir@computermotion.com). Furthermore, you may obtain copies of this information by making a request through the Computer Motion investor relations web site, [www.computermotion.com](http://www.computermotion.com).

**In order for you to receive timely delivery of the documents in advance of the Intuitive Surgical and Computer Motion stockholder meetings, Intuitive Surgical or Computer Motion should receive your request no later than \_\_\_\_\_, 2003.**

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**QUESTIONS AND ANSWERS**

**Q: Why am I receiving this joint proxy statement/prospectus?**

**A:** Intuitive Surgical and Computer Motion have agreed to combine pursuant to the terms of a merger agreement that is described in this joint proxy statement/prospectus. A copy of the merger agreement is attached to this joint proxy statement/prospectus as Annex A. In order to complete the merger, Intuitive Surgical stockholders must vote to approve the issuance of shares of Intuitive Surgical common stock pursuant to the merger agreement and Computer Motion stockholders must vote to approve and adopt the merger agreement.

Intuitive Surgical and Computer Motion will hold separate meetings of their respective stockholders to obtain these approvals. In addition to the proposal to issue shares of Intuitive common stock pursuant to the merger agreement, Intuitive Surgical stockholders will also be asked

to approve an amendment to Intuitive Surgical's Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split;

to elect three Class III members of Intuitive Surgical's board of directors;

to approve an amendment to Intuitive Surgical's 2000 Non-Employee Directors' Stock Plan to increase the annual stock option grant for non-employee directors, to provide for an additional annual grant of options to committee chairs and to amend the automatic share increase provision; and

to ratify the selection of Ernst & Young LLP as Intuitive Surgical's independent auditors for the current fiscal year ending December 31, 2003.

This joint proxy statement/prospectus contains important information about the merger, the additional proposals to be considered by the stockholders of Intuitive Surgical and the stockholder meetings of Intuitive Surgical and Computer Motion, and you should read it carefully.

The enclosed voting materials allow you to vote your shares without attending your stockholder meeting.

Your vote is important. We encourage you to vote as soon as possible.

**Q: Why are Intuitive Surgical and Computer Motion proposing the merger?**

**A:** We believe that the merger will provide substantial strategic and financial benefits to the stockholders of both companies. We believe that the combination will create a stronger and more competitive company that will be able to better serve the surgical community. We are proposing the merger because we believe it will benefit the stockholders of both companies by combining the strengths of the companies in operative surgical robotics, telesurgery and operating room integration to better serve hospitals, doctors and patients. The merger will also result in the dismissal of the pending patent litigations between Intuitive Surgical and Computer Motion. To review the reasons for the merger in greater detail, please see [The Merger Reasons For the Merger Intuitive Surgical](#) and [The Merger Reasons For the Merger Computer Motion](#).

**Q: What will happen in the merger?**

**A:** The businesses of Intuitive Surgical and Computer Motion will be combined in a stock-for-stock transaction. At the closing, a newly formed, wholly owned subsidiary of Intuitive Surgical will merge with Computer Motion, with Computer Motion surviving the merger as a wholly owned subsidiary of Intuitive Surgical. In exchange for their shares of Computer Motion stock, the former stockholders of Computer Motion will receive shares of Intuitive Surgical common stock.

**Q: What will I receive for my Computer Motion shares in the merger?**

**A:** Upon completion of the merger, Computer Motion stockholders will be entitled to receive a fraction of a share of Intuitive Surgical common stock for each share of Computer Motion common stock owned as of the effective time of the merger. The fraction of a share of Intuitive Surgical common stock to be issued with respect to each share of Computer Motion common stock will be determined by a formula described in the merger agreement



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and this joint proxy statement/prospectus. Based on the capitalization of Intuitive Surgical and Computer Motion and the market price of Computer Motion common stock as of the date of this joint proxy statement/prospectus and assuming that the merger is completed on June 20, 2003, we estimate that the exchange ratio will be approximately 0.52. The exchange ratio will be adjusted proportionately in the event that the proposed reverse split of Intuitive Surgical's common stock is approved by Intuitive Surgical's stockholders and implemented by Intuitive Surgical's board of directors.

The final exchange ratio will be calculated based on the total number of fully diluted shares outstanding for Intuitive Surgical and Computer Motion (including out-of-the-money options and warrants for both companies) immediately prior to the effective time of the merger. The number of Computer Motion's fully diluted shares will vary based on the number of shares of Computer Motion common stock into which Computer Motion's Series D convertible preferred stock will be convertible and the number of shares of Computer Motion common stock which may be issued to pay accrued dividends on the Series D convertible preferred stock upon conversion. All shares of Computer Motion Series D convertible preferred stock will convert into shares of Computer Motion common stock immediately prior to the effective time of the merger. Under the terms of the Series D convertible preferred stock, in the event that the average of the closing bid prices of Computer Motion's common stock for the 20 consecutive trading days ending 15 days prior to the Computer Motion special meeting is below \$1.86 per share, the conversion ratio for Computer Motion's Series D convertible preferred stock could increase. As a result, the exchange ratio in the merger may decrease and, therefore, Computer Motion common stockholders would receive a lesser number of Intuitive Surgical shares, and Computer Motion preferred stockholders would receive a greater number of Intuitive Surgical shares, in the merger. After \_\_\_\_\_, 2003, stockholders may visit Intuitive Surgical's website, [www.intuitivesurgical.com](http://www.intuitivesurgical.com), or Computer Motion's website, [www.computermotion.com](http://www.computermotion.com), for announcements regarding the exchange ratio. Computer Motion stockholders will receive cash in lieu of any fractional share of Intuitive Surgical common stock. Please see The Merger Agreement The Merger Consideration and Conversion of Securities.

Based on the estimated exchange ratio of approximately 0.52, we estimate that, on a pre-reverse split basis, Intuitive Surgical will issue approximately 14.7 million shares of Intuitive Surgical common stock in the merger and reserve approximately 5.7 million shares of Intuitive Surgical common stock for future issuance in connection with Intuitive Surgical's assumption of Computer Motion's outstanding options and warrants (including out-of-the-money options and warrants).

**Q: What will happen to the pending litigations between Intuitive Surgical and Computer Motion?**

**A:** In connection with the proposed merger, Intuitive Surgical and Computer Motion have obtained an immediate stay through August 31, 2003 of all proceedings in the pending litigation proceedings between the companies. As part of the stays, the courts have ceased all further activity in the cases during the period of stays and will not issue any opinions or orders on issues already submitted for decision. The stays may be terminated before, or extended beyond, August 31, 2003 under specified circumstances. In the event the merger is completed, Intuitive Surgical and Computer Motion will request dismissal with prejudice of the pending litigations.

**Q: Why is Intuitive Surgical proposing to amend its Amended and Restated Certificate of Incorporation?**

**A:** The board of directors of Intuitive Surgical believes that it is in the best interests of Intuitive Surgical to effect a 1-for-2 reverse split of Intuitive Surgical's common stock. The reverse stock split is intended to increase the marketability and liquidity of Intuitive Surgical's common stock. The Amended and Restated Certificate of Incorporation of Intuitive Surgical is being amended to effect the reverse stock split.

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**Q: Who has been nominated for election to the board of directors of Intuitive Surgical?**

**A:** The board of directors of Intuitive Surgical has nominated James A. Lawrence, Lonnie M. Smith and Richard J. Kramer, each of whom is a current director of Intuitive Surgical, for election to the board of directors. In addition, upon completion of the merger, the size of Intuitive Surgical's board of directors will be increased to nine and Robert W. Duggan, Computer Motion's Chairman and Chief Executive Officer, and Eric H. Halvorson, a member of Computer Motion's board of directors, will be appointed to Intuitive Surgical's board of directors.

**Q: Why is Intuitive Surgical proposing to amend its 2000 Non-Employee Directors' Stock Option Plan?**

**A:** Intuitive Surgical is proposing to amend its 2000 Non-Employee Directors' Stock Option Plan to increase the annual stock option grant for non-employee directors from 5,000 to 10,000 shares, to provide for an additional annual grant of options to purchase 5,000 shares to committee chairs and to amend the automatic share increase provision. These share amounts will be reduced proportionately in the event that the proposed reverse split of Intuitive Surgical's common stock is approved by Intuitive Surgical's stockholders and implemented by Intuitive Surgical's board of directors.

**Q: Where and when are the stockholder meetings?**

**A:** The Intuitive Surgical annual meeting will take place at the Summerfield Suites by Wyndham, 900 Hamlin Court, Sunnyvale, California 94086, on \_\_\_\_\_, 2003, at \_\_\_\_\_ a.m., local time.  
The Computer Motion special meeting will take place at corporate headquarters, 130-B Cremona Drive, Goleta, California, 93117 on \_\_\_\_\_, 2003 at \_\_\_\_\_ a.m., local time.

**Q: What vote of Intuitive Surgical stockholders is required to approve the proposals?**

**A:** Approval of the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement requires the affirmative vote of a majority of the total votes cast at the annual meeting by holders of Intuitive Surgical's common stock outstanding as of the record date. Directors and executive officers of Intuitive Surgical owning Intuitive Surgical common stock representing approximately 7% of the shares of Intuitive Surgical common stock outstanding as of the record date have agreed to vote their shares in favor of the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement.

Approval of the proposal to amend Intuitive Surgical's Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split requires the affirmative vote of a majority of the shares of Intuitive Surgical common stock outstanding as of the record date. The candidates for director receiving the highest number of votes, up to the number of directors to be elected, will be elected to Intuitive Surgical's board of directors. Approval of the proposal to amend Intuitive Surgical's 2000 Non-Employee Directors' Stock Option Plan to increase the annual stock option grant for non-employee directors, to provide for an additional annual grant of options to committee chairs and to amend the automatic share increase provision and the proposal to ratify Ernst & Young LLP as the independent auditors of Intuitive Surgical for the current fiscal year ending December 31, 2003 requires the affirmative vote of a majority of the shares of Intuitive Surgical common stock represented and entitled to vote at the annual meeting.

**Q: What vote of Computer Motion stockholders is required to approve and adopt the merger agreement?**

**A:** The affirmative vote of the holders of a majority of the votes of outstanding shares of Computer Motion common stock and preferred stock, voting together as a single class, is required to approve and adopt the merger agreement. Each Computer Motion stockholder is entitled to one vote for each share of common stock held by such stockholder and 1,000 votes for each share of Series D convertible preferred stock held by such stockholder. Directors and executive officers of Computer Motion owning Computer Motion common

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and preferred stock representing approximately 14% of the voting power of the Computer Motion common and preferred stock outstanding as of the record date have agreed to vote their shares in favor of the approval and adoption of the merger agreement.

**Q: How does my company's board of directors recommend that I vote?**

**A:** Intuitive Surgical's board of directors unanimously recommends that Intuitive Surgical stockholders vote **FOR** the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement, **FOR** the proposal to approve the amendment to Intuitive Surgical's Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split of Intuitive Surgical's common stock, **FOR** the nominees to the board of directors listed in this joint proxy statement/prospectus, **FOR** the proposal to approve the amendment to the 2000 Non-Employee Directors' Stock Option Plan to increase the annual stock option grant for non-employee directors, to provide for an additional annual grant of options to committee chairs and to amend the automatic share increase provision and **FOR** the proposal to ratify Ernst & Young LLP as the independent auditors of Intuitive Surgical for the current fiscal year ending December 31, 2003. For a more complete description of the recommendation of Intuitive Surgical's board of directors regarding the issuance of Intuitive Surgical common stock pursuant to the merger agreement, please see *The Merger Reasons For the Merger Intuitive Surgical*.

Computer Motion's board of directors unanimously recommends that Computer Motion stockholders vote **FOR** the proposal to approve and adopt the merger agreement. For a more complete description of the recommendation of Computer Motion's board of directors, please see *The Merger Reasons For the Merger Computer Motion*.

**Q: What do I do now?**

**A:** Carefully read and consider the information contained in this joint proxy statement/prospectus, including its appendices. There are several ways your shares can be represented at your stockholder meeting. You can attend your stockholder meeting in person or you can indicate on the enclosed proxy card how you want to vote and return it in the accompanying pre-addressed postage paid envelope. If you sign and send in your proxy but do not indicate how you want to vote, your proxy will be counted as a vote in favor of the proposals.

**Q: How do I cast my vote?**

**A:** If you are a holder of record, you may vote in person at your stockholder meeting or by submitting a proxy for your stockholder meeting. You can submit your proxy by completing, signing, dating and returning the enclosed proxy card in the accompanying pre-addressed postage paid envelope.

**Q: If my broker holds my shares in street name, will my broker vote my shares?**

**A:** If you hold your shares in a stock brokerage account or if your shares are held by a bank or nominee (*i.e.*, in street name), you should provide the record holder of your shares with instructions on how to vote your shares. Please refer to the voting instruction card used by your broker or nominee to see if you may submit voting instructions by telephone.

**Q: Can I change my vote after I have delivered my proxy?**

**A:** Yes. You can change your vote at any time before your proxy is voted at your stockholder meeting. You can do this in one of three ways: (1) you can send a signed notice of revocation; (2) you can grant a new, valid proxy; or (3) if you are a holder of record, you can attend your stockholder meeting and vote in person; however, your attendance alone will not revoke your proxy. If you choose either of the first two methods, you must submit your notice of revocation or your new proxy to the Secretary of Intuitive Surgical or Computer Motion, as appropriate, before the applicable stockholder meeting. However, if your shares are held in a street name account at a brokerage firm or bank, you should contact your brokerage firm or bank to change your vote.

**Q: What will happen if I abstain from voting?**

**A:** In the case of Intuitive Surgical, abstentions will be counted as shares that are present and entitled to vote for purposes of determining the

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presence of a quorum at the annual meeting. Abstentions (1) will have the same effect as voting against the proposal to approve the amendment to Intuitive Surgical's Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split and (2) will not have any impact on approval of the proposal to issue Intuitive Surgical common stock pursuant to the merger agreement or any of the other proposals.

In the case of Computer Motion, abstentions will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum at the special meeting. Abstentions will have the same effect as voting against the proposal to approve and adopt the merger agreement.

**Q: Should I send in my Computer Motion stock certificates now?**

**A:** No. After the merger is completed, you will receive written instructions from the exchange agent on how to exchange your Computer Motion stock certificates for Intuitive Surgical stock certificates. **Please do not send in your Computer Motion stock certificates with your proxy.**

**Q: What should I do if I receive more than one set of voting materials?**

**A:** You may receive more than one set of voting materials, including multiple copies of this joint proxy statement/prospectus and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a holder of record and your shares are registered in more than one name, you will receive more than one proxy card. In addition, if you are a stockholder of Intuitive Surgical and a stockholder of Computer Motion, you will receive one or more separate proxy cards or voting instruction cards for each company. Please complete, sign, date and return each proxy card and voting instruction card that you receive.

**Q: When do you expect the merger to be completed?**

**A:** We are working to complete the merger as quickly as practicable. We currently expect to complete the merger in the second quarter of 2003. However, we cannot predict the exact timing of the completion of the merger.

**Q: What rights do I have to seek a valuation or appraisal of my shares?**

**A:** Neither Intuitive Surgical stockholders nor Computer Motion stockholders will have appraisal rights in connection with the proposals to be voted on.

**Q: What are the expected United States federal income tax consequences of the transaction?**

**A:** The merger has been structured to qualify as a reorganization for U.S. federal income tax purposes. Assuming that the merger so qualifies, then, in general, Computer Motion stockholders will not recognize gain or loss for U.S. federal income tax purposes as a result of the merger, except that Computer Motion stockholders will recognize gain or loss with respect to any cash they receive in lieu of a fractional share of Intuitive Surgical common stock upon completion of the merger. No gain or loss will be recognized by Intuitive Surgical stockholders as a result of the merger.

**Q: Who can help answer my questions?**

**A:** Intuitive Surgical stockholders who have any questions about the merger or how to submit a proxy, or that need additional copies of this joint proxy statement/prospectus or the enclosed proxy card or voting instructions, should contact Investor Relations, Intuitive Surgical, Inc., 950 Kifer Road, Sunnyvale, California 94086, Telephone (408) 523-2100 or ir@intusurg.com.

Computer Motion stockholders who have any questions about the merger or how to submit a proxy, or that need additional copies of this joint proxy statement/prospectus or the enclosed proxy card or voting instructions, should contact Investor Relations, Computer Motion, Inc., 130-B Cremona Drive, Goleta, California 93117, Telephone (805) 968-9600 or ir@computeremotion.com.

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**SUMMARY**

*The following is a summary of information contained in this joint proxy statement/prospectus. This summary may not contain all of the information about the merger or the other proposals to be considered by the stockholders of Intuitive Surgical that is important to you. For a more complete description of the merger and the other proposals to be considered by the stockholders of Intuitive Surgical, we encourage you to read carefully this entire joint proxy statement/prospectus, including the attached annexes. In addition, we encourage you to read the information incorporated by reference into this joint proxy statement/prospectus, which includes important business and financial information about Intuitive Surgical and Computer Motion that each has filed with the Securities and Exchange Commission, or the SEC. You may obtain the information incorporated by reference into this joint proxy statement/prospectus without charge by following the instructions in the section entitled Where You Can Find More Information.*

**The Companies**

Intuitive Surgical, Inc.  
950 Kifer Road  
Sunnyvale, California 94086  
(408) 523-2100

Intuitive Surgical designs, manufactures and markets the *da Vinci* Surgical System, an advanced surgical system that Intuitive Surgical believes represents a new generation of surgery – the third generation. Intuitive Surgical believes that this new generation of surgery, referred to as *Intuitive* surgery, is a revolutionary advance similar in scope to the previous two generations of surgery – open surgery and minimally invasive surgery, or MIS. Intuitive Surgical’s *da Vinci* Surgical System consists of a surgeon’s console, a patient side-cart, a high performance vision system and proprietary wristed instruments. By placing computer-enhanced technology between the surgeon and patient, Intuitive Surgical believes that its system enables surgeons to perform better surgery in a manner never before experienced. The *da Vinci* Surgical System seamlessly translates the surgeon’s natural hand movements on instrument controls at a console into corresponding micro-movements of instruments positioned inside the patient through small puncture incisions, or ports. The *da Vinci* Surgical System provides the surgeon with the intuitive control, range of motion, fine tissue manipulation capability and 3-D visualization characteristic of open surgery, while simultaneously allowing the surgeon to work through the small ports of MIS.

Computer Motion, Inc.  
130-B Cremona Drive  
Goleta, California 93117  
(805) 968-9600

Computer Motion is a high-tech medical device company developing surgical practices with the goal of ushering in a new era of patient and physician friendly surgery. This new era is expected to significantly reduce patient trauma and recovery time and to dramatically reduce the learning curves of surgeons adapting these new, less invasive techniques. Computer Motion’s products automate operating room tasks and simplify various aspects of surgical procedures, reducing operating cost and time. Computer Motion’s products, including surgeon training and education services, play a significant role in transitioning the surgical community from open procedures to less invasive procedures increasingly demanded by patients. Computer Motion’s products have been successfully used across a broad range of surgical disciplines, including cardiac, urology, pediatrics, bariatrics and general surgery.

Computer Motion develops and markets robotic and computerized surgical systems that are upgradeable and based on an open system platform, which allows for networking of the entire operating room. These systems enhance a surgeon’s performance and centralize and simplify a surgeon’s control of the operating room. Computer Motion’s products provide surgeons with the natural functionality necessary to perform complex MIS procedures, as well as enable surgeons to control critical devices in the operating room through simple verbal commands. Computer Motion believes its products will broaden the scope and increase the effectiveness of MIS, improve patient outcomes and create a safer, more efficient and cost-effective operating room.

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### **The Merger**

Intuitive Surgical and Computer Motion have agreed to the combination of Intuitive Surgical and Computer Motion under the terms of the merger agreement described in this joint proxy statement/prospectus. We have attached the merger agreement as Annex A to this joint proxy statement/prospectus. We encourage you to read the merger agreement in its entirety.

Under the terms of the merger agreement, Intuitive Merger Corporation, a newly formed subsidiary of Intuitive Surgical, will merge with and into Computer Motion, with Computer Motion surviving the merger and continuing as a wholly owned subsidiary of Intuitive Surgical. Upon completion of the merger, each share of Computer Motion common stock will be converted into the right to receive a fraction of a share of Intuitive Surgical common stock. The fraction of a share of Intuitive Surgical common stock to be issued with respect to each share of Computer Motion common stock will be determined by a formula described in the merger agreement and this joint proxy statement/prospectus. Based on the capitalization of Intuitive Surgical and Computer Motion and the market price of Computer Motion common stock as of the date of this joint proxy statement/prospectus and assuming that the merger is completed on June 20, 2003, we estimate that the exchange ratio will be approximately 0.52. The exchange ratio will be adjusted proportionately in the event that the proposed reverse split of Intuitive Surgical's common stock is approved by Intuitive Surgical's stockholders and implemented by Intuitive Surgical's board of directors.

The final exchange ratio will be calculated based on the total number of fully diluted shares outstanding for Intuitive Surgical and Computer Motion immediately prior to the effective time of the merger. The number of Computer Motion's fully diluted shares will vary based on the number of shares of Computer Motion common stock into which Computer Motion's Series D convertible preferred stock will be convertible and the number of shares of Computer Motion common stock which may be issued to pay accrued dividends on the Series D convertible preferred stock upon conversion. All shares of Computer Motion Series D convertible preferred stock will convert into shares of Computer Motion common stock immediately prior to the effective time of the merger. Under the terms of the Series D convertible preferred stock, in the event that the average of the closing bid prices of Computer Motion's common stock for the 20 consecutive trading days ending 15 days prior to the Computer Motion special meeting is below \$1.86 per share, the conversion ratio for Computer Motion's Series D convertible preferred stock could increase. As a result, the exchange ratio in the merger may decrease and, therefore, Computer Motion common stockholders would receive a lesser number of Intuitive Surgical shares, and Computer Motion preferred stockholders would receive a greater number of Intuitive Surgical shares, in the merger. After \_\_\_\_\_, 2003, stockholders may visit Intuitive Surgical's website, [www.intuitivesurgical.com](http://www.intuitivesurgical.com), or Computer Motion's website, [www.computermotion.com](http://www.computermotion.com), for announcements regarding the exchange ratio. Computer Motion stockholders will receive cash in lieu of any fractional shares of Intuitive Surgical common stock. Please see The Merger Agreement The Merger Consideration and Conversion of Securities.

Based on the estimated exchange ratio of approximately 0.52, we estimate that, on a pre-reverse split basis, Intuitive Surgical will issue approximately 14.7 million shares of Intuitive Surgical common stock in the merger and reserve approximately 5.7 million shares of Intuitive Surgical common stock for future issuance in connection with Intuitive Surgical's assumption of Computer Motion's outstanding options and warrants (including out-of-the-money options and warrants).

In connection with the proposed merger, Intuitive Surgical and Computer Motion have obtained an immediate stay through August 31, 2003 of all proceedings in the pending litigations between the companies. As part of the stays, the courts have ceased all further activity in the cases during the period of stays and will not issue any opinions or orders on issues already submitted for decision. The stays may be terminated before, or extended beyond, August 31, 2003 under specified circumstances. In the event the merger is completed, Intuitive Surgical and Computer Motion will request dismissal with prejudice of the pending litigations.

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### **Recommendations of the Boards of Directors**

Intuitive Surgical's board of directors believes that the merger is advisable and fair to and in the best interests of Intuitive Surgical and its stockholders and unanimously recommends that Intuitive Surgical stockholders vote **FOR** the proposal to issue Intuitive Surgical common stock pursuant to the merger agreement.

Computer Motion's board of directors believes that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable and fair to and in the best interests of Computer Motion and its stockholders, and recommends that Computer Motion stockholders vote **FOR** the proposal to approve and adopt the merger agreement.

### **Stockholders Entitled to Vote; Vote Required in Connection with the Merger Proposals**

You can vote at the Intuitive Surgical annual meeting if you owned Intuitive Surgical common stock at the close of business on \_\_\_\_\_, 2003, the record date for the Intuitive Surgical annual meeting. On that date, there were \_\_\_\_\_ shares of Intuitive Surgical common stock outstanding and entitled to vote. You can cast one vote for each share of Intuitive Surgical common stock that you owned on that date. Approval of the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement requires the affirmative vote of a majority of the total votes cast at the annual meeting by holders of Intuitive Surgical's common stock outstanding as of the record date.

You can vote at the Computer Motion special meeting if you owned Computer Motion common stock or preferred stock at the close of business on \_\_\_\_\_, 2003, the record date for the Computer Motion special meeting. On that date, there were \_\_\_\_\_ shares of Computer Motion common stock outstanding and entitled to vote and 8,797 shares of Computer Motion Series D convertible preferred stock outstanding and entitled to vote. Holders of Computer Motion common stock are entitled to one vote for each share of Computer Motion common stock owned on the record date, and holders of Computer Motion Series D convertible preferred stock are entitled to 1,000 votes for each share of Computer Motion Series D convertible preferred stock owned on that date. Approval and adoption of the merger agreement requires the affirmative vote of a majority of the votes of outstanding shares of Computer Motion common stock and preferred stock, voting together as a single class, at the Computer Motion special meeting.

### **Stockholder Support Agreements**

Intuitive Surgical has entered into a stockholder support agreements with directors and executive officers of Intuitive Surgical owning Intuitive Surgical common stock representing approximately 7% of the shares of Intuitive Surgical common stock outstanding as of the record date, pursuant to which these stockholders agreed to vote their shares in favor of the proposal to issue Intuitive Surgical common stock pursuant to the merger agreement. This stockholder support agreement is attached to this joint proxy statement/prospectus as Annex B.

Intuitive Surgical has entered into stockholder support agreements with directors and executive officers of Computer Motion owning Computer Motion common and preferred stock representing approximately 14% of the voting power of the Computer Motion common and preferred stock outstanding as of the record date, pursuant to which these stockholders agreed to vote their shares in favor of proposal to approve and adopt the merger agreement. The form of these stockholder support agreements is attached to this joint proxy statement/prospectus as Annex C.

### **Opinion of Bear Stearns to Intuitive Surgical**

On March 6, 2003, Bear, Stearns & Co. Inc. delivered its oral opinion to Intuitive Surgical's board of directors, which was subsequently confirmed by delivery of a written opinion dated as of March 6, 2003, based upon and subject to the factors and assumptions set forth in the opinion, as to the fairness, from a financial point of view, to Intuitive Surgical of the exchange ratio in the merger. The full text of Bear, Stearns & Co. Inc.'s written opinion is attached to this joint proxy statement/prospectus as Annex D. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. Bear, Stearns & Co. Inc.'s opinion is directed to Intuitive Surgical's board of directors and does not constitute a recommendation to any stockholder as to any matters relating to the merger.





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### **Opinion of H.C. Wainwright to Computer Motion**

On March 5, 2003, H.C. Wainwright & Co., Inc. delivered to Computer Motion's board of directors its oral opinion, which was subsequently confirmed by delivery of a written opinion dated March 5, 2003, that, as of that date, and based upon and subject to the factors and assumptions set forth in the opinion, the merger consideration to be received by the holders of the shares of Computer Motion common stock pursuant to the merger was fair to these holders, from a financial point of view. The full text of H.C. Wainwright's written opinion is attached to this joint proxy statement/prospectus as Annex E. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. H.C. Wainwright's opinion is directed to Computer Motion's board of directors and does not constitute a recommendation to any stockholder as to any matters relating to the merger.

### **Ownership of the Combined Company after the Merger**

Based on the estimated exchange ratio of approximately 0.52, we estimate that, on a pre-reverse split basis, Intuitive Surgical will issue approximately 14.7 million shares of Intuitive Surgical common stock in the merger and reserve an additional approximately 5.7 million shares of Intuitive Surgical common stock for future issuance in connection with Intuitive Surgical's assumption of Computer Motion's outstanding options and warrants (including out-of-the-money options and warrants). Based on the estimated exchange ratio of approximately 0.52, we further estimate that, upon completion of the merger, current Intuitive Surgical stockholders will own approximately 72% of the then outstanding shares of Intuitive Surgical common stock and former Computer Motion stockholders will own approximately 28% of the then outstanding shares of Intuitive Surgical common stock.

### **Loan and Security Agreement**

In connection with the merger agreement, Intuitive Surgical has agreed to provide a short-term secured bridge loan facility of up to \$7.3 million to Computer Motion. Computer Motion may use the facility to pay off existing indebtedness and to fund operations prior to completion of the merger. The facility will terminate and all outstanding amounts thereunder will become due and payable 120 days following termination of the merger agreement, subject to specified acceleration events. Interest on the facility will be payable at a rate equal to 8% per year and is not due and payable until the maturity date. As of the date of this joint proxy statement/prospectus, \$ \_\_\_\_\_ million is outstanding under this facility.

### **Interests of Directors and Executive Officers of Computer Motion in the Merger**

When considering the Computer Motion board of directors' recommendation that the Computer Motion stockholders vote **FOR** the proposal to approve and adopt the merger agreement, Computer Motion stockholders should be aware that some directors and executive officers of Computer Motion may have interests in the merger that may be different from, or in addition to, the interests of Computer Motion stockholders.

The Computer Motion board of directors knew about these additional interests, and considered them, among other matters, when it approved the merger agreement. These interests include the following:

the employment of Joseph M. DeVivo as Senior Vice President, Marketing of Intuitive Surgical upon completion of the merger;

the employment of Darrin R. Uecker as Vice President and Chief Technical Officer of Intuitive Surgical upon completion of the merger;

the appointment of Robert W. Duggan and Eric H. Halvorson to serve as members of Intuitive Surgical's board of directors;

approximately 82% of the stock options held by Computer Motion executive officers and directors will accelerate upon completion of the merger and all stock options will be assumed by Intuitive Surgical in connection with the merger;

indemnification provided to the present and former executive officers and directors of Computer Motion;

Series C convertible preferred stock of Computer Motion held by, among others,



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Mr. Duggan, Mr. DeVivo and an investment fund affiliated with Robert W. Lautz, a former director of Computer Motion, was exchanged for newly-issued Series D convertible preferred stock having revised conversion rights in connection with the merger;

the reduction in the exercise prices of certain outstanding warrants to purchase Computer Motion common stock originally issued to investors in Computer Motion's Series C convertible preferred stock financing, including Mr. Duggan, Mr. DeVivo and an investment fund affiliated with Mr. Lautz, to induce the Series C investors to exchange their shares for newly issued Series D convertible preferred stock; and

a cash payment to be received prior to the effective time of the merger by the investment fund affiliated with Mr. Lautz to induce the investment fund to exchange its shares for newly issued Series D convertible preferred stock.

### **Listing of Intuitive Surgical Common Stock and Delisting of Computer Motion Common Stock**

Application will be made to have the Intuitive Surgical common stock issued in connection with the merger approved for listing on the Nasdaq National Market, where Intuitive Surgical common stock currently is traded under the symbol ISRG. If the merger is completed, Computer Motion common stock will no longer be listed on the Nasdaq National Market and will be deregistered under the Securities Exchange Act of 1934, and Computer Motion will no longer file periodic reports with the SEC.

### **Appraisal Rights**

Neither Intuitive Surgical stockholders nor Computer Motion stockholders will have appraisal rights in connection with the merger.

### **Conditions to Completion of the Merger**

In order to complete the merger, we must satisfy a number of conditions, including but not limited to the following:

the registration statement of which this joint proxy statement/prospectus forms a part must have been declared effective by the SEC and must not be the subject of any stop order or related proceedings;

Computer Motion stockholders must approve the proposal to approve and adopt the merger agreement;

Intuitive Surgical's stockholders must approve the proposal to issue Intuitive Surgical common stock pursuant to the merger agreement;

the shares of Intuitive Surgical common stock issuable in the merger must be approved for listing on Nasdaq;

there must be no material adverse change to Computer Motion's business that arises out of or relates to Computer Motion's intellectual property or capitalization or the incurrence by Computer Motion of any liability or obligation; and

each of the patent litigation stays remain in full force and effect.

### **No Solicitation by Computer Motion**

The merger agreement contains detailed provisions restricting Computer Motion from seeking an alternative transaction with another party. These no solicitation provisions prohibit Computer Motion, as well as its officers, directors, subsidiaries and representatives, from taking any action to solicit an acquisition proposal from another party. The merger agreement does not, however, prohibit Computer Motion or its board of directors from considering, and potentially recommending, an unsolicited bona fide superior written proposal under limited circumstances.

### **Termination of the Merger Agreement**

Intuitive Surgical and Computer Motion can jointly agree to terminate the merger agreement at any given time. Either company may also terminate the merger agreement if the merger is not completed by August 31, 2003 and under other circumstances described in this joint proxy statement/prospectus.

**Termination Fee and Expenses**

The merger agreement provides that, under specified circumstances, Intuitive Surgical or Computer Motion may be required to pay a termination fee and expenses of the other party in an aggregate amount of up to \$2.5 million.

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### **Computer Motion Series D Convertible Preferred Stock**

All shares of Computer Motion Series D convertible preferred stock will convert into shares of Computer Motion common stock immediately prior to the effective time of the merger. The Computer Motion common stock then will be exchanged for Intuitive Surgical common stock based on the exchange ratio in the merger. The regular conversion ratio under the Series D convertible preferred stock is fixed at approximately 1,014.5 to 1. However, in connection with the merger, the Series D stockholders may elect to convert their shares at a floating conversion ratio that would return at least 135% of the original purchase price of the shares (based on the value of Computer Motion common stock during a specified period prior to the effective time of the merger). However, this floating conversion ratio cannot exceed 135% of the regular conversion ratio.

Each Series D stockholder must elect the alternative conversion ratio by delivering a notice to Computer Motion no later than 12 trading days prior to the date of the special meeting. The shares held by any holder who does not make such election will convert into Computer Motion common stock at the regular conversion ratio immediately prior to the effective time of the merger.

### **Computer Motion Stock Options and Warrants**

At the effective time of the merger, each option or warrant to purchase shares of Computer Motion common stock outstanding immediately before the effective time will be assumed by Intuitive Surgical and converted into and become a right to purchase shares of Intuitive Surgical common stock. Each option or warrant assumed by Intuitive Surgical will be exercisable for the number of shares of Intuitive Surgical common stock equal to the number of shares of Computer Motion common stock issuable upon exercise of the option or warrant multiplied by the exchange ratio, rounded down to the nearest whole share. The per share exercise price for each option or warrant will be the exercise price of each Computer Motion option or warrant divided by the exchange ratio, rounded up to the nearest whole cent. Pursuant to their terms, the vesting of substantially all of Computer Motion's outstanding options will accelerate upon completion of the merger.

### **Material United States Federal Income Tax Consequences of the Merger**

Computer Motion expects the merger to be treated as a tax-free reorganization for U.S. federal income tax purposes. Assuming that the merger qualifies as a tax-free reorganization, then, in general, Computer Motion stockholders will not recognize any gain or loss on the exchange of their shares of Computer Motion common stock for shares of Intuitive Surgical common stock pursuant to the merger, except for gain or loss on fractional shares of Intuitive Surgical common stock for which cash is received. No gain or loss will be recognized by Intuitive Surgical stockholders as a result of the merger.

Tax matters are very complicated, and the tax consequences of the merger to you will depend on the facts of your own situation. For a more complete description of the tax consequences of the merger, see *The Merger* Material United States Federal Income Tax Consequences. We encourage you to consult your own tax advisor for a full understanding of the tax consequences of the merger to you.

### **Accounting Treatment**

Intuitive Surgical will account for the merger under the purchase method of accounting for business combinations under United States generally accepted accounting principles.

### **Regulatory Approvals**

Neither Intuitive Surgical nor Computer Motion is aware of any material federal or state regulatory requirements or approvals required for completion of the merger.

### **Additional Proposals to be Considered by Intuitive Surgical Stockholders**

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In addition to the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement, Intuitive Surgical stockholders will be asked

to approve an amendment to Intuitive Surgical's Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split;

to elect three members of Intuitive Surgical's board of directors;

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to approve an amendment to Intuitive Surgical's 2000 Non-Employee Directors' Stock Plan to increase the annual stock option grant for non-employee directors from 5,000 to 10,000 shares, to provide for an additional annual grant of options to purchase 5,000 shares to committee chairs and to amend the automatic share increase provision, subject to adjustment in the event that the proposed reverse stock split is approved by Intuitive Surgical's stockholders and implemented by Intuitive Surgical's board of directors; and

to ratify the selection of Ernst & Young LLP as Intuitive Surgical's independent auditors for the current fiscal year ending December 31, 2003.

Intuitive Surgical's board of directors unanimously recommends that Intuitive Surgical stockholders vote **FOR** each of these proposals (other than the election of directors) and **FOR** the election of the nominees to the board of directors listed in this joint proxy statement/prospectus. This joint proxy statement/prospectus contains important information about each of these proposals.

**Table of Contents****Summary Historical Financial Data**

We are providing the following information to aid you in your analysis of the financial aspects of the merger. We derived this information from the audited financial statements of Intuitive Surgical and Computer Motion for the years ended December 31, 1998 through December 31, 2002. This information is only a summary, and you should read it together with our historical financial statements and related notes contained in the annual reports and other information that we have filed with the SEC and incorporated by reference in this joint proxy statement/prospectus. See [Where You Can Find More Information](#).

**Summary Historical Consolidated Financial Data of Intuitive Surgical****Intuitive Surgical, Inc.****(in thousands, except per share amounts)****Fiscal Year Ended December 31,**

	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>Consolidated Statements of Operations Data:</b>					
Sales	\$ 72,022	\$ 51,673	\$ 26,624	\$ 10,192	\$
Cost of sales	34,584	28,218	18,031	9,273	
Gross profit	37,438	23,455	8,593	919	
Operating costs and expenses:					
Research and development	16,793	13,851	11,734	11,130	23,208
Selling, general and administrative	40,864	29,987	19,136	9,338	7,565
Total operating expenses	57,657	43,838	30,870	20,468	30,773
Loss from operations	(20,219)	(20,383)	(22,277)	(19,549)	(30,773)
Interest income, net	1,841	3,641	3,862	1,134	1,330
Other income (expense)	(43)	42	(108)		
Net loss	\$ (18,421)	\$ (16,700)	\$ (18,523)	\$ (18,415)	\$ (29,443)
Basic and diluted net loss per common share	\$ (0.51)	\$ (0.47)	\$ (0.78)	\$ (3.81)	\$ (8.14)
Shares used in computing basic and diluted net loss per common share	36,458	35,815	23,796	4,837	3,619

**As of December 31,**

	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>Consolidated Balance Sheet Data:</b>					
Cash, cash equivalents and short-term investments	\$ 50,839	\$ 66,661	\$ 89,441	\$ 26,260	\$ 23,220
Working capital	52,562	67,922	83,836	22,023	19,817
Total assets	91,581	100,361	112,421	34,455	28,167
Notes payable, less current portion	1,838	771	1,861	2,521	2,438
Deferred compensation	(223)	(886)	(2,483)	(943)	(1,128)
Accumulated deficit	(128,791)	(110,370)	(93,670)	(75,147)	(56,732)
Total stockholders' equity	63,680	78,293	90,730	22,211	20,596





**Table of Contents****Summary Historical Financial Data of Computer Motion****Computer Motion, Inc.**

(in thousands, except per share amounts)

	<b>Fiscal Year Ended December 31,</b>				
	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>Consolidated Statements of Operations Data:</b>					
Revenue	\$ 24,111	\$ 25,531	\$ 21,732	\$ 18,058	\$ 10,586
Cost of revenue	9,860	10,587	8,577	9,135	4,492
Gross profit	14,251	14,944	13,155	8,923	6,094
Research & development expense	10,903	12,034	11,564	9,528	7,905
Selling, general & administrative expense	17,895	18,034	17,318	13,431	11,117
Litigation provision	6,521	1,248	480		
Total operating expenses	35,319	31,316	29,362	22,959	19,022
Loss from operations	(21,068)	(16,372)	(16,207)	(14,036)	(12,928)
Total other income/(expense)	(53)	(21)	(118)	681	1,408
Loss before income tax provision	(21,121)	(16,393)	(16,325)	(13,355)	(11,520)
Income tax provision	30	20	24	20	25
Net loss	(21,151)	(16,413)	(16,349)	(13,375)	(11,545)
Dividend to preferred and warrant shareholders	10,929	3,897	1,362		
Net loss available to common stockholders	\$ (32,080)	\$ (20,310)	\$ (17,711)	\$ (13,375)	\$ (11,545)
Basic and diluted net loss per share	\$ (1.93)	\$ (1.98)	\$ (1.90)	\$ (1.57)	\$ (1.45)
Shares used in computing basic and diluted net loss per share	16,665	10,276	9,309	8,503	7,959
<b>As of December 31,</b>					
	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>Consolidated Balance Sheet Data:</b>					
Cash, cash equivalents and restricted cash	\$ 2,704	\$ 1,067	\$ 1,551	\$ 7,521	\$ 21,313
Working capital	1,872	749	5,687	12,596	24,354
Total assets	21,850	21,186	23,089	23,361	30,444
Notes payable, net of current portion					
Deferred compensation	(262)	(326)	(605)	(247)	(753)
Accumulated deficit	(116,674)	(84,594)	(64,284)	(46,573)	(33,198)

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Total stockholders equity	5,651	3,862	8,512	15,819	26,870
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**Table of Contents****Summary Unaudited Pro Forma Condensed Combined Consolidated Financial Data**

The table below presents selected financial data from the Intuitive Surgical and Computer Motion unaudited pro forma condensed combined consolidated statement of operations for the year ended December 31, 2002 and from the unaudited pro forma condensed combined consolidated balance sheet as of December 31, 2002 included in this joint proxy statement/prospectus. The unaudited pro forma condensed combined consolidated statement of operations is presented as if the merger had occurred on January 1, 2002. The unaudited pro forma condensed combined consolidated balance sheet presents the combined financial position of Intuitive Surgical and Computer Motion as of December 31, 2002 assuming that the merger had been completed on that date. The unaudited pro forma condensed combined consolidated financial data is based on the estimates and assumptions set forth in the notes to such statements, which are preliminary and have been made solely for the purposes of developing such pro forma information. The unaudited pro forma condensed combined consolidated financial data is not necessarily indicative of the financial position or operating results that would have been achieved had the merger been completed as of the dates indicated, nor is it necessarily indicative of future financial position or operating results. This information should be read in conjunction with the unaudited pro forma condensed combined consolidated financial statements and related notes and the historical financial statements and related notes of Intuitive Surgical and Computer Motion included in, or incorporated by reference into, this joint proxy statement/prospectus.

	<b>Pro Forma Combined for the Year Ended December 31, 2002</b>
	<b>(In thousands, except per share data)</b>
Sales	\$ 94,541
Cost of sales	48,001
	<hr/>
Gross margin	46,540
Operating costs and expenses:	
Research and development	26,104
Selling, general and administrative	61,167
Amortization of acquired intangible assets	550
	<hr/>
Total operating costs and expenses	87,821
Loss from operations	(41,281)
Interest and other income, net	1,745
	<hr/>
Loss before income taxes	(39,536)
Income tax provision	30
	<hr/>
Net loss	(39,566)
Basic and diluted net loss per common share	\$ (0.79)
	<hr/>
Shares used in computing basic and diluted net loss per common share	\$ 50,356
	<hr/>

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	<b>Pro Forma Combined as of December 31, 2002</b>
	<b>(In thousands, except per share data)</b>
<b>Balance Sheet Data:</b>	
Cash, cash equivalents, restricted cash and short-term investments	\$ 53,543
Working capital	59,883
Total assets	192,106
Notes payable, net of current portion	1,838
Deferred compensation	(891)
Accumulated deficit	(245,465)
Total stockholders' equity	151,929

**Table of Contents****Comparative Per Share Information**

The following table presents (1) the unaudited loss per share and net book value per share data for each of Intuitive Surgical and Computer Motion on a historical basis, (2) the unaudited loss per share and net book value per share data for the combined company on a pro forma basis and (3) the unaudited loss per share and net book value per share data for Computer Motion on an equivalent pro forma basis. The unaudited pro forma combined consolidated financial data is not necessarily indicative of the financial position had the merger been completed on December 31, 2002 or operating results that would have been achieved had the transaction been in effect as of the beginning of the periods presented, and should not be construed as representative of future financial position or operating results. The pro forma combined consolidated per common share data presented below have been derived from unaudited pro forma financial statements included in this joint proxy statement/prospectus.

This information is only a summary and should be read in conjunction with the selected historical financial data of Intuitive Surgical and Computer Motion, the Intuitive Surgical and Computer Motion unaudited pro forma condensed combined consolidated financial statements, and the separate historical financial statements of Intuitive Surgical and Computer Motion and related notes included in or incorporated by reference into this joint proxy statement/prospectus.

	<b>Intuitive Surgical Year Ended December 31, 2002</b>
<hr/>	
Historical per common share data:	
Loss per share	\$(0.51)
Net book value per share(1)	1.73
	<b>Computer Motion Year Ended December 31, 2002</b>
<hr/>	
Historical per common share data:	
Loss per share	\$(1.93)
Net book value per share(1)	0.32
	<b>Combination Year Ended December 31, 2002</b>
<hr/>	
Pro forma combined consolidated per common share data:	
Loss per share	\$(0.79)
Loss per equivalent Computer Motion share(2)	(0.41)
Net book value per combined company's share(1)	3.36
Net book value per equivalent Computer Motion share(2)	1.75

- (1) The historical net book value per share of Intuitive Surgical common stock and Computer Motion common stock is computed by dividing common stockholders' equity at period end by the number of shares of common stock outstanding at the respective period end. The pro forma net book value per combined company's share is computed by dividing the pro forma common stockholders' equity by the pro forma number of shares of Intuitive Surgical common stock outstanding at the respective period end, assuming the merger had been completed on that date.
- (2) The pro forma loss and net book value per equivalent Computer Motion share is calculated by multiplying the pro forma combined amounts by an estimated exchange ratio of 0.52 for each share of Computer Motion common stock. The estimated exchange ratio (a) is based on a number of assumptions, (b) may be different from the final exchange ratio and (c) will be adjusted proportionately in the event that the proposed reverse split of Intuitive Surgical's common stock is approved by Intuitive Surgical's stockholders and implemented by

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Intuitive Surgical's board of directors. Please see The Merger Agreement The Merger Consideration and Conversion of Securities.  
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**Table of Contents****Comparative Per Share Market Price Data**

Intuitive Surgical common stock trades on the Nasdaq National Market under the symbol ISRG. Computer Motion common stock trades on the Nasdaq National Market under the symbol RBOT. Neither Intuitive Surgical nor Computer Motion has ever declared or paid cash dividends on its common stock. The table below sets forth, for the periods indicated, the high and low per share sales prices for Intuitive Surgical common stock and Computer Motion common stock as reported on the Nasdaq National Market:

	Intuitive Surgical Common Stock		Computer Motion Common Stock	
	High	Low	High	Low
<b>Fiscal Year 2001</b>				
First quarter	\$ 9.13	\$4.88	\$6.50	\$3.66
Second quarter	14.78	3.00	5.65	2.88
Third quarter	14.15	4.99	4.80	3.02
Fourth quarter	10.75	6.01	4.61	3.06
<b>Fiscal Year 2002</b>				
First quarter	\$10.15	\$8.39	\$6.25	\$3.65
Second quarter	10.90	7.92	4.10	0.67
Third quarter	8.31	5.77	2.40	0.53
Fourth quarter	8.13	6.08	1.72	0.70
<b>Fiscal Year 2003</b>				
First quarter (through March 27, 2003)	\$ 6.81	\$3.67	\$2.89	\$0.85

On March 6, 2003, the last trading day before we announced the merger, the closing price of Intuitive Surgical common stock on the Nasdaq National Market was \$4.42 per share and the closing price of Computer Motion common stock on the Nasdaq National Market was \$1.65 per share. Based on an estimated exchange ratio of approximately 0.52 shares of Intuitive Surgical common stock for each outstanding share of Computer Motion common stock and the closing price of Intuitive Surgical common stock on March 6, 2003, the pro forma equivalent per share value of Computer Motion common stock on March 6, 2003 was approximately \$2.30 per share.

On \_\_\_\_\_, 2003, the last trading day prior to the date of this joint proxy statement/ prospectus, the closing price of Intuitive Surgical common stock on the Nasdaq National Market was \$ \_\_\_\_\_, the closing price of Computer Motion common stock on the Nasdaq National Market was \$ \_\_\_\_\_ and the pro forma equivalent per share value of Computer Motion common stock, based on an estimated exchange ratio of approximately 0.52 and the closing price of Intuitive Surgical common stock on \_\_\_\_\_, 2003, was approximately \$ \_\_\_\_\_ per share.

The market value of the shares of Intuitive Surgical common stock that will be issued in exchange for shares of Computer Motion common stock upon completion of the merger will not be known at the time Computer Motion stockholders vote on the proposal to approve and adopt the merger agreement, or at the time Intuitive Surgical stockholders vote on the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement, because the merger will not have been completed by then.

The above table shows only historical comparisons. Because the market prices of Intuitive Surgical common stock and Computer Motion common stock will likely fluctuate prior to completion of the merger, these comparisons may not provide meaningful information to Intuitive Surgical stockholders in determining whether to approve the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement or to Computer Motion stockholders in determining whether to approve the proposal to approve and adopt the merger agreement. Intuitive Surgical and Computer Motion stockholders are encouraged to obtain current market quotations for Intuitive Surgical and Computer Motion common stock and to review carefully the other information contained in this joint proxy statement/ prospectus or incorporated by reference into this joint proxy statement/ prospectus in considering whether to approve these proposals. Please see the section entitled "Where You Can Find More Information."



**Table of Contents****RISK FACTORS**

*The merger involves a high degree of risk for Intuitive Surgical and Computer Motion stockholders. Computer Motion stockholders will be choosing to invest in Intuitive Surgical common stock by voting in favor of approval of the merger agreement. An investment in shares of Intuitive Surgical common stock involves a high degree of risk. In addition to the other information included in this joint proxy statement/prospectus, including the matters addressed in Cautionary Statement Concerning Forward-Looking Statements, you should carefully consider the following risks before deciding whether to vote for approval and adoption of the merger agreement, in the case of Computer Motion stockholders, or for the issuance of shares of Intuitive Surgical common stock in the merger, in the case of Intuitive Surgical stockholders. In addition, you should read and consider the risks associated with each of the businesses of Intuitive Surgical and Computer Motion because these risks will also affect the combined company. These risks can be found in Intuitive Surgical's Annual Report on Form 10-K for the year ended December 31, 2002 and in Computer Motion's Annual Report on Form 10-K for the year ended December 31, 2002. Each of these reports is filed with the SEC and incorporated by reference into this joint proxy statement/prospectus. Additional risks and uncertainties not presently known to Intuitive Surgical and Computer Motion or that are not currently believed to be important to you also may adversely affect the merger and the combined company following the merger.*

**Risks Related to the Merger**

***The exchange ratio with respect to holders of shares of Computer Motion common stock could decrease in the event that the average sales price of Computer Motion common stock is below \$1.86 per share during a specified period prior to the Computer Motion special meeting.***

The fraction of a share of Intuitive Surgical common stock into which each share of Computer Motion common stock will be converted, or the exchange ratio, will be determined based on the total number of fully diluted shares outstanding for Intuitive Surgical and Computer Motion immediately prior to the effective time of the merger. The number of Computer Motion's fully diluted shares will vary based on the number of shares of Computer Motion common stock into which Computer Motion's preferred stock will be convertible and the number of shares of Computer Motion common stock which may be issued to pay accrued dividends on the Series D convertible preferred stock upon conversion. All shares of Computer Motion preferred stock will convert into shares of Computer Motion common stock immediately prior to the effective time of the merger. Under the terms of the preferred stock, in the event that the average of the closing bid prices of Computer Motion common stock for the 20 consecutive trading days ending 15 days prior to the Computer Motion special meeting (which is referred to in this joint proxy statement/prospectus as the pricing period) is below \$1.86 per share, the conversion ratio for Computer Motion's preferred stock could increase. As a result, the exchange ratio with respect to holders of shares of Computer Motion common stock may decrease. If this were to occur, the holders of Computer Motion common stock would receive less than the estimated 0.52 shares of Intuitive Surgical common stock for each share of Computer Motion common stock they own. This adjustment would have no effect on stockholders of Intuitive Surgical, who would maintain the same proportionate ownership interest in the combined company. We do not know whether such an adjustment will be required. The anticipated exchange ratio for Computer Motion common stock, based on the number of fully diluted shares of Intuitive Surgical and Computer Motion expected to be outstanding on an assumed closing date of June 20, 2003, will range from approximately 0.48 to 0.52 depending on the average of the closing bid prices of Computer Motion common stock during the pricing period.

***The number of shares of Intuitive Surgical common stock to be issued to Computer Motion stockholders will not be adjusted for possible fluctuations in the value of Intuitive Surgical common stock.***

As a result of Computer Motion stockholders receiving the merger consideration in the form of shares of Intuitive Surgical common stock, the value of the merger consideration to be received by Computer Motion stockholders will depend on the market price of Intuitive Surgical common stock at the time the

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merger is completed. The market price of Intuitive Surgical common stock at the closing of the merger may vary from its market prices at the date of this joint proxy statement/prospectus and at the date of the Intuitive Surgical and Computer Motion stockholder meetings. These variations may be caused by a number of factors, including changes in the businesses, operations or prospects of Intuitive Surgical or Computer Motion, the timing of the merger and general market and economic conditions. Neither the exchange ratio nor the merger consideration will be adjusted for any increase or decrease in the market price of Intuitive Surgical common stock. Accordingly, if the market price of Intuitive Surgical common stock declines prior to the time the merger is completed, the value of the merger consideration to be received by Computer Motion stockholders will decline.

In addition, because the merger will be completed after the special meetings, Intuitive Surgical and Computer Motion stockholders will not know the exact value of the Intuitive Surgical common stock that will be issued in connection with the merger at the time they vote on the merger proposals. We encourage you to obtain current market quotations for Intuitive Surgical and Computer Motion shares before you vote your shares.

***The issuance of shares of Intuitive Surgical common stock to Computer Motion stockholders in the merger will substantially reduce the percentage interests of Intuitive Surgical stockholders.***

Based on the estimated exchange ratio of approximately 0.52, we estimate that, on a pre-reverse split basis, Intuitive Surgical will issue approximately 14.7 million shares of Intuitive Surgical common stock in the merger and, upon completion of the merger, current Intuitive Surgical stockholders will own approximately 72% of the then outstanding shares of Intuitive Surgical common stock and former Computer Motion stockholders will own approximately 28% of the then outstanding shares of Intuitive Surgical common stock.

In addition, based on the estimated exchange ratio of approximately 0.52, we estimate that Intuitive Surgical will reserve approximately 5.7 million shares of Intuitive Surgical common stock for future issuance in connection with Intuitive Surgical's assumption of Computer Motion's outstanding options and warrants (including out-of-the-money options and warrants), subject to proportionate reduction in the event that the proposed reverse stock split is approved by Intuitive Surgical's stockholders and implemented by Intuitive Surgical's board of directors. The outstanding warrants of Computer Motion have a range of exercise prices. Holders of these warrants have the right to an adjustment in the exercise price of their warrants, and in some cases in the number of shares issuable upon exercise, if the warrant issuer sells shares in the future at prices below the exercise prices of the warrants. These anti-dilution protections may continue to apply after the merger and thus could result in additional dilution to stockholders of the combined company as we make future offerings of capital stock.

The issuance of shares of Intuitive Surgical common stock to former Computer Motion stockholders in or after the merger will cause a significant reduction in the relative percentage interests of current Intuitive Surgical stockholders in earnings, voting, liquidation value and book and market value. The issuance of additional shares of Intuitive Surgical common stock in future transactions could also reduce the percentage interests of former Computer Motion stockholders and Intuitive Surgical stockholders in the combined company. This dilution could reduce the market price of our common stock.

***Intuitive Surgical and Computer Motion each have incurred substantial losses since inception, expect to incur further losses, and may not be able to generate or raise sufficient cash to fund their operations, separate or combined.***

Intuitive Surgical incurred a net loss of \$18.4 million for 2002, and Computer Motion incurred a net loss of \$21.2 million for the same period. The extent of our future losses and the timing of profitability are highly uncertain, and we may never achieve profitable operations. If the time required to generate significant revenues and achieve profitability is longer than anticipated, we may not be able to continue our operations. In recent periods, Computer Motion has not generated cash from operations. Both companies expect to incur additional operating losses into 2003, and both companies have substantial cash needs.

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Among other things, total fees and costs of both companies associated with the merger are currently projected to be approximately \$4.0 million. Intuitive Surgical has agreed to fund up to \$7.3 million of Computer Motion's working capital needs through the effective time of the merger under the Loan and Security Agreement. Assuming completion of the merger on or around June 20, 2003, we project that the total combined cash and cash equivalents of the two companies will be less than \$35.0 million. We expect that the capital resources of the combined company, together with revenue derived from product sales, will be sufficient to meet the combined company's working capital needs at least through 2003. After that, we may need to raise additional funds. We may not be able to obtain additional financing on favorable terms, or at all. If we are unable to generate sufficient capital to fund our operations and cannot raise it on acceptable terms, we may not be able to further develop, enhance or expand the market for our products and services, and the combined company could fail.

***The combined company may not realize all of the anticipated benefits of the merger.***

The success of the merger will depend, in part, on the ability of the combined company to realize the anticipated synergies, cost savings and growth opportunities from integrating the business of Computer Motion with the business of Intuitive Surgical. Intuitive Surgical's success in realizing these benefits and the timing of this realization depend upon the successful, rapid integration of the operations of Computer Motion with those of Intuitive Surgical. This integration will be a complex, costly and time-consuming process and may not succeed as planned. The difficulties of combining the operations of the companies include, among other things:

coordinating and consolidating ongoing and future research and development efforts;

consolidating sales and marketing operations;

retaining existing customers and attracting new customers;

retaining strategic partners and attracting new strategic partners;

retaining key employees;

consolidating corporate and administrative infrastructures;

integrating and managing the technologies and products of the two companies;

identifying and eliminating redundant and underperforming operations and assets;

using capital assets efficiently to develop the business of the combined company;

minimizing the diversion of management's attention from ongoing business concerns; and

coordinating geographically separate organizations.

In addition, Computer Motion's products differ in substantial ways from Intuitive Surgical's products, and the companies rely on different distributors and sales channels to sell their products. Both Intuitive Surgical and Computer Motion are parties to existing distribution agreements that cannot be terminated prior to the end of their terms.

We do not know whether the combined company will succeed in addressing these risks or any other problems encountered in connection with the merger, or whether the integration of Computer Motion with Intuitive Surgical will result in the realization of the full benefits anticipated by us from the merger.

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***Failure to complete the merger could negatively impact both Intuitive Surgical and Computer Motion and their stockholders.***

If the merger is not completed for any reason, Intuitive Surgical and Computer Motion and their stockholders will be subject to a number of material risks, including:

the provision in the merger agreement that, under specified circumstances, either Intuitive Surgical or Computer Motion could be required to pay the other a termination fee and expenses of up to an aggregate of \$2.5 million;

the litigations between the two companies may resume;

Computer Motion would be required to repay to Intuitive Surgical all amounts loaned under the bridge loan facility within 120 days following termination of the merger agreement;

Computer Motion likely would not have sufficient cash to repay amounts loaned under the bridge loan, and Intuitive Surgical would be at risk that such bridge loan amounts would not be repaid unless Computer Motion were able to obtain alternative financing;

the market price of Intuitive Surgical common stock and Computer Motion common stock may decline to the extent that the current market price of such shares reflects a market assumption that the merger will be completed;

costs related to the merger, such as legal and accounting fees, must be paid even if the merger is not completed;

benefits that Intuitive Surgical and Computer Motion expect to realize from the merger would not be realized; and

the diversion of management attention from the day-to-day businesses of the companies, and the unavoidable disruption to their employees and customers during the period before completion of the merger may make it difficult for Intuitive Surgical and Computer Motion to regain their financial and market positions if the merger does not occur.

In addition, since entering into the merger agreement on March 7, 2003, Computer Motion has made planning and operations decisions on the basis that the merger will be completed. These planning and operations decisions may have been different had Computer Motion not entered into the merger agreement. For example, if Computer Motion had not entered into the merger agreement, it may have pursued a debt or equity financing transaction in order to assure access to sufficient working capital as an independent company, rather than rely on the availability of Intuitive Surgical's cash assuming the merger will be completed. Moreover, the merger agreement contains restrictions on Computer Motion's incurrence of debt and issuance of equity securities while the merger is pending. If the merger is not completed, not only will Computer Motion not have the benefit of Intuitive Surgical's cash or have obtained other financing, but Computer Motion also will have incurred a significant amount of non-operating expenses associated with the merger that it otherwise would not have incurred. Consequently, if the merger is not completed, Computer Motion's financial condition likely will be worse than it would have been had it never entered into the merger agreement.

If Computer Motion and Intuitive Surgical fail to complete the merger, Computer Motion will face the difficulties of competing with limited cash resources and will need to attempt to raise additional debt or equity capital. Such financing may be available only on terms materially adverse to Computer Motion, and may not be available at all.

Additionally, if the merger is not completed, Computer Motion's stock would no longer be influenced by the exchange ratio established by the merger agreement, which could negatively impact Computer Motion's current market valuation and stock price.

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***Sales by Intuitive Surgical stockholders or former Computer Motion stockholders could cause Intuitive Surgical's common stock price to decline.***

The market price of Intuitive Surgical common stock could decline as a result of sales of a large number of shares in the market. These sales may also make it more difficult for the combined company to sell equity securities in the future at a time and at a price that we deem appropriate to raise funds through future offerings of common stock. As of December 31, 2002, several entities beneficially owned more than 5% of the outstanding shares of Intuitive Surgical's common stock, including Bear Stearns Asset Management, Allan G. Lozier, Investor Growth Capital, Ltd., Merrill Lynch & Co., and PaTMarK Company, Inc. Assuming that the merger is completed, the former stockholders of Computer Motion will own approximately 28% of the combined company, subject to the assumptions and adjustments discussed elsewhere in this joint proxy statement/prospectus. In addition, holders of warrants to purchase up to 5.5 million shares of Computer Motion common stock will receive Intuitive Surgical warrants in exchange for their Computer Motion warrants in connection with the merger. Such warrant holders will have the right to include their shares in resale registration statements that we will be obligated to file on their behalf.

***Directors and officers of Computer Motion have potential conflicts of interest that may have influenced them to recommend the merger.***

Some of the directors of Computer Motion who recommend that you vote in favor of the merger and the officers of Computer Motion who provided information to their board of directors relating to the merger have employment, indemnification and severance benefit arrangements, significant ownership interests and rights to acceleration of stock options that provide them with interests in the merger that may differ from yours. The receipt of compensation or other benefits in the merger may have influenced (1) these directors in making their recommendation that you vote in favor of the transactions called for by the merger agreement and (2) these officers in making recommendations to their board of directors relating to the merger. See The Merger Interests of Directors and Executive Officers of Computer Motion in the Merger.

***Customer, supplier and employee uncertainty related to the merger could harm the combined company.***

Intuitive Surgical and Computer Motion customers and suppliers may, in response to the announcement or completion of the merger, delay purchasing or supply decisions or otherwise alter existing relationships with Intuitive Surgical or Computer Motion. These decisions or other adverse changes in the business relationships of Intuitive Surgical and Computer Motion with their respective customers and suppliers could adversely affect the business of the combined company. Similarly, current and prospective Computer Motion employees may experience uncertainty about their future as employees of the combined company until strategies with regard to Computer Motion are announced or executed. This may adversely affect Intuitive Surgical's or Computer Motion's ability to attract and retain, and may affect the performance during the transition period of, key management, sales, marketing and technical personnel.

**Risks Related to Computer Motion's Engagement of Arthur Andersen LLP as its Auditors**

***Computer Motion has not obtained the consent of Arthur Andersen LLP to be named in this joint proxy statement/prospectus as having audited the Computer Motion financial statements. This will limit your ability to assert claims against Arthur Andersen.***

After reasonable efforts, Computer Motion has been unable to obtain the consent of Arthur Andersen LLP to the incorporation into the registration statement, of which this joint proxy statement/prospectus forms a part, of their report with respect to the consolidated financial statements of Computer Motion for the years ended December 31, 2001 and December 31, 2000 which appear in its Annual Report on Form 10-K for the year ended December 31, 2002. Under these circumstances, Rule 437(a) under the Securities Act of 1933 permits the registration statement to be filed without a written consent from Arthur Andersen. The absence of such consent may limit your recovery on certain claims. In particular, and

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without limitation, you will not be able to assert claims against Arthur Andersen under Section 11 of the Securities Act of 1933 for any untrue statement of a material fact contained in the consolidated financial statements of Computer Motion for the years ended December 31, 2001 and December 31, 2000 which appear in its Annual Report on Form 10-K for the year ended December 31, 2002, or any omission to state a material fact required to be stated therein.

***The conviction of Arthur Andersen LLP on obstruction of justice charges may adversely affect Arthur Andersen's ability to satisfy claims arising from the provision of auditing services to Computer Motion and may impede the combined company's access to capital markets after the merger.***

Arthur Andersen LLP audited Computer Motion's financial statements incorporated by reference in the registration statement, of which this joint proxy statement/prospectus forms a part, for the years ended December 31, 2001 and December 31, 2000. On March 14, 2002, an indictment was unsealed charging Arthur Andersen with federal obstruction of justice arising from the government's investigation of Enron Corp. On June 15, 2002, Arthur Andersen was convicted of these charges. The impact of this conviction on Arthur Andersen's financial condition may adversely affect the ability of Arthur Andersen to satisfy any claims arising from its provision of auditing services to Computer Motion.

Should Intuitive Surgical seek to access the public capital markets after completion of the merger, SEC rules will require Intuitive Surgical to include or incorporate by reference in any prospectus three years of audited financial statements. The SEC's current rules would require Intuitive Surgical to present audited financial statements for one or more fiscal years audited by Arthur Andersen and use reasonable efforts to obtain its consent until the audited financial statements for the fiscal year ending December 31, 2004 become available. If prior to that time the SEC ceases accepting financial statements audited by Arthur Andersen, it is possible that the available audited financial statements for the years ended December 31, 2001 and December 31, 2000 audited by Arthur Andersen might not satisfy the SEC's requirements. In that case, Intuitive Surgical would be unable to access the public capital markets unless an independent accounting firm is able to audit the financial statements originally audited by Arthur Andersen. Any delay or inability to access the public capital markets caused by these circumstances could have a material adverse effect on the combined company's business, profitability and growth prospects.

**Risks Related to Intuitive Surgical and the Combined Company**

*As used below, we or us refers to Intuitive Surgical or the combined company after the merger, as the context requires.*

***Our future operating results may be below securities analysts' or investors' expectations, which could cause our stock price to decline.***

Because of our limited operating history, we have limited insight into trends that may emerge in our market and affect our business. The revenue and income potential of our market are unproven, and we may be unable to generate significant revenues. In addition, our costs may be higher than we, securities analysts or investors expect. If we fail to generate sufficient revenues or our costs are higher than we expect, our results of operations will suffer, which in turn could cause our stock price to decline. Further, future revenue from sales of our products is difficult to forecast because the market for new surgical technologies is still evolving. Our results of operations will depend upon numerous factors, including:

- the progress and results of clinical trials;
- actions relating to regulatory matters;
- the extent to which our products gain market acceptance;
- our timing and ability to develop our manufacturing and sales and marketing capabilities;
- demand for our products;
- the progress of surgical training in the use of our products;

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our ability to develop, introduce and market new or enhanced versions of our products on a timely basis;

product quality problems;

our ability to protect our proprietary rights and defend against third party challenges;

our ability to license additional intellectual property rights; and

third-party payor reimbursement policies.

Our operating results in any particular period will not be a reliable indication of our future performance. It is likely that in some future quarters, our operating results will be below the expectations of securities analysts or investors. If this occurs, the price of our common stock, and the value of your investment, will likely decline.

***We experience long and variable sales cycles, which could have a negative impact on our results of operations for any given quarter.***

Our *da Vinci* Surgical System has a lengthy sales and purchase order cycle because it is a major capital item and generally requires the approval of senior management at purchasing institutions. These factors may contribute to substantial fluctuations in our quarterly operating results, particularly during the periods in which our sales volume is low. Because of these fluctuations, it is likely that in some future quarters our operating results will fall below the expectations of securities analysts or investors. If that happens, the market price of our stock would likely decrease. These fluctuations also mean that you will not be able to rely upon our operating results in any particular period as an indication of future performance.

***Because a small number of customers have and are likely to continue to account for a substantial portion of our revenues, our revenues could decline due to the loss or delay of a single customer.***

A relatively small number of customers account for a significant portion of our total revenues. In 2000, 2001 and 2002, the majority of our revenues came from the sales of *da Vinci* Surgical Systems, which are high revenue dollar items. Due to the high dollar revenue per system sold, small variations in system unit sales may cause revenue to vary significantly from quarter to quarter. For 2001, AB Medica SRL, our Italian distributor, accounted for 15% of total sales. No customer accounted for more than 10% of sales during 2000 or 2002.

Due to the high average selling price of the of *da Vinci* Surgical System, our failure to add new customers that make significant purchases of our products could reduce our future revenues. The loss or delay of individual orders could have a significant impact on revenues and operating results.

***If our products do not achieve market acceptance, we will not be able to generate the revenue necessary to support our business.***

Our products represent a fundamentally new way of performing surgery. Achieving physician, patient and third-party payor acceptance of *Intuitive* surgery as a preferred method of performing surgery will be crucial to our success. If our products fail to achieve market acceptance, hospitals will not purchase our products and we will not be able to generate the revenue necessary to support our business. We believe that physicians and third-party payors acceptance of the benefits of procedures performed using our products will be essential for acceptance of our products by patients. Physicians will not recommend the use of our products unless we can demonstrate that they produce results comparable or superior to existing surgical techniques. Even if we can prove the effectiveness of our products through clinical trials, surgeons may elect not to use our products for any number of other reasons. For example, cardiologists may continue to recommend conventional open heart surgery simply because such surgery is already so widely accepted. In addition, surgeons may be slow to adopt our products because of the perceived liability risks arising from the use of new products and the uncertainty of reimbursement from third-party payors.

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We expect that there will be a learning process involved for surgical teams to become proficient in the use of our products. Broad use of our products will require training of surgical teams. Market acceptance could be delayed by the time required to complete this training. We may not be able to rapidly train surgical teams in numbers sufficient to generate adequate demand for our products. We cannot be certain that our training programs will be cost effective or sufficient to meet our customers' needs.

***We are involved in intellectual property litigation with Computer Motion and Brookhill-Wilk 1, LLC that may hurt our competitive position, may be costly to us and may prevent us from selling our products. While the merger agreement has resulted in a stay of all proceedings involving Computer Motion, these proceedings may continue if the merger is not completed.***

On May 10, 2000, Computer Motion filed a lawsuit in the United States District Court for the Central District of California (Case No. CV00-4988 CBM) alleging that by making, using, selling or offering for sale our *da Vinci* Surgical System, we are infringing United States Patent Numbers 5,524,180, 5,762,458, 5,815,640, 5,855,583, 5,878,193, 5,907,664 and 6,001,108, in willful disregard of Computer Motion's patent rights. On June 1, 2000, Computer Motion amended its lawsuit to allege that we also infringe U.S. Patent Number 6,063,095. In late 2000, Computer Motion alleged our infringement of a ninth patent, and added U.S. Patent Number 6,102,850 to the litigation. Computer Motion subsequently alleged that we infringed U.S. Patent No. 6,244,809, which it added to the litigation in May 2002. These ten patents concern various methods and devices for conducting various aspects of robotic surgery. Of those ten patents, three are no longer part of the suit. After Computer Motion lost all of its rights to its 5,855,583 and 5,878,193 patents as a result of our successful Patent Office interference proceedings Computer Motion voluntarily dismissed those patents from suit. However, Computer Motion has sought to challenge the interference proceedings by separate district court appeal. In addition, in November 2002, the Court granted our motion for summary judgment of noninfringement of the 6,102,850 patent. In February 2003, the Court denied our motion for summary judgment of noninfringement of the 6,244,809 patent and granted Computer Motion's cross-motion for partial summary judgment of literal infringement of one claim of that patent. We subsequently requested that the Court reconsider that decision because of perceived flaws in the Court's approach to the issue of infringement on summary judgment. Regardless of what happens on reconsideration, we will continue to defend the 809 patent on invalidity, based on the earlier robotic surgery work of SRI and others. We still have pending motions for summary judgment of noninfringement on two more of Computer Motion's seven remaining patents-in-suit, numbers 5,907,664 and 6,001,108. At the Court's request, we will not file further motions for summary judgment until the remaining pending motions are decided. In late January 2003, after close of fact discovery, Computer Motion asserted between 26 and 35 new claims of its seven remaining patents-in-suit and new theories of infringement. We have moved to strike those new assertions as inappropriate at this late stage. Trial had been calendared for April 29, 2003.

In connection with our proposed merger with Computer Motion, our company and Computer Motion have obtained an immediate stay through August 31, 2003 of all proceedings in the pending litigations between the companies. As part of the stays, the courts have ceased all further activity in the cases during the period of stays and will not issue any opinions or orders on issues already submitted for decision. In addition, the California Court postponed the trial date and was asked to reset trial for a date no earlier than November 30, 2003. The stays may be terminated before, or extended beyond, August 31, 2003 under specified circumstances. In the event the merger is completed, Intuitive Surgical and Computer Motion will request dismissal with prejudice of all pending litigations.

If the merger is not completed by August 31, 2003, the stays may be lifted and the California Case may proceed to trial. If the stays are lifted and Intuitive Surgical ultimately loses the lawsuit with Computer Motion, it will hurt Intuitive Surgical's competitive position, may be costly to Intuitive Surgical and may prevent Intuitive Surgical from selling its products. In addition, Intuitive Surgical may need to obtain from Computer Motion a license to this technology if Intuitive Surgical is to continue to market its products that have been found to infringe Computer Motion's patents. This license could be expensive, or could require Intuitive Surgical to license to Computer Motion some of its technology, which would result



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in a partial loss of Intuitive Surgical's competitive advantage in the marketplace, each of which could seriously harm Intuitive Surgical's business. If the stays are lifted and Computer Motion is successful in its suit against Intuitive Surgical and is unwilling to grant Intuitive Surgical a license, Intuitive Surgical may be required to stop selling its products that are found to infringe Computer Motion's patents unless Intuitive Surgical can redesign them so they do not infringe Computer Motion's patents, which Intuitive Surgical may be unable to do. In addition, Intuitive Surgical could be required to pay Computer Motion damages, including treble damages, which could be substantial and harm Intuitive Surgical's financial position.

On September 1, 2000, Brookhill-Wilk 1, LLC, or Wilk, filed a lawsuit in the United States District Court for the Southern District of New York (Case No. 00 Civ. 6599 (NRB)) alleging that by making, using, selling or offering for sale our *da Vinci* Surgical System, we are infringing U.S. Patent Nos. 5,217,003 and 5,368,015 in willful disregard of Wilk's patent rights. These patents concern methods and devices for remote surgery. In March 2001, Wilk withdrew its assertion of the 015 patent against our company. On November 8, 2001, the District Court granted summary judgment of noninfringement of the 003 patent in our favor and dismissed Wilk's complaint in its entirety without prejudice. Wilk appealed the summary judgment ruling to the U.S. Court of Appeals for the Federal Circuit. A decision on the merits of the appeal is expected sometime in 2003. If we lose on appeal and ultimately also lose Wilk's suit against us, it will hurt our competitive position, may be costly to us and may prevent us from selling our products. If we lose the patent suit, we may need to obtain from Wilk a license to this technology if we are to continue to market our products that have been found to infringe Wilk's patents. This license could be expensive, which could seriously harm our business. If Wilk is successful in its suit against us and is unwilling to grant us a license, we may be required to stop selling our products that are found to infringe Wilk's patents unless we can redesign them so they do not infringe Wilk's patents, which we may be unable to do. In addition, we could be required to pay Wilk damages, including treble damages, which could be substantial and harm our financial position.

On February 21, 2001, Wilk filed suit against Computer Motion alleging that its ZEUS surgical system infringed upon Wilk's U.S. Patent Nos. 5,217,003 and 5,368,015. Wilk's complaint sought damages, attorneys' fees and increased damages alleging willful patent infringement. On March 21, 2001, Computer Motion served its answer and counterclaim alleging non-infringement of each patent-in-suit, patent invalidity and unenforceability. On November 8, 2001, the United States District Court for the Southern District of New York in the co-pending Brookhill-Wilk v. Intuitive Surgical, Inc., Civil Action No. 00-CV-6599 (NRB), issued an order interpreting the claims of Wilk's U.S. Patent No. 5,217,003 in a way that Computer Motion believed excluded current applications of its ZEUS surgical system. In light of this decision, on November 13, 2001, Wilk and Computer Motion agreed to dismiss the case without prejudice to refile upon resolution of the appeal in Wilk's litigation against Intuitive Surgical.

The foregoing proceedings would be expensive to litigate, may be protracted and our confidential information may be compromised. Whether or not we are successful in these lawsuits, these proceedings could consume substantial amounts of our financial and managerial resources. At any time the other parties may file additional claims against our company, or we may file claims against them, which could increase the risk, expense and duration of the litigations.

***If we are unable to protect the intellectual property contained in our products from use by third parties, our ability to compete in the market will be harmed.***

Our commercial success will depend in part on obtaining patent and other intellectual property protection for the technologies contained in our products, and on successfully defending our patents and other intellectual property against third party challenges.

We will incur substantial costs in obtaining patents and, if necessary, defending our proprietary rights. The patent positions of medical device companies, including ours, can be highly uncertain and involve complex and evolving legal and factual questions. We do not know whether we will obtain the patent protection we seek, or that the protection we do obtain will be found valid and enforceable if challenged.

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We also do not know whether we will be able to develop additional patentable proprietary technologies. If we fail to obtain adequate protection of our intellectual property, or if any protection we obtain is reduced or eliminated, others could use our intellectual property without compensating us, resulting in harm to our business. We may also determine that it is in our best interests to voluntarily challenge a third party's products or patents in litigation or administrative proceedings, including patent interferences or reexaminations. In addition, the laws of certain foreign countries do not protect intellectual property rights to the same extent as do the laws of the United States.

***Others may assert that our products infringe their intellectual property rights, which may cause us to engage in costly disputes and, if we are not successful in defending ourselves, could also cause us to pay substantial damages and prohibit us from selling our products.***

We are aware of both United States and foreign patents issued to third parties that relate to computer-assisted surgery, remote surgery and minimally invasive surgery. Some of these patents on their face appear broad enough to cover one or more aspects of our present technology, and may cover aspects of our future technology. We do not know whether any of these patents, if challenged, would be held valid, enforceable and infringed. From time to time, we receive, and likely will continue to receive, letters from third parties inviting us to license their patents. We may be sued by, or become involved in an administrative proceeding with, one or more of these third parties. We cannot assure you that a court or administrative body would agree with any arguments or defenses we have concerning invalidity, unenforceability or noninfringement of any third-party patent. In addition to the issued patents of which we are aware, other parties may have filed, and in the future are likely to file, patent applications covering surgical products that are similar or identical to ours. We cannot assure you that any patents issuing from applications filed by a third party will not cover our products or will not have priority over our patent applications.

The medical device industry has been characterized by extensive litigation and administrative proceedings regarding patents and other intellectual property rights, and companies have employed such actions to gain a competitive advantage. If third parties assert infringement or other intellectual property claims against us as Computer Motion and Brookhill-Wilk 1, LLC have done, our technical and management personnel will experience a significant diversion of time and effort and we will incur large expenses defending our Company. If third parties in any patent action are successful, our patent portfolio may be damaged, we may have to pay substantial damages, including treble damages, and we may be required to stop selling our products or obtain a license which, if available at all, may require us to pay substantial royalties. We cannot be certain that we will have the financial resources or the substantive arguments to defend our patents from infringement or claims of invalidity or unenforceability, or to defend against allegations of infringement of third-party patents. In addition, any public announcements related to litigation or administrative proceedings initiated by us, or initiated or threatened against us, could cause our stock price to decline.

***The rights and measures we rely on to protect the intellectual property underlying our products may not be adequate to prevent third parties from using our technology, which could harm our ability to compete in the market.***

In addition to patents, we typically rely on a combination of trade secret, copyright and trademark laws, nondisclosure agreements and other contractual provisions and technical security measures to protect our intellectual property rights. Nevertheless, these measures may not be adequate to safeguard the technology underlying our products. If they do not protect our rights adequately, third parties could use our technology, and our ability to compete in the market would be reduced. In addition, employees, consultants and others who participate in developing our products may breach their agreements with us regarding our intellectual property, and we may not have adequate remedies for the breach. We also may not be able to effectively protect our intellectual property rights in some foreign countries. For a variety of reasons, we may decide not to file for patent, copyright or trademark protection outside the United States. We also realize that our trade secrets may become known through other means not currently foreseen by

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us. Notwithstanding our efforts to protect our intellectual property, our competitors may independently develop similar or alternative technologies or products that are equal or superior to our technology and products without infringing any of our intellectual property rights, or may design around our proprietary technologies.

***Our products rely on licenses from third parties, and if we lose access to these technologies, our revenues could decline.***

We rely on technology that we license from others, including technology that is integral to our products. We have entered into license agreements with SRI International, IBM Corporation, MIT, Olympus Optical Co., Ltd., and Heartport, Inc., now part of Johnson & Johnson. Any of these agreements may be terminated for breach. If any of these agreements is terminated, we may be unable to reacquire the necessary license on satisfactory terms, or at all. The loss or failure to maintain these licenses could prevent or delay further development or commercialization of our products.

***Public announcements of litigation events may cause our stock price to decline.***

During the course of our administrative proceedings and/or lawsuits, there may be public announcements of the results of hearings, motions, and other interim proceedings or developments in the litigation. If securities analysts or investors perceive these results to be negative, it could have a substantial negative effect on the trading price of our stock.

***Our products are subject to a lengthy and uncertain domestic regulatory process. If we do not obtain and maintain the necessary domestic regulatory approvals, we will not be able to market and sell our products in the United States.***

Our products and operations are subject to extensive regulation in the United States by the U.S. Food and Drug Administration, or FDA. The FDA regulates the research, testing, manufacturing, safety, labeling, storage, record keeping, promotion, distribution, and production of medical devices in the United States to ensure that medical products distributed domestically are safe and effective for their intended uses. In order for us to market certain products for use in the United States, we generally must first obtain clearance from the FDA, pursuant to Section 510(k) of the Federal Food, Drug, and Cosmetic Act, or FDCA. Clearance under Section 510(k) requires demonstration that a new device is substantially equivalent to another legally marketed device. If we modify our products after they receive FDA clearance, the FDA may require us to submit a separate 510(k) or premarket approval application, or PMA, for the modified product before we are permitted to market the products in the U.S. In addition, if we develop products in the future that are not considered to be substantially equivalent to a legally marketed device, we will be required to obtain FDA approval by submitting a PMA.

The FDA may not act favorably or quickly in its review of our 510(k) or PMA submissions, or we may encounter significant difficulties and costs in our efforts to obtain FDA clearance or approval, all of which could delay or preclude sale of new products in the United States. Furthermore, the FDA may request additional data, require us to conduct further testing, or compile more data, including clinical data or clinical studies, in support of a 510(k) submission. The FDA may also, instead of accepting a 510(k) submission, require us to submit a PMA, which is typically a much more complex application than a 510(k). To support a PMA, the FDA would likely require that we conduct one or more clinical studies to demonstrate that the device is safe and effective, rather than substantially equivalent to another legally marketed device. We may not be able to meet the requirements to obtain 510(k) clearance or PMA approval, or the FDA may not grant any necessary clearances or approvals. In addition, the FDA may place significant limitations upon the intended use of our products as a condition to a 510(k) clearance or PMA approval. Product applications can also be denied or withdrawn due to failure to comply with regulatory requirements or the occurrence of unforeseen problems following clearance or approval. Any delays or failure to obtain FDA clearance or approvals of new products we develop, any limitations imposed by the FDA on new product use, or the costs of obtaining FDA clearance or approvals could have a material adverse effect on our business, financial condition and results of operations.

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In order to conduct a clinical investigation involving human subjects for the purpose of demonstrating the safety and effectiveness of a device, a company must, among other things, apply for and obtain Institutional Review Board, or IRB, approval of the proposed investigation. In addition, if the clinical study involves a significant risk (as defined by the FDA) to human health, the sponsor of the investigation must also submit and obtain FDA approval of an investigational device exemption, or IDE, application. We may not be able to obtain FDA and/or IRB approval to undertake clinical trials in the U.S. for any new devices we intend to market in the United States in the future. If we obtain such approvals, we may not be able to comply with the IDE and other regulations governing clinical investigations or the data from any such trials may not support clearance or approval of the investigational device. Failure to obtain such approvals or to comply with such regulations could have a material adverse effect on our business, financial condition and results of operations.

***Our products are subject to various international regulatory processes and approval requirements. If we do not obtain and maintain the necessary international regulatory approvals, we will not be able to market and sell our products in foreign countries.***

To be able to market and sell our products in other countries, we must obtain regulatory approvals and comply with the regulations of those countries. These regulations, including the requirements for approvals, and the time required for regulatory review vary from country to country. Obtaining and maintaining foreign regulatory approvals are expensive, and we cannot be certain that we will receive regulatory approvals in any foreign country in which we plan to market our products. If we fail to obtain regulatory approval in any foreign country in which we plan to market our products, our ability to generate revenue will be harmed.

The European Union requires that manufacturers of medical products obtain the right to affix the CE mark to their products before selling them in member countries of the European Union. The CE mark is an international symbol of adherence to quality assurance standards and compliance with applicable European medical device directives. In order to obtain the right to affix the CE mark to products, a manufacturer must obtain certification that its processes meet certain European quality standards. In January 1999, we received permission to affix the CE mark to our *da Vinci* Surgical System and EndoWrist instruments.

If we modify existing products or develop new products in the future, including new instruments, we may need to apply for permission to affix the CE mark to such products. In addition, we will be subject to annual regulatory audits in order to maintain the CE mark permissions we have already obtained. We cannot be certain that we will be able to obtain permission to affix the CE mark for new or modified products or that we will continue to meet the quality and safety standards required to maintain the permissions we have already received. If we are unable to maintain permission to affix the CE mark to our products, we will no longer be able to sell our products in member countries of the European Union.

***If institutions or surgeons are unable to obtain reimbursement from third-party payors for procedures using our products, or if reimbursement is insufficient to cover the costs of purchasing our products, we may be unable to generate sufficient sales to support our business.***

Domestic institutions will typically bill the services performed with our products to various third-party payors, such as Medicare, Medicaid and other government programs and private insurance plans. If hospitals do not obtain sufficient reimbursement from third-party payors for procedures performed with our products, or if government and private payors' policies do not permit reimbursement for surgical procedures performed using our products, we may not be able to generate the revenues necessary to support our business.

Our success in international markets also depends upon the eligibility of our products for reimbursement through government-sponsored health care payment systems and third-party payors. Reimbursement practices vary significantly by country. Many international markets have government-managed healthcare systems that control reimbursement for new products and procedures. Other foreign

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markets have both private insurance systems and government-managed systems that control reimbursement for new products and procedures. Market acceptance of our products may depend on the availability and level of reimbursement in any country within a particular time. In addition, health care cost containment efforts similar to those we face in the United States are prevalent in many of the other countries in which we intend to sell our products and these efforts are expected to continue.

***Because our markets are highly competitive, customers may choose to purchase our competitors' products or may not accept Intuitive surgery, which would result in reduced revenue and loss of market share.***

Intuitive surgery is a new technology that must compete with established minimally invasive surgery and open surgery. These procedures are widely accepted in the medical community and in many cases have a long history of use. We also face competition from several companies that are developing new approaches and products for the minimally invasive surgery market. In addition, we presently face increasing competition from companies who are developing robotic and computer-assisted surgical systems. Our revenues may be reduced or eliminated if our competitors develop and market products that are more effective or less expensive than our products. If we are unable to compete successfully, our revenues will suffer. We may not be able to maintain or improve our competitive position against current or potential competitors, especially those with greater resources. In many cases, the medical conditions that can be treated using our products can also be treated by drugs or other medical devices and procedures. Many of these alternative treatments are also widely accepted in the medical community and have a long history of use. In addition, technological advances could make such treatments more effective or less expensive than using our products, which could render our products obsolete or unmarketable. We cannot be certain that physicians will use our products to replace or supplement established treatments or that our products will be competitive with current or future technologies.

***If defects are discovered in our products, we may incur additional unforeseen costs, hospitals may not purchase our products and our reputation may suffer.***

Our products incorporate mechanical parts and computer software, either of which can contain errors or failures, especially when first introduced. In addition, new products or enhancements may contain undetected errors or performance problems that, despite testing, are discovered only after commercial shipment. Because our products are designed to be used to perform complex surgical procedures, we expect that our customers will have an increased sensitivity to such defects. We cannot assure you that our products will not experience errors or performance problems in the future. If we experience flaws or performance problems, any of the following could occur:

delays in product shipments;

loss of revenue;

delay in market acceptance;

diversion of our resources;

damage to our reputation;

increased service or warranty costs; or

product liability claims.

***We have limited experience in manufacturing our products and may encounter manufacturing problems or delays that could result in lost revenue.***

We have manufactured a limited number of our products for sale to customers. We may be unable to establish or maintain reliable, high-volume manufacturing capacity. Even if this capacity can be

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established and maintained, the cost of doing so may increase the cost of our products and reduce our ability to compete. We may encounter difficulties in scaling up production of our products, including:

problems involving production yields;

quality control and assurance;

component supply shortages;

shortages of qualified personnel; and

compliance with state, federal and foreign regulations.

Manufacturing our products is a complex process. If demand for our products exceeds our manufacturing capacity, we could develop a substantial backlog of customer orders. If we are unable to establish and maintain larger-scale manufacturing capabilities, our ability to generate revenues will be limited and our reputation in the marketplace would be damaged.

***If our manufacturing facilities do not continue to meet federal, state or European manufacturing standards, we may be required to temporarily cease all or part of our manufacturing operations, which would result in product delivery delays and lost revenue.***

Our manufacturing facilities are subject to periodic inspection by regulatory authorities and our operations will continue to be regulated by the FDA for compliance with Good Manufacturing Practice requirements contained in the FDA's Quality System Regulations, or QSR. We are also required to comply with International Organization for Standardization, or ISO, quality system standards in order to produce products for sale in Europe. If we fail to continue to comply with Good Manufacturing Practice requirements or ISO standards, we may be required to cease all or part of our operations until we comply with these regulations. We are currently in compliance with ISO standards. The FDA inspected our Mountain View and Sunnyvale facilities in March 2000 and December 2002, respectively. The Good Manufacturing Practice issues raised by the FDA during the inspections either were satisfactorily resolved with the FDA, or we believe can be resolved by us to the FDA's satisfaction, although we cannot assure you that we will be able to do so. We continue to be subject to FDA inspections at any time. Maintaining such compliance is difficult and costly. We cannot be certain that our facilities will be found to comply with Good Manufacturing Practice requirements or ISO standards in future inspections and audits by regulatory authorities.

The state of California also requires that we maintain a license to manufacture medical devices. Our facilities and manufacturing processes were inspected in February 1998. In March 1998, we passed the inspection and received a device manufacturing license from the California Department of Health Services. In March 2002, our facilities and manufacturing processes in our Sunnyvale facility were re-inspected by the Food and Drug Branch, or FDB, and we were issued an updated device manufacturing license for our Sunnyvale facility. We are subject to periodic inspections by the California Department of Health Services and if we are unable to maintain this license following any future inspections, we will be unable to manufacture or ship any products.

***Our reliance on sole and single source suppliers could harm our ability to meet demand for our products in a timely manner or within budget.***

Some of the components necessary for the assembly of our products are currently provided to us by sole source suppliers or single source suppliers. We purchase components through purchase orders rather than long-term supply agreements and generally do not maintain large volumes of inventory. The disruption or termination of the supply of components could cause a significant increase in the costs of these components, which could affect our profitability. A disruption or termination in the supply of components could also result in our inability to meet demand for our products, which could harm our ability to generate revenues, lead to customer dissatisfaction and damage our reputation. Furthermore, if we are required to change the manufacturer of a key component of our products, we may be required to

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verify that the new manufacturer maintains facilities and procedures that comply with quality standards and with all applicable regulations and guidelines. The delays associated with the verification of a new manufacturer could delay our ability to manufacture our products in a timely manner or within budget.

***The use of our products could result in product liability claims that could be expensive, divert management's attention and harm our business.***

Our business exposes us to significant risks of product liability claims. The medical device industry has historically been litigious, and we face financial exposure to product liability claims if the use of our products were to cause injury or death. There is also the possibility that defects in the design or manufacture of our products might necessitate a product recall. Although we maintain product liability insurance, the coverage limits of these policies may not be adequate to cover future claims. Particularly as sales of our products increase, we may be unable to maintain product liability insurance in the future at satisfactory rates or in adequate amounts. A product liability claim, regardless of its merit or eventual outcome, could result in significant legal defense costs. A product liability claim or any product recalls could also harm our reputation or result in a decline in revenues.

***Our growth will place a significant strain on our management systems and resources and, if we fail to manage our growth, our ability to market, sell and develop our products may be harmed.***

In order to complete clinical trials, scale-up manufacturing, expand marketing and distribution capabilities and develop future products, we must expand our operations. We expect that future expansion will occur particularly in the areas of sales and marketing, manufacturing and research and development. This expansion will likely result in new and increased responsibilities for management personnel and place significant strain upon our management, operating and financial systems and resources. We sell our products primarily through direct sales, and we currently have a relatively small sales organization. Our products require a complex marketing and sales effort targeted at several levels within a prospective customer's organization. We face significant challenges and risks in building and managing our sales team, including managing geographically dispersed sales efforts and adequately training our sales people in the use and benefits of our products. To accommodate our growth and compete effectively, we will be required to improve our information systems, create additional procedures and controls and expand, train, motivate and manage our work force. Our future success will depend in part on the ability of current and future management personnel to operate effectively, both independently and as a group. We cannot be certain that our personnel, systems, procedures and controls will be adequate to support our future operations.

***If we lose our key personnel or are unable to attract and retain additional personnel, our ability to compete will be harmed.***

We are highly dependent on the principal members of our management and scientific staff. Our product development plans depend in part on our ability to attract and retain engineers with experience in mechanics, software and optics. Attracting and retaining qualified personnel will be critical to our success, and competition for qualified personnel is intense. We may not be able to attract and retain personnel on acceptable terms given the competition for such personnel among technology and healthcare companies, and universities. The loss of any of these persons or our inability to attract and retain qualified personnel could harm our business and our ability to compete.

***International sales of our products account for a significant portion of our revenues, which exposes us to risks inherent in international operations. Our growth may be limited if we are unable to successfully manage our international activities.***

Our business currently depends in large part on our activities in Europe, and a component of our growth strategy is to expand our presence into additional foreign markets. Sales to markets outside of the United States accounted for approximately 18%, 34% and 36% of our sales for 2002, 2001, and 2000,

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respectively. We will be subject to a number of challenges that specifically relate to our international business activities. These challenges include:

failure of local laws to provide the same degree of protection against infringement of our intellectual property;

protectionist laws and business practices that favor local competitors, which could slow our growth in international markets;

the risks associated with foreign currency exchange rate fluctuation;

the expense of establishing facilities and operations in new foreign markets; and

building an organization capable of supporting geographically dispersed operations.

Currently, a majority of our international sales are denominated in U.S. dollars. As a result, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. If we are unable to meet and overcome these challenges, our international operations may not be successful, which would limit the growth of our business.



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**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

This joint proxy statement/prospectus and the documents incorporated by reference in this joint proxy statement/prospectus contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations, business strategies, operating efficiencies or synergies, competitive positions, growth opportunities for existing products, plans and objectives of management, and markets for the Intuitive Surgical common stock and Computer Motion common stock and other matters. Statements in this joint proxy statement/prospectus and the documents incorporated by reference that are not historical facts are hereby identified as forward-looking statements for the purpose of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. These forward-looking statements, including, without limitation, those relating to the future business prospects, revenues and income, in each case relating to Intuitive Surgical and Computer Motion, wherever they occur in this joint proxy statement/prospectus or the documents incorporated herein by reference, are necessarily estimates reflecting the best judgment of the respective management of Intuitive Surgical and Computer Motion and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in this joint proxy statement/prospectus and incorporated by reference in this joint proxy statement/prospectus. In addition to the risk factors identified elsewhere, important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include but are not limited to the following:

Intuitive Surgical's ability to integrate the operations of Computer Motion with those of Intuitive Surgical, including the respective research and development operations, personnel, product lines and technology, and the rate at which the operations of the two companies are integrated;

Intuitive Surgical's ability to achieve anticipated synergies and cost savings of the merger and the rate at which these anticipated synergies and costs savings are achieved;

expenditures involved completing the merger and integrating the operations of Computer Motion with those of Intuitive Surgical, which may require Intuitive Surgical to raise additional financing;

potential delay in the completion the merger as a result of governmental or regulatory review, which delay will create additional pressure on the limited financial resources of both companies;

potential undisclosed or undiscovered obligations, commitments or other liabilities of Computer Motion that may become obligations of Intuitive Surgical upon completion of the merger;

timing and success of product development and market acceptance of developed products;

regulatory approvals, clearances and restrictions;

guidelines and recommendations in the health care and patient communities;

intellectual property positions and litigation;

competition in the medical device industry and in the specific market of surgery in which Intuitive Surgical and Computer Motion operate; and

unanticipated manufacturing disruptions, delays in regulatory approvals of new manufacturing facilities or the inability to meet demand for products.

Words such as estimate, project, plan, intend, expect, anticipate, believe and similar expressions are intended to identify forward-looking statements. These forward-looking statements are found at various places throughout this joint proxy statement/prospectus and the documents incorporated by reference. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this joint proxy statement/prospectus, or in the case of documents incorporated by reference, as of the date of those documents. Neither Intuitive Surgical nor Computer Motion undertakes any obligation to publicly update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this joint proxy statement/prospectus or to reflect the occurrence of unanticipated events, except as required by law.



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**THE MERGER**

*The following is a description of the material aspects of the merger. While we believe that the following description covers the material terms of the merger, this description may not contain all of the information that is important to you. We encourage you to read carefully this entire joint proxy statement/prospectus, including the merger agreement attached to this joint proxy statement/prospectus as Annex A, for a more complete understanding of the merger.*

**General**

Each of the Intuitive Surgical board of directors and the Computer Motion board of directors has approved the merger agreement pursuant to which the businesses of Intuitive Surgical and Computer Motion will be combined in a stock-for-stock merger. At the effective time of the merger, Intuitive Merger Corporation (formerly Iron Acquisition Corporation), a newly-formed subsidiary of Intuitive Surgical, will merge with and into Computer Motion, with Computer Motion surviving the merger and continuing as a wholly owned subsidiary of Intuitive Surgical. Upon completion of the merger, Computer Motion common stockholders will be entitled to receive a fraction of a share of Intuitive Surgical common stock for each share of Computer Motion common stock owned as of the effective time of the merger. The fraction of a share of Intuitive Surgical common stock to be issued with respect to each share of Computer Motion common stock will be determined by a formula described below. Based on the capitalization of Intuitive Surgical and Computer Motion and the market price of Computer Motion common stock as of the date of this joint proxy statement/prospectus and assuming that the merger is completed on June 20, 2003, we estimate that the exchange ratio will be approximately 0.52. The exchange ratio will be adjusted proportionately in the event that the proposed reverse split of Intuitive Surgical's common stock is approved by Intuitive Surgical's stockholders and implemented by Intuitive Surgical's board of directors. Stockholders of Intuitive Surgical will continue to own their existing shares.

The final exchange ratio will be calculated based on the total number of fully diluted shares outstanding for Intuitive Surgical and Computer Motion (including out-of-the-money options and warrants for both companies) immediately prior to the effective time of the merger. The number of Computer Motion's fully diluted shares will vary based on the number of shares of Computer Motion common stock into which Computer Motion's Series D convertible preferred stock will be convertible and the number of shares of Computer Motion common stock which may be issued to pay accrued dividends on the Series D convertible preferred stock upon conversion. The Series D convertible preferred stock was issued in accordance with an Exchange Agreement, dated March 6, 2003, among Computer Motion and the holders of Computer Motion's Series C convertible preferred stock and pursuant to which all outstanding shares of Series C convertible preferred stock were exchanged for shares of Series D convertible preferred stock. All shares of Computer Motion Series D convertible preferred stock will convert into shares of Computer Motion common stock immediately prior to the effective time of the merger. In the event that the average of the closing bid prices of Computer Motion's common stock for the 20 consecutive trading days ending 15 days prior to the Computer Motion special meeting is below \$1.86 per share, the conversion ratio for Computer Motion's Series D convertible preferred stock could increase. As a result, the exchange ratio in the merger may decrease. After \_\_\_\_\_, 2003, stockholders may visit Intuitive Surgical's website, [www.intuitivesurgical.com](http://www.intuitivesurgical.com), or Computer Motion's website, [www.computermotion.com](http://www.computermotion.com), for announcements regarding the exchange ratio. Computer Motion stockholders will receive cash in lieu of any fractional shares of Intuitive Surgical common stock. Please see The Merger Agreement The Merger Consideration and Conversion of Securities.

Based on the estimated exchange ratio of approximately 0.52, we estimate that, on a pre-reverse split basis, Intuitive Surgical will issue approximately 14.7 million shares of Intuitive Surgical common stock in the merger and reserve approximately 5.7 million shares of Intuitive Surgical common stock for future issuance in connection with Intuitive Surgical's assumption of Computer Motion's outstanding options and warrants (including out-of-the-money options and warrants).

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At the effective time of the merger, each outstanding option and warrant to purchase Computer Motion stock will cease to represent a right to acquire shares of Computer Motion stock and will be converted into an option or warrant to purchase a number of shares of Intuitive Surgical common stock equal to the number of shares of Computer Motion common stock subject to such option or warrant multiplied by the exchange ratio, at a per share exercise price equal to the existing per share exercise price of such option or warrant divided by the exchange ratio.

In connection with the proposed merger, Intuitive Surgical and Computer Motion have obtained an immediate stay through August 31, 2003 of all proceedings in the pending litigation proceedings between the companies. As part of the stays, the courts have ceased all further activity in the cases during the period of stays and will not issue any opinions or orders on issues already submitted for decision. The stays may be terminated before, or extended beyond, August 31, 2003 under specified circumstances. In the event the merger is completed, Intuitive Surgical and Computer Motion will request dismissal with prejudice of the pending litigations.

## **Background of the Merger**

Discussions between Intuitive Surgical and Computer Motion regarding patents and related legal issues occurred sporadically from 2000 through 2003. Since May 2000 and March 2001, Intuitive Surgical and Computer Motion have been engaged in patent infringement disputes in U.S. federal district courts in California and Delaware, respectively, in addition to various patent administrative proceedings in the patent offices of the United States and Europe.

The pending patent litigations between the companies have created uncertainty for each company's products, development efforts and intellectual property, and also have been a significant drain on each company's financial and managerial resources. Accordingly, the companies preliminarily discussed the topic of a potential merger on several occasions.

In February 2001, Mr. Lonnie Smith, Intuitive Surgical's President and CEO, and Dr. Fred Moll, one of the founders of Intuitive Surgical and a member of its board of directors, met with Mr. Robert Duggan, Computer Motion's Chairman and CEO, and Dr. Yulun Wang, Computer Motion's founder and then Chief Technical Officer, in Santa Barbara, California to discuss how the ongoing legal disputes could be resolved. After presentations by the litigation attorneys from both sides regarding the merits of various legal positions, the parties discussed several possible business solutions. While the concept of a potential merger was raised, it was not pursued further at that time.

In early 2002, Mr. Smith and Dr. Moll again met with Mr. Duggan and Dr. Wang in Northern California to discuss various issues related to the ongoing legal disputes between the companies. While the meeting focused on the potential advantages of combining the companies into a single entity, these discussions were not pursued further due to a lack of agreement as to financial and operational aspects of the potential combined company.

During the next several months, Dr. Wang and Mr. Smith had various discussions regarding whether Intuitive Surgical would be willing to make an offer to merge the companies, which offer Dr. Wang could then take to the board of directors of Computer Motion. These discussions led to an exploration of how the ongoing legal disputes could be settled without a merger.

In May 2002, the U.S. Patent Office ruled in favor of Intuitive Surgical regarding one of Computer Motion's AESOP patents and one of its ZEUS patents. In June 2002, Computer Motion brought a new litigation in California federal court challenging the Patent Office rulings.

In late May 2002, the Delaware federal court granted summary judgment that Computer Motion's AESOP and ZEUS products literally infringed IBM Corporation's and Intuitive Surgical's U.S. patent rights on voice-controlled surgical robots and that Computer Motion's HERMES product infringed to the extent such product interacts with the AESOP and ZEUS products. In August 2002, after a multi-day trial, a Delaware jury returned a verdict in favor of Intuitive Surgical, finding that Computer Motion had failed to prove that the patent was invalid and awarding Intuitive Surgical \$4.4 million for damage caused

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by Computer Motion's sales of infringing products. The parties then focused on Computer Motion's prosecution laches defense, which the judge in the Delaware case was to decide.

During the week of September 20, 2002 at the European Association of CardioThoracic Surgeons conference, executives from Intuitive Surgical and Computer Motion held various discussions regarding the ongoing legal patent disputes in the U.S. District courts, including a discussion of the significant costs of litigation and the associated drain on management resources.

After further discussions during the week of September 29, 2002 concerning possible ways of settling the ongoing patent disputes, both companies agreed to a meeting the following week. On October 4, 2002, Susan Barnes, Intuitive Surgical's Chief Financial Officer, Aleks Cukic, Intuitive Surgical's Vice President of Business Development and Strategic Planning, and David Shaw, Intuitive Surgical's Vice President of Legal Affairs, met in Santa Barbara with Darrin Uecker, Computer Motion's Chief Technical Officer, Joseph DeVivo, Computer Motion's President and Chief Operating Officer, and Ken Stein, Computer Motion's Director of Intellectual Property, to discuss a possible settlement of the pending patent litigations. During this meeting, the possibility of combining the two companies was again raised.

During the ensuing weeks, further telephonic discussions took place between senior executives of the companies. During these discussions, the parties further evaluated the possibility of forming a new company by merging Intuitive Surgical and Computer Motion and determined that another meeting would be in order.

On October 21, 2002, Ms. Barnes and Messrs. Cukic and Shaw of Intuitive Surgical again met with Messrs. Uecker and DeVivo of Computer Motion in Sunnyvale, California. During the meeting, the participants concluded that since discussions to settle the litigation through a cross-license were proving of limited value, a more productive discussion would focus on merging the two companies. The remainder of the meeting was spent discussing the possibility of a merger at a broad conceptual level. The representatives of Intuitive Surgical indicated that Intuitive Surgical would consider making a good-faith offer, and the representatives of Computer Motion indicated that, in the event such an offer was received, Computer Motion would review the offer and determine whether the offer was in the best interests of Computer Motion's stockholders. At that time, Computer Motion was in the final stages of negotiating a new round of financing, so the parties agreed to move quickly.

After the October 21, 2002 meeting, executives of Intuitive Surgical and Computer Motion had various telephonic discussions regarding the possible structure and timeline for a potential offer and the status of Computer Motion's pending financing transaction. During this same time period, Mr. Smith had several telephonic conversations with various members of Intuitive Surgical's board of directors to keep them apprised, both formally and informally, of Intuitive Surgical's discussions with Computer Motion.

On October 24, 2002, Intuitive Surgical sent to Computer Motion a preliminary, non-binding proposal to merge the two companies. The proposal contemplated a combination of the two companies to form a single surviving entity, 85% of the equity of which would be owned by the existing equity holders of Intuitive Surgical and 15% of the equity of which would be owned by the existing equity holders of Computer Motion. After reviewing the proposal, the board of directors of Computer Motion determined that (1) the valuation of Computer Motion contemplated by the proposal was inappropriately low, (2) Computer Motion would not accept the terms of the proposal and (3) Computer Motion would not make a counter proposal. Instead, the board of directors of Computer Motion determined to complete the pending financing to further fund Computer Motion's operations. Despite the failure to reach an agreement at this time, the companies agreed that the effort had been productive and might help in any future attempts to merge the two companies.

Following the failed merger discussions, settlement discussions again focused on paths to settle the ongoing patent disputes, especially in light of the anticipated rulings of the federal court in Delaware on Computer Motion's defense of prosecution laches. The parties began to discuss potential elements of a settlement proposal, including identification of specific patents and related intellectual property that might be included in a potential cross-license agreement. During early December 2002, a conference call between

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representatives of the companies and their respective internal patent counsel was held to discuss the parameters of a potential settlement in greater detail. On December 10, 2002, the Delaware court ruled in Intuitive Surgical's favor on Computer Motion's prosecution laches defense. Upon learning of such ruling, the parties were unable to reach agreement as to the terms of a mutually acceptable settlement and the detailed settlement discussions terminated on December 11, 2002.

During the week of January 27, 2003, executives of Intuitive Surgical and Computer Motion met at the Society of Thoracic Surgeons conference in San Diego, California and again discussed the topic of settling the ongoing patent disputes, including by means of a merger of the companies.

After a series of further discussions in early February 2003 in which the status of the various litigations and the companies' respective views with regard to the merits and risks of those litigations were addressed, the companies once again began to discuss the possibility of a merger. On February 7, 2003, executives of Intuitive Surgical and Computer Motion agreed that the concept of a combination of the two companies merited further consideration. Immediately following that discussion, the parties were informed that the federal court in California granted partial summary judgment in favor of Computer Motion on its allegations that Intuitive Surgical's *da Vinci* surgical system literally infringes a claim of Computer Motion's 809 patent.

During the next several weeks, representatives of the companies had various conversations. These conversations were based on a mutual view that ongoing patent litigation threatened the potential growth of a promising portion of the surgical industry, and that finite financial and management resources were better utilized in advancing the products and technologies of the companies. The companies agreed that a settlement of the pending litigations was in the best interests of the companies, and that a merger transaction between the companies could be an effective method of reaching such a settlement.

On February 13, 2003, Computer Motion secured a \$2.3 million short-term bridge loan enabling it to obtain a bond related to the Delaware case.

On February 18 and again on February 25, 2003, outside litigation counsel for both companies discussed the possibility of a merger, including the timing of a potential merger transaction vis-à-vis the trial in federal court in California.

On February 25, 2003, Messrs. Smith and Duggan spoke by telephone and arranged for a team from Computer Motion to meet face-to-face with a team from Intuitive Surgical to attempt to negotiate a mutually acceptable merger transaction that would end the pending patent litigations.

During the evening of February 25, 2003, Mr. Duggan met with Messrs. DeVivo and Uecker to prepare for the meeting with Intuitive Surgical and to discuss the parameters of an acceptable merger transaction.

On February 26, 2003, Messrs. DeVivo and Uecker of Computer Motion met with Ms. Barnes and Messrs. Smith and Cukic of Intuitive Surgical in Sunnyvale, California. At the meeting, the parties discussed the economic terms of a proposed merger transaction. Following discussions among representatives of Computer Motion, including Messrs. DeVivo, Uecker and Duggan, and further discussions among representatives of Intuitive Surgical, the parties negotiated a term sheet that contemplated a merger of Intuitive Surgical and Computer Motion, subject to negotiation of a definitive agreement and approval by the board of directors of each company. The term sheet contemplated that Computer Motion's equity holders would own 32% and Intuitive Surgical's equity holders would own 68% of the combined company on a fully diluted basis. The term sheet also contemplated that the combined company would have a nine-member board of directors, including Mr. Duggan and another director to be designated by Computer Motion. The term sheet also contemplated that, upon execution of a definitive merger agreement, the parties would jointly request stays of all pending litigations and patent administrative actions between the parties and that Computer Motion would be relieved from the Delaware court's requirement that it post a \$2.2 million bond as security for the damage award in the Delaware case. In addition, the term sheet contemplated that a \$10.0 million termination fee would be payable by any party that failed to perform its obligations under the definitive merger agreement.

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During the week of February 24, 2003, Mr. Duggan updated the board of directors of Computer Motion on the status of discussions with Intuitive Surgical regarding the proposed merger transaction and the Board directed Mr. Duggan and management of Computer Motion to continue to move forward with discussions on behalf of Computer Motion.

Both before and after the February 26, 2003 meeting, Mr. Smith had a series of conversations with various members of Intuitive Surgical's board of directors to apprise them of events and to seek their views regarding the ongoing discussions with Computer Motion.

Intuitive Surgical engaged Bear, Stearns & Co. Inc. on February 27, 2003 to render a fairness opinion in connection with the proposed transaction.

On February 27, 2003, representatives of Intuitive Surgical and Computer Motion and their respective outside counsel met in Los Angeles, California. At this meeting, the parties discussed the terms of the proposed transaction, as well as the process and timing related to execution of a definitive merger agreement. In addition, the parties commenced detailed business and legal due diligence on one another.

On February 28, 2003, outside counsel to Intuitive Surgical presented to Computer Motion and its counsel drafts of an exclusivity agreement and a mutual confidentiality agreement. The exclusivity agreement, which was executed by the parties on March 3, 2003, provided that, until March 6, 2003, Computer Motion would not solicit any proposals to acquire Computer Motion and would not negotiate with any other party or enter into any agreement with any other party relating to an acquisition proposal. Intuitive Surgical also agreed to a reciprocal provision with respect to proposals to acquire Intuitive Surgical. The parties executed the mutual confidentiality agreement on March 3, 2003.

During the period from February 28, 2003 to March 4, 2003, the parties and their respective outside counsel and Bear Stearns and H.C. Wainwright met in Newport Beach, California to prepare and negotiate drafts of a definitive merger agreement and to continue business and legal due diligence. On February 28, 2003, counsel to Intuitive Surgical presented to Computer Motion and its counsel a draft of the merger agreement, which provided for a reverse triangular merger of Computer Motion with a newly-formed subsidiary of Intuitive Surgical. The draft merger agreement also contemplated that the directors and executive officers of each party would execute stockholder support agreements pursuant to which they would agree to vote their shares of stock in favor of the transactions contemplated by the merger agreement. Thereafter, the parties engaged in extensive negotiations regarding the various terms of the merger agreement, including the following:

In calculating the exchange ratio in accordance with the 68%/32% split of fully diluted shares referenced in the term sheet, the parties discussed whether certain warrants to acquire Computer Motion stock, which warrants had an exercise price that was significantly higher than the current market price and which were due to expire within one year, should be included in the fully diluted calculation. The parties agreed to exclude these warrants from the calculation of the exchange ratio.

The parties discussed the \$10 million reciprocal termination fee referenced in the term sheet. Based on discussion among counsel regarding the enforceability of a termination fee of that size in the context of the proposed transaction, the parties agreed that the reciprocal termination fee would be limited to \$2.5 million.

Computer Motion objected to having a material adverse change condition in the merger agreement, principally because of uncertainty as to the effect that the announcement of the proposed transaction might have on Computer Motion's revenues, as customers might delay purchasing decisions pending completion of the merger and clarification of the combined company's business strategy going forward. Intuitive Surgical agreed to limit the material adverse change condition to the following three events: (1) any material impairment of Computer Motion's intellectual property; (2) any material change in Computer Motion's outstanding capitalization; and (3) the incurrence by Computer Motion of any material liabilities or obligations prior to the closing of the merger.

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Due to Computer Motion's financial position and concern that announcement of the proposed transaction could adversely impact its revenues prior to the closing, Computer Motion requested that Intuitive Surgical provide it with a working capital line of credit of up to \$7.3 million to meet its liquidity needs prior to the closing. The parties negotiated a loan agreement and security agreement in parallel with negotiation of the merger agreement.

Due to Computer Motion's concern that if it were to agree to a stay of all pending litigations, it would lose its ability to move rapidly to trial in California if the merger were not completed and the stay in the District Court in California ultimately were lifted, the parties agreed to a procedure to request a trial date within a specified period of time after the termination date of the stay, if the merger agreement were to terminate.

The parties and their respective counsel reviewed the terms of Computer Motion's outstanding Series C Preferred Stock in light of the proposed transaction. The parties determined that it would be desirable to have the holders of the Series C Preferred Stock exchange their shares into a newly-created class of Series D convertible preferred stock. The Series D convertible preferred stock would (1) provide that the holders would be entitled to convert their shares at a conversion ratio that generally would return a minimum of 135% of their original purchase price, based on the trading prices of Computer Motion's common stock prior to completion of the merger and (2) provide that the holders would vote together with the holders of common stock in the vote by Computer Motion's stockholders on the proposed merger. From March 3 to March 6, 2003, Computer Motion negotiated the terms of the exchange with the holders of its Series C Preferred Stock. In connection with this negotiation, the holders of Computer Motion's Series D convertible preferred stock requested, and Computer Motion agreed, to reduce the exercise price on outstanding warrants held by the preferred stockholders to acquire Computer Motion common stock. The exercise price on one series of warrants to acquire 1,759,345 shares was reduced from \$1.78 to \$1.50 per share, and on another series to acquire 1,759,345 shares, from \$2.17 to \$1.50 per share. On March 6, Computer Motion executed exchange agreements with the holders of all outstanding shares of Series C Preferred Stock.

On March 5, 2003, Intuitive Surgical's board of directors held a special meeting in Sunnyvale, California at which senior management of Intuitive Surgical and Bear Stearns and outside legal counsel of Intuitive Surgical were present in person or by telephone. Senior management of Intuitive Surgical made presentations on the background and strategic rationale for the proposed transaction. Representatives of Latham & Watkins LLP, Intuitive Surgical's outside legal counsel, reviewed with the Intuitive Surgical board of directors the terms of the proposed agreements and the fiduciary duties of the Intuitive Surgical board of directors. Representatives of Bear Stearns made a presentation on the financial aspects of the proposed transaction, and confirmed that Bear Stearns was prepared, upon request of the board and subject to finalization of the terms of the transaction, to render an opinion as to the fairness of the transaction from a financial point of view to Intuitive Surgical. After discussion among the members of the board and the financial and legal advisors, Intuitive Surgical's board of directors authorized management to continue negotiations of the definitive agreements with Computer Motion.

Also on the evening of March 5, 2003, Computer Motion's board of directors held a special telephonic meeting to consider the proposed merger with Intuitive Surgical. At this meeting, Mr. Duggan reported to the Computer Motion board of directors on the strategic and business rationale as well as the risks for this transaction. Representatives of Stradling Yocca Carlson & Rauth reviewed with the directors their fiduciary duties. Representatives of H.C. Wainwright & Co., Inc. presented its financial analysis of the transaction and discussed the analysis with the board. H.C. Wainwright then delivered its oral opinion that the exchange ratio in the merger was fair to Computer Motion's stockholders from a financial point of view and indicated that it would render a written opinion to that effect. Representatives of Stradling Yocca Carlson & Rauth then reported to the board on the material terms and conditions of the merger agreement and the related transaction documents. Following these presentations, the Computer Motion board of directors asked various questions and discussed the potential merger, following which, by unanimous vote, it determined that the merger was fair to, advisable and in the best interests of Computer Motion and its



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stockholders, and approved the merger, the merger agreement and related matters subject to the resolution of some open issues primarily related to the working capital line of credit.

During the morning on March 6, 2003, the Intuitive Surgical board of directors held a telephonic meeting attended by Intuitive Surgical's senior management, Bear Stearns and outside legal counsel. Senior management of Intuitive Surgical and Intuitive Surgical's legal counsel and Bear Stearns made presentations on the status of negotiations of the terms of the proposed merger agreement. After discussion among the members of the board and the Bear Stearns and legal counsel, Intuitive Surgical's board of directors authorized management to continue negotiations of the definitive agreements with Computer Motion.

During the evening of March 6, 2003, the Intuitive Surgical board of directors held a telephonic meeting attended by Intuitive Surgical's senior management, Bear Stearns and outside legal counsel. Senior management of Intuitive Surgical and Intuitive Surgical's legal counsel and Bear Stearns made presentations on the outcome of final negotiations of the terms of the proposed merger agreement. A representative of Bear Stearns delivered Bear Stearns' oral opinion, subsequently confirmed in writing, that the exchange ratio is fair, from a financial point of view, to Intuitive Surgical. Following further discussion, the Intuitive Surgical board of directors, by the unanimous vote of those directors present, (1) determined that the terms of the merger agreement and the transactions contemplated by the merger agreement were advisable, fair to and in the best interests of Intuitive Surgical and its stockholders, (2) adopted resolutions approving the merger agreement and the transactions contemplated by the merger agreement and recommending that Intuitive Surgical's stockholders approve and adopt the merger agreement and (3) approved the transactions contemplated by the merger agreement.

Also during the evening of March 6, 2003, Computer Motion's board of directors held a special meeting. At the meeting, representatives of Stradling Yocca Carlson & Rauth summarized for the Computer Motion board of directors the modifications to the form of merger agreement that was approved at the March 5, 2003 meeting as well as modifications to the loan agreement regarding the working capital line of credit. At the same meeting, the Computer Motion board of directors unanimously approved the merger, the merger agreement and related transaction documents.

On March 7, 2003, prior to the opening of the Nasdaq National Market, Intuitive Surgical, Intuitive Merger Corporation and Computer Motion executed the merger agreement and the loan agreement, and the stockholder voting agreements were executed by the applicable parties. Intuitive Surgical and Computer Motion issued a joint press release announcing the execution of the merger agreement.

## **Reasons for the Merger – Intuitive Surgical**

Intuitive Surgical's board of directors has unanimously approved the merger agreement and the transactions contemplated by the merger agreement, and recommends that the Intuitive Surgical stockholders vote **FOR** the proposal to issue Intuitive Surgical common stock pursuant to the merger agreement.

In reaching its decision to approve the merger agreement, Intuitive Surgical's board of directors considered a variety of factors, a number of which are summarized below:

*Complementary Nature of Technologies.* Intuitive Surgical's board of directors believes there is a strategic fit between the technologies of Intuitive Surgical and Computer Motion, including the core competencies, intellectual property rights and focus areas of the companies. Intuitive Surgical's board of directors believes that the merger will permit all major products and technologies currently provided by both companies to survive to the benefit of the surgical community for the foreseeable future. Intuitive Surgical's board of directors further believes that the merger will permit the companies to focus the talent and energy of the combined organization on developing and growing the application of robotics to minimally invasive surgery, bringing significant benefits to patients, surgeons and medical centers throughout the world. Intuitive Surgical's board of directors believes that the combined company has the opportunity to enhance its future prospects through the

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development of products utilizing the technologies and expertise of Intuitive Surgical and Computer Motion.

*Dismissal of Patent Litigations.* Intuitive Surgical's board of directors weighed the benefits of the dismissal of the pending patent litigations with Computer Motion upon completion of the merger. Intuitive Surgical's board of directors considered the diversion of management's attention and significant expense associated with ongoing patent litigation. Intuitive Surgical's board of directors also weighed the possibility that the litigation could result in Intuitive Surgical being found to infringe the intellectual property rights of Computer Motion, which could be ruled to be valid and enforceable and could result in Intuitive Surgical being required either to obtain a license from, and pay damages and/or royalties to, Computer Motion or, in the event the parties were unable to agree on the terms of a license, to redesign or withdraw from the market one or more of Intuitive Surgical's products or product configurations.

*Synergies.* Intuitive Surgical's board of directors evaluated the potential synergies of a combination of Intuitive Surgical with Computer Motion, including the complementary nature of the businesses of Intuitive Surgical and Computer Motion and the opportunity for significant cost savings. Intuitive Surgical's board of directors noted that, although no assurances can be given that any particular level of synergies will be achieved, Intuitive Surgical's management anticipates annual pre-tax cost savings of up to approximately \$18 million commencing in late 2003 as a result of the merger. A significant portion of the cost savings will result from a substantial reduction in headcount. Intuitive Surgical's ability to achieve these goals is subject to economic conditions and unanticipated changes in business conditions, and therefore there can be no assurance that these results will be achieved. Please see *Cautionary Statement Regarding Forward-Looking Statements*.

*Terms of Merger Agreement.* Intuitive Surgical's board of directors reviewed the terms of the merger agreement, including the following:

- (1) the merger agreement provides certainty as to the maximum number of shares of Intuitive Surgical common stock to be issued to Computer Motion equity holders and the percentage of the total shares of Intuitive Surgical common stock that Computer Motion equity holders will own after the merger on a fully diluted basis. Intuitive Surgical's board of directors also considered the premium that the merger consideration implied;
- (2) the provisions of the merger agreement that limit the ability of Computer Motion to solicit other acquisition offers. Intuitive Surgical's board of directors also considered the provisions that require the payment of up to a \$2.5 million termination fee by Intuitive Surgical or Computer Motion if the merger agreement is terminated due to specified reasons. Intuitive Surgical's board of directors believes that these provisions were reasonable under the circumstances; and
- (3) the conditions to completion of the merger, in particular the likelihood of obtaining the necessary stockholder approvals, the absence of any material regulatory conditions and the likelihood that the merger would be completed.

*Fairness Opinion of Bear, Stearns & Co. Inc.* Intuitive Surgical's board of directors reviewed the presentation of Bear Stearns and the opinion of Bear Stearns as of March 6, 2003, as to the fairness, from a financial point of view, to Intuitive Surgical of the exchange ratio in the merger. Please see *Opinion of Bear Stearns to Intuitive Surgical*.

*Purchase Accounting Treatment.* Intuitive Surgical's board of directors considered the expected purchase accounting treatment of the merger as an acquisition of Computer Motion by Intuitive Surgical.

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In addition, Intuitive Surgical's board of directors also identified and considered a variety of potentially negative factors in its deliberations concerning the merger, a number of which are summarized below:

the risk that the potential benefits sought in the merger might not be fully realized;

the risk that the costs of completing the merger and integrating the operations of the two companies could deplete Intuitive Surgical's cash resources prior to the combined company becoming profitable;

the possibility that the merger might not be completed, or that completion might be unduly delayed;

the effect of public announcement of the merger on Intuitive Surgical's stock price;

the potential impact of the merger on the strategic partners, employees and customers of the companies, as well as any rights that might accrue under contractual arrangements if the merger were deemed to constitute a change in control;

the fact that the Intuitive Surgical common stock to be issued in the merger will represent an estimated 28% of the then outstanding common stock of the combined company, and thus existing Intuitive Surgical stockholders would experience significant dilution in their percentage ownership of Intuitive Surgical as a result of the merger;

the risk that management's efforts to integrate the two companies will disrupt Intuitive Surgical's operations;

the risk that Computer Motion may be unable to repay up to \$7.3 million to be loaned by Intuitive Surgical to Computer Motion under the Loan and Security Agreement;

the substantial costs incurred in connection with the merger, including costs of integrating the businesses of the two companies, severance costs associated with reduction in personnel, and transaction expenses arising from the merger;

the risk that despite the efforts of the combined company, key management and employees might not remain employed by the combined company; and

various other risks associated with the merger and the businesses of Intuitive Surgical, Computer Motion and the combined company described in the section entitled "Risk Factors" and in the documents incorporated by reference in this joint proxy statement/prospectus.

Intuitive Surgical's board of directors concluded, however, that overall, the potentially negative factors associated with the merger were outweighed by the potential benefits of the merger.

The above discussion of the factors considered by Intuitive Surgical's board of directors is not intended to be exhaustive, but is believed to set forth the principal factors considered by Intuitive Surgical's board of directors. Intuitive Surgical's board of directors collectively reached the unanimous conclusion to approve the merger agreement in light of the various factors described above and other factors that each member of Intuitive Surgical's board of directors felt were appropriate. In view of the wide variety of factors considered by Intuitive Surgical's board of directors in connection with its evaluation of the merger and the complexity of these matters, Intuitive Surgical's board of directors did not consider it practical, and did not attempt, to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. Rather, Intuitive Surgical's board of directors made its recommendation based on the totality of information presented to and the investigation conducted by it. In considering the factors discussed above, individual directors may have given different weights to different factors.

INTUITIVE SURGICAL'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT INTUITIVE SURGICAL STOCKHOLDERS VOTE **FOR** THE PROPOSAL TO ISSUE INTUITIVE SURGICAL COMMON STOCK PURSUANT TO THE MERGER AGREEMENT.

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**Reasons for the Merger Computer Motion**

In reaching its decision to approve the merger, Computer Motion's board of directors identified and considered a number of potential benefits for Computer Motion and its stockholders that supported the board's decision to approve the merger. These potential benefits include the following:

the fact that the combination of the product lines, sales channels and financial resources of Intuitive Surgical and Computer Motion should result in a combined company that is even more capable of applying surgical robotics to traditional surgery, with the ability to offer surgeons and hospitals the best possible products and support to serve their patients' needs in minimally invasive surgery;

the elimination of costly, long-term patent disputes between Computer Motion and Intuitive Surgical, the elimination of the potential withdrawal from the market of one or more of Computer Motion's products or product configurations, and the ability of the combined company to initiate technology sharing and focus its efforts on developing and growing the application of robotics to minimally invasive surgery;

a stronger balance sheet and cash position resulting from a combination of the two companies;

the fact that the merger would combine two experienced and respected management teams, resulting in a combined management team that is stronger than the management teams of each of the individual companies;

the synergies and cost-saving opportunities that should result from the combination of the two organizations, as redundant operations are eliminated or streamlined;

the larger public float of Intuitive Surgical common stock and the corresponding likelihood of increased trading liquidity for Computer Motion stockholders as a result of the merger; and

the fact that the merger is expected to be tax-free to Computer Motion's stockholders who receive Intuitive Surgical common stock in exchange for their Computer Motion common stock in the merger (except to the extent they receive cash in lieu of fractional shares).

In addition to the potential benefits accruing to Computer Motion and its stockholders from the merger, Computer Motion's board of directors also considered a number of other factors in approving the merger, including the following:

Computer Motion management's view of the business and prospects of Computer Motion and Intuitive Surgical as stand-alone companies and as a combined company;

historical and recent financial data concerning Computer Motion's and Intuitive Surgical's respective businesses and financial performances;

historical market prices, trading volume and projected earnings of Computer Motion common stock and Intuitive Surgical common stock;

the financial analyses and presentation of H.C. Wainwright & Co., Inc. delivered to the Computer Motion board of directors on March 5, 2003, as well as the opinion of H.C. Wainwright, dated March 5, 2003, that, as of such date, the exchange ratio of Intuitive Surgical common stock for each share of Computer Motion common stock in the merger agreement was fair from a financial point of view to the holders of Computer Motion common stock and preferred stock. A copy of H.C. Wainwright's opinion is attached as Annex E to this joint proxy statement/prospectus;

the contractual terms of the merger agreement and related transaction documents, including the number of shares of Intuitive Surgical common stock being offered to Computer Motion stockholders, representations and warranties of the parties, conditions to closing and termination fee provisions; and

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the interest that certain Computer Motion officers and directors may have in the merger, in addition to their interest as Computer Motion stockholders. Please see *The Merger* Interests of Directors and Executive Officers of Computer Motion in the Merger.

In reaching its decision to approve the merger, Computer Motion's board of directors also identified and considered a number of potentially negative factors that could result from the merger, including the following:

the risk that integration of the businesses, products and personnel of the two companies will not be successfully implemented and may require a significant amount of management time and resources;

the risk that the potential synergies and cost-saving opportunities identified by Computer Motion and Intuitive Surgical will not be fully realized;

the risk that the merger may not be well received by customers, business partners and employees of the two companies;

the negative impact on the projected revenue of the combined company resulting from areas of business overlap;

the risk that Computer Motion may be required to repay up to \$7.3 million borrowed under the Loan and Security Agreement;

the risk that, in the event that the average price per share of Computer Motion common stock during a period of 20 trading days ending 15 days prior to the Computer Motion special meeting is below \$1.86, the conversion ratio for Computer Motion's Series D convertible preferred stock could increase and, as a result, the exchange ratio in the merger could decrease;

the significant cost that will be incurred in seeking to complete the merger; and

the risk that the merger may not be completed.

Computer Motion's board of directors evaluated all of the factors described above in light of their knowledge of Computer Motion's business, financial condition and prospects, Intuitive Surgical's business, financial condition and prospects, and the broad surgical markets in which surgical robotics must compete. In view of the variety of factors considered by Computer Motion's board of directors in its evaluation of the merger, Computer Motion's board of directors did not find it practicable to, and did not, quantify or otherwise assign relative weight to the specific factors considered in reaching its decision. In addition, individual members of Computer Motion's board of directors may have given different weight to different factors. The list of factors described in this section as having been considered by Computer Motion's board of directors is not intended to be exhaustive but is believed to include all of the material factors considered by Computer Motion's board of directors.

**After considering all of the information and factors described in this section, Computer Motion's board of directors unanimously approved the merger, the merger agreement and the other transactions contemplated by the merger agreement. Computer Motion's board of directors believes that the merger is consistent with, and in furtherance of, Computer Motion's long term business strategy and that the merger is fair to, advisable and in the best interests of Computer Motion and its stockholders. Computer Motion's board of directors has unanimously recommended that the Computer Motion stockholders vote FOR the proposal to adopt the merger agreement.**

## **Opinion of Bear Stearns to Intuitive Surgical**

Bear, Stearns & Co. Inc., or Bear Stearns, has rendered an opinion to Intuitive Surgical's board of directors as to the fairness, from a financial point of view, to Intuitive Surgical of the exchange ratio in the merger. The full text of the written opinion, dated as of March 6, 2003, is attached to this document as *Annex D*. We encourage you to read the opinion carefully and in its entirety to understand the procedures followed, assumptions made, matters considered and limitations on the review undertaken by Bear Stearns in providing their opinion. **The opinion of Bear Stearns is directed to Intuitive Surgical's board of**

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**directors and does not constitute a recommendation to any stockholder as to how that stockholder should vote on, or take any other action with respect to, the merger.**

*Opinion of Bear Stearns*

At a meeting of Intuitive Surgical's board of directors held on March 6, 2003, at which Intuitive Surgical's board of directors considered the merger and approved the merger agreement and the merger, Bear Stearns rendered its oral opinion (which was subsequently confirmed in a written opinion, dated as of March 6, 2003) that, as of such date and based upon and subject to the matters reviewed with Intuitive Surgical's board of directors, the exchange ratio in the merger was fair to Intuitive Surgical from a financial point of view.

The description of the Bear Stearns opinion set forth herein is qualified in its entirety by reference to the full text of the Bear Stearns opinion set forth in Annex D. The Bear Stearns opinion is subject to the assumptions and conditions contained herein and is necessarily based on economic, market and other conditions, and the information made available to Bear Stearns, including information with respect to the number and related terms of options, warrants, shares of preferred stock and shares of common stock currently outstanding for both Intuitive Surgical and Computer Motion, as of the date of the Bear Stearns opinion. Bear Stearns assumes no responsibility for updating or revising its opinion based on circumstances or events occurring after the date of the Bear Stearns opinion. The Bear Stearns opinion did not address Intuitive Surgical's underlying decision to pursue the merger, the relative merits of the merger as compared to any alternative business strategies that might have existed for Intuitive Surgical or the effects of any other transaction in which Intuitive Surgical might have engaged.

In the course of performing their review and analyses for rendering their opinion, Bear Stearns:

reviewed a draft of the merger agreement in substantially final form;

reviewed Computer Motion's Annual Reports to Stockholders and Annual Reports on Form 10-K for the years ended December 31, 1999 through 2001, its Quarterly Reports on Form 10-Q for the periods ended March 31, 2002, June 30, 2002 and September 30, 2002, its preliminary results for the quarter and year ended December 31, 2002 and its Reports on Form 8-K for the three years ended March 6, 2003;

reviewed certain operating and financial information relating to Computer Motion's business and prospects, including projections for the three years ended December 31, 2005, all as prepared and provided to Bear Stearns by Computer Motion's management;

met with members of Computer Motion's senior management to discuss Computer Motion's business, operations, historical financial results, financial projections and future prospects;

reviewed Intuitive Surgical's Registration Statement on Form S-1 Registration Statement and the related prospectus in connection with Intuitive Surgical's initial public offering, Annual Reports to Stockholders and Annual Reports on Form 10-K for the years ended December 31, 2000 and 2001, its Quarterly Reports on Form 10-Q for the periods ended March 31, 2002, June 30, 2002 and September 30, 2002, a draft dated February 28, 2003 of Intuitive Surgical's Annual Report on Form 10-K for the year ended December 31, 2002, which Intuitive Surgical's management has advised Bear Stearns is complete and accurate in all material respects, and its Reports on Form 8-K for the three years ended March 6, 2003;

reviewed certain operating and financial information relating to Intuitive Surgical's business and prospects, including projections for the four years ended December 31, 2006 and guidance for the year ended December 31, 2007, all as prepared and provided to Bear Stearns by Intuitive Surgical's management;

reviewed projections prepared by Intuitive Surgical's management as to the anticipated operating results of Computer Motion for the five years ended December 31, 2007;

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reviewed estimates of cost savings and other combination benefits expected to result from the merger, prepared and provided to Bear Stearns by Intuitive Surgical's management;

met with members of Intuitive Surgical's senior management to discuss Intuitive Surgical's business, operations, historical financial results, future prospects, the Intuitive Surgical projections, the Computer Motion projections, the Computer Motion projections prepared by Intuitive Surgical and the estimated cost savings;

reviewed the historical prices, trading multiples and trading volumes of the Intuitive Surgical Common Stock and Computer Motion Common Stock;

reviewed publicly available financial data, stock market performance data and trading multiples of companies which Bear Stearns deemed generally comparable to Intuitive Surgical and Computer Motion;

reviewed the terms of recent mergers and acquisitions of companies which Bear Stearns deemed generally comparable to Computer Motion and the merger;

performed discounted cash flow analyses based on the Computer Motion projections, the Intuitive Surgical projections and the pro forma combined projections of Computer Motion and Intuitive Surgical, each prepared by Intuitive Surgical, for the period from January 1, 2003 through December 31, 2007 including the estimated cost savings;

reviewed the pro forma financial results, financial condition and capitalization of Intuitive Surgical giving effect to the merger; and

conducted such other studies, analyses, inquiries and investigations as Bear Stearns deemed appropriate.

Bear Stearns relied upon and assumed, without independent verification, the accuracy and completeness of the financial and other information, including, without limitation, the Intuitive Surgical projections, the Computer Motion projections, the Computer Motion projections prepared by Intuitive Surgical management and the estimated cost savings provided to Bear Stearns by Intuitive Surgical and Computer Motion. With respect to the Intuitive Surgical projections, the Computer Motion projections, the Computer Motion projections prepared by Intuitive Surgical management and the estimated cost savings, Bear Stearns relied on representations that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the senior managements of Intuitive Surgical and Computer Motion as to the expected future performance of Intuitive Surgical and Computer Motion, respectively; *provided, however*, that with respect to the Computer Motion projections prepared by Intuitive Surgical management, the senior management of Intuitive Surgical advised Bear Stearns that such Computer Motion projections prepared by Intuitive Surgical management are based on the best currently available estimates and judgments of the senior management of Intuitive Surgical after discussions with the senior management of Computer Motion. Bear Stearns did not assume any responsibility for the independent verification of any such information or of the Intuitive Surgical projections, the Computer Motion projections, the Computer Motion projections prepared by Intuitive Surgical and the estimated cost savings provided to Bear Stearns, and Bear Stearns further relied upon the assurances of the senior managements of Intuitive Surgical and Computer Motion that they were unaware of any facts that would make the information, the Intuitive Surgical projections, the Computer Motion projections, the Computer Motion projections prepared by Intuitive Surgical management and the estimated cost savings provided to them incomplete or misleading.

In arriving at their opinion, Bear Stearns did not perform or obtain any independent appraisal of the assets or liabilities (contingent or otherwise) of Intuitive Surgical or Computer Motion, nor was Bear Stearns furnished with any such appraisals. Bear Stearns assumed that the merger would be completed in a timely manner and in accordance with the terms of the merger agreement without any limitations, restrictions, conditions, amendments or modifications, regulatory or otherwise, that collectively would have a material effect on Intuitive Surgical or Computer Motion.

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Bear Stearns did not express any opinion as to the price or range of prices at which the Intuitive Surgical Common Stock and Computer Motion Common Stock may trade subsequent to the announcement of the merger or as to the price or range of prices at which the Intuitive Surgical Common Stock may trade subsequent to completion of the merger.

Bear Stearns has been previously engaged by Intuitive Surgical to provide certain investment banking and financial advisory services for which they received customary fees. In the ordinary course of business, Bear Stearns and its affiliates may actively trade the equity and debt securities and/or bank debt of Intuitive Surgical and Computer Motion for their own account and for the account of their customers and, accordingly, may at any time hold a long or short position in such securities or bank debt.

***Summary of Financial Analyses***

The following is a summary of the material financial analyses performed by Bear Stearns in connection with the rendering of their fairness opinion to Intuitive Surgical's board of directors.

**Some of the financial analyses summarized below include information presented in tabular format. In order to understand fully Bear Stearns' financial analyses, the tables must be read together with the text of the summary. The tables alone are not a complete description of the financial analyses. Considering the tables alone could create a misleading or incomplete view of Bear Stearns' financial analyses.**

*Contribution Analysis.* Bear Stearns performed a contribution analysis to assist Intuitive Surgical's board of directors in valuing Computer Motion based on the relative contribution of each company to the combined pro forma entity. In performing the analyses, Bear Stearns used the financial projections for Intuitive Surgical and Computer Motion, both prepared by Intuitive Surgical management, and public information. Bear Stearns calculated the relative contribution by both Intuitive Surgical and Computer Motion to the combined entity with respect to the enterprise value and equity value at market (based on the closing share price of Intuitive Surgical's common stock and Computer Motion's common stock as of March 6, 2003) and at the implied exchange ratio in the merger as of announcement date, and projected financial data including revenues, gross profit, EBITDA, EBIT and net income without estimated cost savings and assuming realization of 100% and 50% of estimated cost savings expected to result in the merger.



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The following table illustrates the relative contribution to revenues, gross profit, EBITDA and EBIT of both Intuitive Surgical and Computer Motion without estimated cost savings to the combined company:

**Relative Contribution Without Estimated Cost Savings**

	% of Contribution	
	Intuitive Surgical	Computer Motion
Equity value at market	77.7%	22.3%
Enterprise value at market	72.4	27.6
Equity value at deal	70.3	29.7
Enterprise value at deal	64.2	35.8
2003E Revenues	72.5	27.5
2004E Revenues	70.2	29.8
2005E Revenues	68.1	31.9
2003E Gross profit	69.4	30.6
2004E Gross profit	66.8	33.2
2005E Gross profit	65.3	34.7
2004E EBITDA	80.4	19.6
2005E EBITDA	66.4	33.6
2005E EBIT	60.9	39.1
2005E Net income	62.8	37.2

Equity value at market is defined as equity value based on the fully diluted shares outstanding and the closing share prices of Intuitive Surgical's common stock and Computer Motion's common stock as of March 6, 2003. Enterprise value at market is calculated as the sum of the Equity value at market and the value of net debt, any minority interest and preferred stock. Equity value at deal is defined as equity value based on the fully diluted shares outstanding and the closing share prices of Intuitive Surgical's common stock and Computer Motion's common stock as of March 6, 2003 based on the implied exchange ratio in the merger as of the announcement date of the merger. Enterprise value at deal is calculated as the sum of the value of equity value at deal and the value of net debt, any minority interest and preferred stock. EBITDA is a company's earnings before interest, taxes, depreciation and amortization. EBIT is a company's earnings before interest and taxes.

The following table illustrates the relative contribution to EBITDA, EBIT and net income of both Intuitive Surgical and Computer Motion with estimated cost savings assuming realization of 100% and 50% of estimated cost savings expected to result in the merger to the combined company:

**Relative Contribution With Estimated Cost Savings**

(\$ in millions)

	100% Estimated Cost Savings Achieved				50% Estimated Cost Savings Achieved			
	2004E EBITDA	2005E EBITDA	2005E EBIT	2005E Net Income	2004E EBITDA	2005E EBITDA	2005E EBIT	2005E Net Income
% Contribution of Intuitive Surgical	29.7%	37.2%	27.1%	28.7%	43.4%	47.7%	37.5%	39.4%
% Contribution of Computer Motion	7.3	18.8	17.4	17.0	10.6	24.1	24.0	23.3
% Contribution of Estimated Cost Savings	63.0	43.9	55.6	54.3	46.0	28.1	38.5	37.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0



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*Valuation of Estimated Cost Savings.* Bear Stearns performed a discounted cash flow analysis of the estimated cost savings expected to result from the merger (net of any one-time costs to achieve such cost savings). In valuing the estimated cost savings, Bear Stearns used illustrative discount rates ranging from 14 to 16%, illustrative perpetual growth rates of 2 to 4% and assumed realization of 100% and 50% of estimated cost savings expected to result in the merger.

The following table illustrates the implied value of the estimated cost savings expected to result from the merger based on the analyses:

**Valuation of Estimated Cost Savings**

(\$ in millions)

	Growth Rate	Discount Rates		
		14.0%	15.0%	16.0%
100% of Estimated Cost Savings Achieved	2.0%	\$81.1	\$73.9	\$67.8
	3.0	87.3	79.1	72.1
	4.0	94.8	85.1	77.1
50% of Estimated Cost Savings Achieved	2.0%	\$37.4	\$33.8	\$30.7
	3.0	40.5	36.4	32.9
	4.0	44.2	39.4	35.4

*Discounted Cash Flow Analysis.* Based on cash flow projections for Intuitive Surgical and Computer Motion as prepared by Intuitive Surgical and the estimated cost savings expected to result in the merger prepared by the management of Intuitive Surgical management, Bear Stearns performed a discounted cash flow analysis to assist the Intuitive Surgical board of directors in valuing Intuitive Surgical, Computer Motion and the pro forma combined company.

Bear Stearns performed discounted cash flow analysis assuming:

for Intuitive Surgical, a range of illustrative discount rates of 13.0% to 15.0% and a range of terminal EBITDA multiples (based on 2007 EBITDA) of 8.0x to 10.0x;

for Computer Motion, a range of illustrative discount rates of 15.0% to 17.0% and a range of terminal EBITDA multiples (based on 2007 EBITDA) of 8.0x to 10.0x; and

for estimated cost savings, a range of illustrative discount rates of 14.0% to 16.0% and illustrative perpetual growth rates of 2.0% to 4.0%.

Discounted cash flow valuations were calculated for Intuitive Surgical on a stand-alone basis, Computer Motion on a stand-alone basis both including and excluding estimated cost savings and the pro forma combined company including estimated cost savings.

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Using this analysis, Bear Stearns derived a range of implied equity values per share for Intuitive Surgical, Computer Motion and the pro forma combined company as follows:

	Range	
	Low	High
<b>Intuitive Surgical</b>		
Stand-alone	\$6.28	\$8.03
<b>Computer Motion</b>		
Excluding estimated cost savings	\$2.28	\$3.08
With 100% of estimated cost savings achieved	4.26	5.72
With estimated cost savings achieved ranging from 50% to 100%(1)	3.73	4.94
<b>Combined Company</b>		
With 100% of estimated cost savings achieved	\$6.90	\$9.03

(1) Assumes 15% discount rate and 9.0x terminal EBITDA multiple.

*Comparable Public Companies Analysis.* Bear Stearns performed a comparable public companies analysis to assist the Intuitive Surgical board of directors in valuing Computer Motion based on various financial multiples of selected comparable public companies in the medical technology industry. In performing this analysis, Bear Stearns reviewed certain financial information relating to Computer Motion and compared such information to the corresponding financial information of other publicly-traded medical technology companies which Bear Stearns deemed to be generally comparable to Computer Motion.

Bear Stearns compared the projected financial performance and the resulting multiples as of March 6, 2003 of Intuitive Surgical and Computer Motion, and the resulting multiples of Computer Motion at the implied exchange ratio as of the merger announcement date to ten publicly-traded medical technology companies which it deemed generally comparable to Computer Motion. Such comparable companies consisted of:

Align Technology, Inc.	Kyphon Inc.
American Medical Systems Holdings, Inc.	Laserscope
ArthroCare Corporation	Rita Medical Systems, Inc.
CTI Molecular Imaging, Inc.	TheraSense, Inc.
Given Imaging Ltd.	Wilson Greatbatch Technologies, Inc.

Using publicly available information and market data as of March 6, 2003, and in the case of Intuitive Surgical and Computer Motion, information based on Intuitive Surgical management estimates for revenues and gross profit for both Intuitive Surgical and Computer Motion, Bear Stearns calculated the following harmonic mean multiples for the above public comparable companies:

	2002A	2003E	2004E
Comparable company harmonic mean as a multiple of:			
Revenues	2.81x	2.21x	1.78x
Gross profit	5.0	3.6	2.7
Intuitive Surgical at market as a multiple of:			
Revenues	1.75x	1.36x	1.09x
Gross profit	3.4	2.5	1.9
Computer Motion at market as a multiple of:			
Revenues	1.99x	1.37x	0.98x
Gross profit	3.4	2.1	1.4
Computer Motion at deal as a multiple of:			
Revenues	2.92x	2.01x	1.44x
Gross profit	5.0	3.1	2.1



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Harmonic mean is calculated by using the reciprocals of the multiples and gives equal weight to equal dollar investments in the securities whose ratios are being averaged. Bear Stearns utilizes the harmonic mean in averaging ratios in which price is the numerator. Enterprise value is calculated as the sum of the value of the common equity on a fully diluted basis and the value of net debt, any minority interest and preferred stock. Intuitive Surgical at market is defined as Intuitive Surgical's enterprise value based on the closing share price of the Intuitive Surgical common stock as of March 6, 2003. Computer Motion at market is defined as Computer Motion's enterprise value based on the closing share price of the Computer Motion common stock as of March 6, 2003. Computer Motion at deal is defined as Computer Motion's enterprise value based on the implied exchange ratio as of the announcement date of the merger.

*Selected Precedent Medical Technology Transactions Analysis.* Bear Stearns performed selected precedent transactions analyses to assist the Intuitive Surgical board of directors in valuing Computer Motion based on transaction values expressed as multiples of various financial measures in selected medical technology transactions. Using publicly available information, Bear Stearns reviewed and analyzed certain financial and operating data relating to the following selected transactions in the medical technology industry:

<b>Target</b>	<b>Acquiror</b>	<b>Date Announced</b>	<b>Date Effective</b>
Disetronic Holding AG	Roche Holding AG	02/10/03	Pending
Spine Solutions, Inc.	Synthes-Stratec Inc.	02/06/03	Pending
Spinal Dynamics Corp.	Medtronic, Inc.	06/28/02	10/11/02
Surgical Dynamics Inc.	Stryker Corporation	06/04/02	07/01/02
BEI Medical Systems Co., Inc.	Boston Scientific Corporation	05/14/02	07/08/02
Fusion Medical Technologies	Baxter International Inc.	02/27/02	05/05/02
Oratec Interventions Inc.	Smith & Nephew plc	02/14/02	03/22/02
VidaMed Inc.	Medtronic, Inc.	12/06/01	04/15/02
MiniMed Inc.	Medtronic, Inc.	05/30/01	06/19/01
Somnus Medical Technologies Inc.	Gyrus Group PLC	05/07/01	06/19/01
Coherent Inc. Laser Division	Lumenis Ltd. (f. ESC Medical Systems)	02/26/01	04/30/01

Bear Stearns calculated the following multiples for the selected precedent medical technology transactions in its analysis:

	<b>Low</b>	<b>Mean</b>	<b>Median</b>	<b>High</b>
Enterprise Value as a multiple of: LTM Revenue	1.08x	21.33x	7.78x	89.83x

LTM Revenue is a company's revenue for the last twelve months prior to the announcement of the transaction.

Bear Stearns noted that the transaction multiples analyzed for the merger of Intuitive Surgical and Computer Motion fell within the range of the corresponding multiples for all the selected precedent transactions.

Bear Stearns noted that none of the precedent transactions were identical to the merger of Intuitive Surgical and Computer Motion and that, accordingly, any analysis of the precedent transactions necessarily involved complex considerations and judgments concerning differences in industry and individual company dynamics, stock market valuation parameters, financial and operating characteristics and various other factors that would necessarily affect the transactions multiples in the merger as compared to the multiples for the precedent transactions.

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*Pro Forma Merger Analysis.* Bear Stearns performed a pro forma merger analysis to assist the Intuitive board of directors in analyzing the financial impact of the merger on Intuitive Surgical. Bear Stearns reviewed and analyzed certain pro forma financial impacts of the merger on holders of Intuitive Surgical based on the following, among other items:

the implied exchange ratio as of the announcement date of the merger;

the financial projections provided to Bear Stearns by the management of Intuitive Surgical for both Intuitive Surgical and Computer Motion;

an assumption for analytical purposes that the combination of Intuitive Surgical and Computer Motion would realize estimated pre-tax cost savings of up to approximately \$18 million annually (tax-effected at a 35% tax rate); and

an assumption for analytical purposes that there would be no financial statement impact of potential restructuring costs or other one-time costs associated with the merger and that the transaction was effective as of January 1, 2003.

The following table shows the projected per share accretion/(dilution) to Intuitive Surgical's pro forma earnings including the projected cost savings for the years presented.

	<u>2003E</u>	<u>2004E</u>	<u>2005E</u>
Accretion/(dilution) to Intuitive Surgical Earnings per Share	\$(0.15)	\$0.09	\$0.18

**Miscellaneous**

In connection with rendering their opinion, Bear Stearns performed a variety of financial analyses. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to a partial analysis or summary description. Accordingly, notwithstanding the analyses summarized above, Bear Stearns believes that its analyses must be considered as a whole and that selecting portions of the analyses and factors considered by them, without considering all such analyses and factors, or attempting to ascribe relative weights to some or all such analyses and factors, could create an incomplete view of the evaluation process underlying the Bear Stearns opinion.

In performing their analyses, Bear Stearns made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Intuitive Surgical. The analyses performed by Bear Stearns are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. Bear Stearns did not assign any specific weight to any of the analyses described above and did not draw any specific conclusions from or with regard to any one method of analysis. With respect to the analysis of comparable companies and the analysis of selected precedent transactions summarized above, no public company utilized as a comparison is identical to Intuitive Surgical or Computer Motion, and no transaction is identical to the merger. Accordingly, an analysis of publicly traded comparable companies and comparable business combinations is not mathematical; rather, it involves complex considerations and judgments concerning the differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or announced merger transaction values, as the case maybe, of Intuitive Surgical or Computer Motion and the companies to which they were compared. The analyses do not purport to be appraisals or to reflect the prices at which any securities may trade at the present time or at any time in the future. In addition, the Bear Stearns opinion was just one of the many factors taken into consideration by Intuitive Surgical's board of directors. Consequently, Bear Stearns' analysis should not be viewed as determinative of the decision of Intuitive Surgical's board of directors or Intuitive Surgical's management with respect to the fairness of the exchange ratio as set forth in the merger agreement.

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Bear Stearns is an internationally recognized investment banking firm and is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, leveraged buyouts and valuations for estate, corporate and other purposes.

Bear Stearns was selected by the Intuitive Surgical board of directors to render a fairness opinion because of its expertise and its reputation in investment banking and mergers and acquisitions and its familiarity with the medical technology industry and Intuitive Surgical. Intuitive Surgical and Bear Stearns have entered into a letter agreement, dated as of February 27, 2003, relating to the services to be provided by Bear Stearns in connection with the merger and the transactions related to it, under which Intuitive Surgical agreed to pay Bear Stearns a fee of \$250,000 which was payable upon rendering of their opinion. Intuitive Surgical also agreed to reimburse Bear Stearns for certain out-of-pocket expenses incurred in connection with the engagement. Intuitive Surgical agreed that, for a two-year period it would offer Bear Stearns the first opportunity to act as sole lead underwriter or agent in financing transactions by Intuitive Surgical and as exclusive financial advisor in merger or acquisition transactions involving Intuitive Surgical on customary terms. In addition, Intuitive Surgical agreed to indemnify Bear Stearns against certain liabilities, including liabilities under the federal securities law, relating to or arising out of its engagement.

**Opinion of H.C. Wainwright to Computer Motion**

H.C. Wainwright & Co., Inc. has acted as financial advisor to Computer Motion in connection with the merger. As part of its engagement, H.C. Wainwright delivered its oral opinion to Computer Motion's board of directors at that board's March 5, 2003 meeting that, as of that date, and based upon and subject to various considerations set forth in its opinion, the exchange ratio of shares of Intuitive Surgical common stock to be received in the merger by Computer Motion's stockholders for each share of Computer Motion common stock was fair, from a financial point of view, to Computer Motion's stockholders. H.C. Wainwright subsequently confirmed its opinion in writing.

**The full text of H.C. Wainwright's written opinion, dated March 5, 2003, which sets forth, among other things, the assumptions made, matters considered and review undertaken by H.C. Wainwright, is attached as Annex E to this joint proxy statement/prospectus and is incorporated herein by reference. Computer Motion's stockholders are urged to carefully read this opinion in its entirety. The summary of H.C. Wainwright's opinion set forth in this document is qualified in its entirety by reference to the full text of the opinion.**

In arriving at its opinion, H.C. Wainwright, among other things:

reviewed and analyzed publicly available financial statements for Computer Motion and Intuitive Surgical and financial information made available to it by Computer Motion's management;

analyzed internal financial statements, including financial projections and other financial and operating data prepared by Computer Motion's management;

discussed with Computer Motion's management, Computer Motion's past, current and future prospects;

compared certain selected financial and stock market information for Computer Motion and Intuitive Surgical with similar information for selected companies whose securities are publicly traded;

reviewed the financial terms of selected recent business combinations which it deemed comparable in whole or in part;

reviewed the merger agreement; and

performed those other studies and analyses and considered those other factors as it deemed appropriate.



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In arriving at its opinion, H.C. Wainwright assumed and relied upon, without independent verification, the accuracy and completeness of all of the financial and other information reviewed by it for the purposes of providing its opinion, and did not assume any responsibility for independent verification of that information. H.C. Wainwright did not assume any responsibility for the independent valuation and appraisal of any of Computer Motion's assets and liabilities. With respect to financial projections, H.C. Wainwright assumed that they were reasonably prepared by Computer Motion's management on a basis reflecting the best currently available estimates and judgments of Computer Motion's future financial performance. H.C. Wainwright expresses no view as to those projections or the assumptions on which they were based. H.C. Wainwright's opinion was necessarily based upon financial, economic, market and other conditions as they existed on the date of its opinion.

The projections furnished to H.C. Wainwright were prepared by Computer Motion's management. Computer Motion does not publicly disclose internal management projections of the type provided to H.C. Wainwright in connection with H.C. Wainwright's analysis of the merger, and those projections were not prepared with a view toward public disclosure. These projections were based on numerous variables and assumptions that are inherently uncertain and may be beyond the control of management, including, without limitation, factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in those projections.

Set forth below is a brief summary of certain material financial analyses performed by H.C. Wainwright in connection with its opinion and reviewed with Computer Motion's board of directors on March 5, 2003.

***Historical Stock Price Analysis***

H.C. Wainwright analyzed the price at which Computer Motion common stock has traded at for the last 52 weeks. During that time period, Computer Motion's 52 week high and low were \$4.24 and \$0.53 respectively. In addition, the average closing price of Computer Motion common stock over the same period was \$1.53 and the closing price of Computer Motion common stock at the date of the H.C. Wainwright opinion was \$1.41, or approximately 33% of its 52-week high.

***Historical Exchange Ratio Analysis***

H.C. Wainwright compared the historical exchange ratio of the average closing price of Intuitive Surgical common stock to the average closing price of Computer Motion common stock over the various periods presented. The following table sets forth the ratios of the average closing prices of Intuitive Surgical common stock compared to Computer Motion common stock.

Period Ended	Average Market Exchange Ratio Over Period
One Trading Day (March 5, 2003)	352.5%
1 Month Average	410.5%
3 Month Average	568.0%
6 Month Average	571.5%
12 Month Average	497.7%

***Selected Public Company Trading Valuation Analysis***

H.C. Wainwright compared certain financial information of Computer Motion with that of the following selected companies involved in the medical device industry:

Rita Medical Systems, Inc.

CONMED Corporation

CardioDynamics International Corporation



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Laserscope

Guidant Corporation

Boston Scientific Corporation

Stryker Corporation

Given Imaging Ltd.

H.C. Wainwright analyzed the relative performance and value of Computer Motion by comparing certain selected financial data of Computer Motion with that of the selected companies, including multiples of:

- (1) enterprise value (defined as market value plus debt plus preferred stock minus cash) as a multiple of revenue over the latest 12 months;
- (2) enterprise value (defined as market value plus debt plus preferred stock minus cash) as a multiple of revenue during the most recent quarter annualized; and
- (3) market value to book value.

To calculate the multiples, H.C. Wainwright used, for the selected companies, publicly available historical financial information, and, for Computer Motion, historical financial information and projections provided by Computer Motion's management. The following table summarizes the results of H.C. Wainwright's ratio analysis:

	<b>Multiples for Selected Companies</b>	
	<b>Mean</b>	<b>Median</b>
Enterprise Value to Preceding 12 Months Revenue	4.22x	3.96x
Enterprise Value to Latest Quarter Revenue Annualized	3.81x	3.79x
Market Value to Book Value	5.32x	4.71x

Based on the multiples for the selected companies set forth in the table above and other customary valuation methodologies utilized by H.C. Wainwright, H.C. Wainwright developed relevant multiple ranges for each of these valuation methods described in the table. Based on this information, H.C. Wainwright estimated that the implied enterprise value for Computer Motion in the merger based on this analysis was approximately between \$26.6 million and \$134.4 million. This compares to the transaction value of approximately \$78 million based on the closing price of Intuitive Surgical common stock on March 5, 2003.

None of the selected companies are identical to Computer Motion. Accordingly, H.C. Wainwright believes the analysis of publicly traded comparable companies is not simply mathematical in nature. Rather, this analysis involves complex considerations and qualitative judgments, reflected in H.C. Wainwright's opinion, concerning differences in financial and operating characteristics of the selected companies and other factors that could affect the public trading value of the selected companies.

***Selected Precedent Transactions***

H.C. Wainwright reviewed the financial terms, to the extent publicly available, of seven announced, pending or completed merger and acquisition transactions since January 1, 2002, involving targets that were in the medical technologies industry.

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<b>Announce Date</b>	<b>Target</b>	<b>Acquiror</b>
2/10/03	Disetronic	Roche Holding
2/6/03	Spine Solutions	Synthes-Stratec
6/28/02	Spinal Dynamics	Medtronic Inc.
6/4/02	Surgical Dynamics	Stryker Corp.
5/14/02	BEI Medical Systems	Boston Scientific
2/27/02	Fusion Medical Technologies	Baxter International Inc.
2/14/02	Oratec Interventions Inc.	Smith & Nephew

H.C. Wainwright compared the publicly available statistics for the precedent transactions listed above to the relevant financial statistics for the merger based on the transaction value. The precedent transactions multiples compared by H.C. Wainwright included, among other things, the mean and median of the transaction value of the targets to the target's revenue over the last twelve months. The following table summarizes the results of these analyses:

	<b>Multiples for Selected Transactions</b>	
	<b>Mean</b>	<b>Median</b>
Announced Transaction Value to Revenue:	12.13x	5.15x

Based on the multiples for the transactions set forth in the table above and other customary valuation methodologies utilized by H.C. Wainwright, H.C. Wainwright estimated that the implied enterprise value for Computer Motion in the merger based on the analysis was between \$292 million and \$124 million. This compares to the transaction value of approximately \$78 million based on the closing price of Intuitive Surgical common stock on March 5, 2003.

Because the reasons for, and circumstances surrounding, each of the precedent transactions analyzed were so diverse, and due to the inherent differences between Computer Motion's operations and financial condition and those of the companies involved in these medical technologies transactions, H.C. Wainwright believes that a comparable transaction analysis is not simply mathematical in nature. Rather, this analysis involves complex considerations and qualitative judgments, reflected in H.C. Wainwright's opinion, concerning differences between the characteristics of these prior transactions and the merger that could affect the value of these companies and businesses and Computer Motion.

All multiples for these medical technologies transactions are based on public information available at the time of announcement of that transaction, without taking into account differing market and other conditions during the period which these medical technologies transactions occurred.

**Transaction Premium Analysis.**

H.C. Wainwright also analyzed, as publicly available, the announced transaction premium/discount to the market value for the selected transactions. The following table summarizes the results of this analysis:

<b>Selected Transactions</b>	<b>Premium/Discount</b>
Mean	+36.9%
Median	+28.3%
Computer Motion	+39.3%

All multiples for these medical technologies transactions are based on public information available at the time of announcement of that transaction, without taking into account differing market and other conditions during the period which these medical technologies transactions

occurred.

Because the reasons for, and circumstances surrounding, each of the precedent transactions analyzed were so diverse, and due to the inherent differences between Computer Motion's operations and financial condition and those of the companies involved in these medical technologies transactions, H.C. Wainwright

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believes that a comparable transaction analysis is not simply mathematical in nature. Rather, this analysis involves complex considerations and qualitative judgments, reflected in H.C. Wainwright's opinion, concerning differences between the characteristics of these prior transactions and the merger that could affect the value of these companies and businesses and Computer Motion.

In arriving at its opinion, H.C. Wainwright performed a variety of financial analyses, the material portions of which are summarized above. The summary set forth above does not purport to be a complete description of the analyses performed by H.C. Wainwright or of H.C. Wainwright's presentation to Computer Motion's board of directors. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances and, therefore, the opinion is not necessarily susceptible to partial analysis or summary description. In arriving at its opinion, H.C. Wainwright did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, H.C. Wainwright believes that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all of the analyses and factors, could create an incomplete view of the process underlying its analyses set forth in its opinion.

H.C. Wainwright's opinion does not imply any conclusion as to the likely trading range for Intuitive Surgical's common stock after the date of its opinion or when issued to Computer Motion's stockholders in the merger. In performing its analyses, H.C. Wainwright made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Computer Motion and Intuitive Surgical. Any estimates contained in those analyses are not necessarily indicative of actual past or future results or values, which may be significantly more or less than those estimates. Actual values will depend upon several factors, including changes in interest rates, market conditions, general economic conditions and other factors that generally influence the price of securities.

The terms of the merger were determined through negotiations between Computer Motion and Intuitive Surgical and were approved by Computer Motion's board of directors. Although H.C. Wainwright provided advice to Computer Motion during the course of these negotiations, the decision to enter into the merger was solely that of Computer Motion's board of directors. As described above, the opinion and presentation of H.C. Wainwright to Computer Motion's board of directors were only one of a number of factors taken into consideration by Computer Motion's board of directors in making its determination to approve the merger. H.C. Wainwright's opinion does not address the merits of the underlying decision by Computer Motion to enter into the merger agreement or to consummate the transactions contemplated by the merger agreement, and does not constitute a recommendation to any stockholder as to how that stockholder should vote.

Computer Motion selected H.C. Wainwright as its financial advisor in connection with the merger based on H.C. Wainwright's qualifications, expertise, reputation and experience in mergers and acquisitions. Computer Motion originally retained H.C. Wainwright pursuant to a letter agreement, dated January 17, 2002, as supplemented by a separate letter agreement with respect to the merger, dated March 5, 2003. Under the March 5, 2003 letter agreement, Computer Motion agreed to pay H.C. Wainwright a financial advisory fee of \$50,000 in connection with H.C. Wainwright's advisory services and to render its opinion. Computer Motion also agreed to pay H.C. Wainwright \$50,000 upon filing of the S-4 and \$50,000 upon stockholder approval of the merger for H.C. Wainwright's advisory services. H.C. Wainwright was also issued 100,000 warrants exercisable at a purchase price of \$0.001 per share for its advisory services that will become exercisable upon completion of the merger.

Regardless of whether the merger is consummated, subject to the approval by Computer Motion in certain instances, Computer Motion has agreed to reimburse H.C. Wainwright for fees and disbursements of H.C. Wainwright's counsel and for H.C. Wainwright's travel and other out-of-pocket expenses incurred in connection with the merger. Computer Motion has also agreed to indemnify H.C. Wainwright and

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certain related persons to the full extent lawful against various liabilities, including liabilities under the federal securities laws arising out of its engagement or the merger.

H.C. Wainwright is an internationally recognized investment banking firm experienced in providing advice in connection with merger and acquisitions and related transactions. In the ordinary course of its business, H.C. Wainwright may effect transactions, for its own account or for the account of customers, and hold at any time a long or short position in securities of Computer Motion or Intuitive Surgical.

**Regulatory Approvals Required for the Merger**

Under the merger agreement, both Intuitive Surgical and Computer Motion have agreed to use their reasonable best efforts to obtain all required governmental approvals and avoid any action or proceeding by a governmental entity in connection with the execution of the merger agreement and completion of the merger. Neither Intuitive Surgical nor Computer Motion is aware, however, of any material federal or state regulatory requirements or approvals required for the execution of the merger agreement or completion of the merger, other than filing a certificate of merger in Delaware at or before the effective time of the merger.

**Material United States Federal Income Tax Consequences**

The following discussion describes the material U.S. federal income tax consequences generally applicable to Computer Motion stockholders as a result of the exchange of their shares of Computer Motion common or preferred stock for Intuitive Surgical common stock pursuant to the merger and is based on the opinion of Stradling Yocca Carlson & Rauth, counsel to Computer Motion. This discussion is based on existing provisions of the Internal Revenue Code of 1986, as amended, existing and proposed Treasury regulations and current administrative rulings and court decisions, all of which are subject to change. Any such change, which may or may not be retroactive, could alter the tax consequences described below.

Computer Motion stockholders should be aware that this summary does not deal with all federal income tax considerations that may be relevant to particular Computer Motion stockholders in light of their particular circumstances. In particular, this discussion does not address the tax consequences to Computer Motion stockholders who are foreign persons, who are financial institutions, who are dealers in securities, who are insurance companies, who are tax-exempt entities, who are subject to the alternative minimum tax provisions of the Code, who do not hold their Computer Motion stock as a capital asset, who acquired their Computer Motion common stock pursuant to the exercise of employee stock options or otherwise as compensation, or who hold Computer Motion stock as part of a hedge, straddle or conversion transaction. In addition, the following discussion does not address the tax consequences of the merger under foreign, state or local tax laws, the tax consequences of transactions effected prior or subsequent to, or concurrently with, the merger, whether or not any such transactions are undertaken in connection with the merger, including, without limitation, any transaction in which shares of Computer Motion stock are acquired or shares of Intuitive Surgical common stock are disposed of, or the tax consequences of the assumption by Intuitive Surgical of the Computer Motion options or the tax consequences of the receipt of rights to acquire Intuitive Surgical common stock. The following discussion also does not address the tax consequences to holders of Computer Motion preferred stock relating to any adjustments in the number of shares of Computer Motion common stock that will be issuable upon conversion of their preferred stock. For more information regarding the conversion ratio of the Computer Motion preferred stock, see The Merger Agreement The Merger Consideration and Conversion of Securities.

COMPUTER MOTION URGES EACH COMPUTER MOTION STOCKHOLDER TO CONSULT SUCH STOCKHOLDER'S OWN TAX ADVISOR AS TO THE FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER, AND ALSO AS TO ANY STATE, LOCAL, FOREIGN OR OTHER TAX CONSEQUENCES, BASED ON SUCH STOCKHOLDER'S OWN PARTICULAR FACTS AND CIRCUMSTANCES.

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The merger is intended to constitute a reorganization within the meaning of Section 368(a) of the Code. Subject to the limitations and qualifications set forth below, the merger generally will result in the following U.S. federal income tax consequences:

the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code;

neither Computer Motion, Intuitive Surgical nor Intuitive Merger Corporation will recognize any income, gain or loss as a result of the completion of the merger;

the holders of Computer Motion stock will not recognize a gain or loss upon the exchange of Computer Motion stock for Intuitive Surgical common stock pursuant to the merger, except to the extent of cash received in lieu of a fractional share of Computer Motion stock, as described below;

the aggregate tax basis of the Intuitive Surgical common stock received by Computer Motion stockholders in the merger, reduced by any tax basis attributable to fractional shares deemed to be disposed of, will be the same as the aggregate tax basis of the Computer Motion stock surrendered in exchange therefor;

the holding period of the Intuitive Surgical common stock received by each Computer Motion stockholder pursuant to the merger will include the period during which the stock surrendered in exchange therefor was held by such Computer Motion stockholder, *provided* the Computer Motion stock so surrendered is a capital asset in the hands of the Computer Motion stockholder at the time of the merger; and

cash payments received by holders of Computer Motion stock in lieu of a fractional share of Intuitive Surgical common stock generally will be treated as if the fractional share of Intuitive Surgical common stock had been issued in the merger and then redeemed by Intuitive Surgical. A Computer Motion stockholder receiving cash in lieu of a fractional share will recognize gain or loss upon the payment measured by the difference, if any, between the amount of cash received and the basis in the fractional share.

The parties have not requested and will not request a ruling from the Internal Revenue Service regarding the tax consequences of the merger. Stradling Yocca Carlson & Rauth, a Professional Corporation, has delivered an opinion to Computer Motion regarding the federal income tax consequences of the merger described above. However, Computer Motion stockholders should be aware that opinions of counsel are not binding on the Internal Revenue Service or the courts, and the Internal Revenue Service is therefore not precluded from asserting a contrary opinion. The tax opinion is subject to assumptions, covenants and qualifications, including but not limited to the truth and accuracy of certain representations, including those contained in certificates of officers of Computer Motion and Intuitive Surgical, without any independent verification. In particular, the opinion assumes that any loans made by Intuitive Surgical pursuant to the Loan and Security Agreement will be treated as debt and not an equity interest in Computer Motion under federal income tax principles. If any of such representations, qualifications, covenants or assumptions mentioned above is inaccurate, or if any change in fact or law occurs, then the tax consequences of the merger could differ from those described above. Nevertheless, Computer Motion, Intuitive Surgical and Intuitive Merger Corporation have agreed in the merger agreement that each intends that the merger qualify as a reorganization and that each will treat and report the merger as such.

A successful Internal Revenue Service challenge to the reorganization status of the merger would result in Computer Motion stockholders recognizing taxable gain or loss with respect to each share of Computer Motion common or preferred stock surrendered equal to the difference between the stockholder's basis in that share and the fair market value, as of the effective time of the merger, of the Intuitive Surgical common stock received in the exchange. In that event, a stockholder's aggregate basis in the Intuitive Surgical common stock received would equal its fair market value, and the stockholder's holding period for that stock would begin the day after the merger.



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**Accounting Treatment**

In accordance with accounting principles generally accepted in the United States, Intuitive Surgical will account for the merger using the purchase method of accounting. Under this method of accounting, Intuitive Surgical will record the market value (based on an average of the closing prices of Intuitive Surgical common stock for a range of trading days from two days before and after March 20, 2003, the announcement date) of its common stock issued in the merger, the fair value of Intuitive Surgical options and warrants issued in exchange for the options and warrants to purchase shares of Computer Motion common and preferred stock and the amount of direct transaction costs associated with the merger as the estimated purchase price of acquiring Computer Motion. Intuitive Surgical will allocate the estimated purchase price to the net tangible and amortizable intangible assets acquired (primarily developed technology, core technology and in-process research and development), based on their respective fair values at the date of the completion of the merger. Any excess of the estimated purchase price over the fair value of net assets acquired will be accounted for as goodwill.

Amortizable intangible assets, currently estimated at \$28.6 million, will generally be amortized over useful lives ranging from four to seven years. In-process research and development, which is currently estimated at \$4.2 million, will be expensed during the fiscal quarter in which the merger is completed. In accordance with the Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, goodwill resulting from the business combination of \$48.1 million will not be amortized but instead will be tested for impairment at least annually (more frequently if certain indicators are present).

In the event that Intuitive Surgical's management determines that the value of goodwill has become impaired, the combined company will incur an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made. The amounts listed in the above paragraph are only preliminary estimates, however, actual amounts may differ from these estimates.

**Listing of Intuitive Surgical Common Stock**

Intuitive Surgical will use reasonable best efforts to:

cause the shares of Intuitive Surgical common stock to be issued in the merger to be approved for listing on the Nasdaq National Market prior to the completion of the merger; and

cause the shares of Intuitive Surgical common stock to be reserved for issuance upon the exercise of converted Computer Motion stock options and warrants to be approved for listing on the Nasdaq National Market prior to the completion of the merger.

**Delisting and Deregistration of Computer Motion Common Stock**

If the merger is completed, Computer Motion common stock will be delisted from the Nasdaq National Market and deregistered under the Securities Exchange Act of 1934 and Computer Motion will no longer file periodic reports with the SEC.

**Restrictions on Sales of Shares of Intuitive Surgical Common Stock Received in the Merger**

The shares of Intuitive Surgical common stock to be issued in the merger will be registered under the Securities Act of 1933 and will be freely transferable, except for shares of Intuitive Surgical common stock issued to any person who is deemed to be an affiliate of Computer Motion prior to the merger. Persons who may be deemed to be affiliates of Computer Motion prior to the merger include individuals or entities that control, are controlled by, or are under common control of Computer Motion prior to the merger, and may include officers and directors, as well as significant stockholders of Computer Motion

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prior to the merger. Affiliates of Computer Motion prior to the merger may not sell any of the shares of Intuitive Surgical common stock received by them in connection with the merger except pursuant to:

an effective registration statement under the Securities Act of 1933 covering the resale of those shares;

an exemption under paragraph (d) of Rule 145 under the Securities Act of 1933; or

any other applicable exemption under the Securities Act of 1933.

Intuitive Surgical's registration statement on Form S-4, of which this joint proxy statement/prospectus forms a part, does not cover the resale of shares of Intuitive Surgical common stock to be received by affiliates of Computer Motion in the merger.

## **Interests of Directors and Executive Officers of Computer Motion in the Merger**

Some members of Computer Motion's management and board of directors have interests in the merger that are in addition to or different from their interests as Computer Motion stockholders. The Computer Motion board of directors was aware of these interests and considered them in approving the merger agreement and the merger.

### ***Governance Structure and Management Positions***

The merger agreement provides for the initial composition of the board of directors and selected executive officer positions for Intuitive Surgical after completion of the merger. Please see *Management and Operations Following the Merger*.

### ***Indemnification; Directors and Officers Insurance***

Intuitive Surgical has agreed to cause to be maintained charter and bylaw provisions with respect to indemnification and advancement of expenses that are at least as favorable to the intended beneficiaries as those contained in charter and bylaws of Computer Motion as in effect on the date of the merger agreement. Intuitive Surgical has also agreed to provide, for six years after the merger, directors' and officers' liability insurance in respect of acts or omissions occurring prior to the merger covering each person currently covered by the directors' and officers' liability insurance policy of Computer Motion on terms and in amounts no less favorable than those of the policies of Computer Motion.

### ***Severance Agreements and Other Arrangements***

In January 2002, Computer Motion entered into a letter agreement with Eugene W. Teal, Executive Vice President, which provides for an annual base salary of \$160,000 and a target bonus percentage of 50% of annual base salary. Mr. Teal's bonus was guaranteed for the first year of his employment, which began on January 23, 2002. The letter agreement also guarantees payment of Mr. Teal's base salary for a two-year period. In addition, the letter agreement provides that in the event Computer Motion is acquired or experiences a change in control, Mr. Teal is guaranteed payment of his base salary through January 22, 2005.

In June 2002, Computer Motion entered into a letter agreement with Joseph M. DeVivo, President and Chief Operating Officer, which provides for an annual base salary of \$220,000 and a bonus of up to 90% of annual base salary. The letter agreement guarantees payment of Mr. DeVivo's base salary and a 90% bonus for a one-year period. In addition, in the event Mr. DeVivo terminates his employment for any reason following 90 days after Computer Motion is acquired or experiences a change in control, or if Computer Motion terminates Mr. DeVivo for any reason other than for cause after one year of service, Mr. DeVivo is guaranteed payment of his base salary for a one-year period thereafter.

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***Stock Option Plans***

As of March 21, 2003, executive officers and directors of Computer Motion owned options to purchase an aggregate of 1,862,999 shares of Computer Motion common stock at a weighted average exercise price of \$4.92 per share. Of this amount, options to purchase an aggregate of 1,522,960 shares of Computer Motion common stock will automatically vest and become immediately exercisable in full upon completion of the merger. Intuitive Surgical will assume all unexercised Computer Motion options in the merger. Please see *The Merger* General.

***Preferred Stock Exchange***

On March 6, 2003, all holders of Computer Motion's Series C convertible preferred stock agreed with Computer Motion to exchange their shares of preferred stock for newly-issued shares of Series D convertible preferred stock. These holders included Robert W. Duggan, the Chairman and Chief Executive Officer of Computer Motion, who held 1,091 shares of preferred stock, Joseph M. DeVivo, the President and Chief Operating Officer of Computer Motion, who held 100 shares of preferred stock, and St. Cloud Capital Partners LP, which held 1,071 shares of preferred stock. St. Cloud Capital Partners LP is affiliated with Robert W. Lautz who was a director of Computer Motion at the time the merger agreement was approved, and who resigned as a director on March 21, 2003.

The terms of the Series D convertible preferred stock eliminate certain provisions that were contained in the terms of the Series C convertible preferred stock that could have restricted the ability of Computer Motion to enter into the merger agreement. Instead, the terms of the Series D convertible preferred stock provide that holders of the Series D convertible preferred stock will vote together with the holders of common stock of Computer Motion on the proposed merger. Holders of Series D convertible preferred stock will be entitled to 1,000 votes per share, representing the original conversion ratio of the Series C convertible preferred stock upon its initial issuance.

In addition, the Series D convertible preferred stock contains revised conversion rights in connection with the merger. Like the Series C convertible preferred stock, the Series D convertible preferred stock will convert into shares of Computer Motion common stock immediately prior to the effective time of the merger. The Computer Motion common stock will then be exchanged for Intuitive Surgical common stock based on the merger exchange ratio. The terms of the Series D convertible preferred stock permit holders to choose to convert their shares at the regular fixed conversion ratio (approximately 1,014.5 to 1) or, in connection with a change of control transaction such as the merger, at an alternative floating conversion ratio that would return at least 135% of the original purchase price of the Series C convertible preferred stock. Under either conversion ratio, the holders of Series D convertible preferred stock are also entitled to receive accrued dividends. For purposes of the alternative conversion ratio, the return is calculated based on the average closing bid price of Computer Motion's common stock for the 20 consecutive trading days ending 15 days prior to the special meeting, which is referred to in this joint proxy statement/prospectus as the pricing period. However, a floor price of \$1.38 per share is set by the terms of the Series D convertible preferred stock, so that the alternative conversion ratio cannot exceed 135% of the regular conversion ratio. The alternative conversion ratio may be higher than the regular conversion ratio if the average closing bid price of Computer Motion's common stock falls below approximately \$1.86 during the pricing period. Each Series D stockholder must elect such alternative conversion ratio by delivering a notice to Computer Motion no later than 12 trading days prior to the date of the special meeting. The shares held by any holder who does not make such election will convert into Computer Motion common stock at the regular conversion ratio immediately prior to the effective time of the merger.

Like the Series C convertible preferred stock, the Series D convertible preferred stock accrues dividends which may be paid at the election of Computer Motion either in cash or in shares of Computer Motion common stock, except for 1,071 shares of Series D convertible preferred stock held by St. Cloud Capital Partners LP, on which cash dividends must be paid. Dividends are payable semi-annually, starting with the first dividend payment date on April 30, 2003. Computer Motion common stock issued in payment of these dividends is valued at 90% of its volume-weighted average price as reported by

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Bloomberg for the 20 trading days immediately prior to the dividend payment date. It is expected that dividends due on April 30, 2003 (except for the cash dividend due to St. Cloud Capital Partners LP) will be paid by issuance of additional shares of Computer Motion common stock. Dividends which accrue from April 30, 2003 to the conversion of the Series D convertible preferred stock immediately prior to the effective time will be paid by issuance of additional shares of Computer Motion common stock upon conversion. For this purpose, holders of Series D convertible preferred stock who elect the alternative conversion ratio described above (including St. Cloud Capital Partners LP) will receive additional shares of Computer Motion common stock valued at 100% of the average closing bid price of Computer Motion's common stock during the pricing period (but the value so ascribed to the common stock will not be less than \$1.38). Common stock issuable in payment of dividends to holders electing the regular conversion ratio will be valued at the 90% rate described above which is applicable to regular dividend payments.

As an inducement to holders to exchange their shares of Series C convertible preferred stock, Computer Motion agreed to reduce the exercise price on outstanding common stock purchase warrants held by the holders of Series C convertible preferred stock. The exercise price on one series of warrants to acquire 1,759,345 shares was reduced from \$1.78 to \$1.50 per share, and on another series of warrants to acquire 1,759,345 shares, from \$2.17 to \$1.50 per share. The reduced exercise price is conditioned on the exercise of the warrants prior to 10 days following the mailing of this joint proxy statement/prospectus.

As a further inducement to exchange its shares of Series C convertible preferred stock, Computer Motion has agreed that, if the merger is completed prior to September 30, 2003, it will pay St. Cloud Capital Partners LP a fee equal to \$119,952 less the amount of any cash dividends that St. Cloud receives on account of shares of Series D convertible preferred stock held by it. This payment is to be made prior to the effective time of the merger.

Computer Motion has agreed that, if the merger is not completed by September 30, 2003, holders may exchange their Series D convertible preferred stock for a like number of shares of Series E convertible preferred stock having rights and preferences identical to the former Series C convertible preferred stock.

## **Management and Operations Following the Merger**

Intuitive Surgical expects that, initially following completion of the merger, the businesses and operations of Computer Motion will, except as described in this joint proxy statement/prospectus, be continued substantially as they are currently being conducted. Intuitive Surgical intends to undertake a comprehensive review of the business, operations, capitalization and management of Computer Motion with a view to optimizing development of its potential in conjunction with Intuitive Surgical's business.

Upon completion of the merger, the board of directors of Intuitive Surgical will be expanded to add two additional members for a total of nine directors. The two additional members of Intuitive Surgical's board of directors are expected to be as follows:

Robert Duggan has been Chairman of the Board of Directors of Computer Motion since 1990 and Chief Executive Officer since 1997. Mr. Duggan has been a private venture investor for more than 25 years, and has participated as a director of, investor in and advisor to numerous small and large businesses in the medical equipment, computer local and wide area networks, PC hardware and software distribution, digital encryption, consumer retail goods and outdoor media communications industries. He has also assisted in corporate planning, capital formation and management for his various investments. He is a member of the University of California at Santa Barbara Foundation Board of Trustees, as well as the University's Engineering Steering Committee.

Eric H. Halvorson joined Computer Motion in July 2002 as a member of the board of directors. Mr. Halvorson is currently a Visiting Professor of Business Law and Accounting at Pepperdine University in Malibu, California, where he instructs classes in the Legal and Regulatory Environment of Business and Financial Accounting. Previously, he was the Executive Vice President and Chief Operating Officer at Salem Communications Corporation from 1995-2000.

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Prior to becoming the Chief Operating Officer of Salem Communications, Mr. Halvorson was Vice President and General Counsel for ten years. From 1976 until 1985, he was a partner at Godfrey and Kahn, a Milwaukee, Wisconsin based law firm. Mr. Halvorson is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from Bob Jones University and a Juris Doctor degree from Duke University School of Law. Mr. Halvorson is currently a director of Salem Communications Corp. and Media Arts Group, Inc. At Computer Motion, he serves on the audit and compensation committees of the board of directors.

It is currently expected that Mr. Duggan will be a Class II director continuing in office until Intuitive Surgical's 2005 annual meeting of stockholders and that Mr. Halvorson will be a Class I director continuing in office until Intuitive Surgical's 2004 annual meeting of stockholders.

The executive officers of Intuitive Surgical are expected to continue in their current roles upon completion of the merger. In addition, Joseph M. DeVivo is expected to be appointed as Intuitive Surgical's Senior Vice President, Marketing and Darrin R. Uecker is expected to be appointed as Intuitive Surgical's Vice President and Chief Technical Officer.

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**THE MERGER AGREEMENT**

*The following summary describes certain material provisions of the merger agreement, which is included in this joint proxy statement/prospectus as Annex A and is incorporated by reference in this joint proxy statement/prospectus. This summary may not contain all of the information about the merger agreement that is important to you. We encourage you to read the merger agreement carefully in its entirety.*

**Effective Time of the Merger and Effect of the Merger**

The merger will become effective upon the filing of a certificate of merger with the Secretary of the State of Delaware or at such later time as is specified in the certificate of merger, which is referred to as the effective time of the merger. At the effective time of the merger, Intuitive Merger Corporation (formerly Iron Acquisition Corporation), a newly formed subsidiary of Intuitive Surgical, will merge with and into Computer Motion and the separate corporate existence of Intuitive Merger Corporation will cease. Computer Motion will be the surviving corporation in the merger and will continue as a wholly owned subsidiary of Intuitive Surgical.

**The Merger Consideration and Conversion of Securities**

***General***

Upon completion of the merger, each share of Computer Motion common stock issued and outstanding immediately prior to the effective time of the merger will automatically be converted into the right to receive a fraction of a share of Intuitive Surgical common stock equal to the exchange ratio (as described below). All shares of Computer Motion Series D convertible preferred stock will be converted into shares of Computer Motion common stock immediately prior to the effective time of the merger.

***Exchange Ratio***

The exchange ratio will be determined pursuant to a formula based on the total number of fully diluted shares of Intuitive Surgical and Computer Motion immediately prior to the effective time of the merger. Computer Motion's fully diluted share count will vary based upon the number of shares of Computer Motion common stock into which Computer Motion's Series D convertible preferred stock is convertible and the number of shares of Computer Motion common stock which may be issued to pay accrued dividends on the Series D convertible preferred stock upon conversion. All shares of Computer Motion Series D convertible preferred stock will convert into shares of Computer Motion common stock immediately prior to the effective time of the merger. The holders of the Series D convertible preferred stock can choose between two conversion ratios: a fixed ratio or a floating ratio that varies inversely based on the average of the closing bid prices of Computer Motion's common stock for the 20 consecutive trading days ending 15 days prior to the Computer Motion special meeting, which is referred to in this joint proxy statement/prospectus as the pricing period. An increase in the number of shares of Computer Motion common stock issuable upon conversion of the Series D convertible preferred stock will decrease the exchange ratio applicable to the Computer Motion common stock. As a result, the exchange ratio in the merger may decrease and, therefore, Computer Motion common stockholders would receive a lesser number of Intuitive Surgical shares, and Computer Motion preferred stockholders would receive a greater number of Intuitive Surgical shares, in the merger. The anticipated exchange ratio for Computer Motion common stock, based on the number of fully diluted shares of Intuitive Surgical and Computer Motion expected to be outstanding on an assumed closing date of June 20, 2003, will range from approximately 0.48 to 0.52 depending on the average closing bid prices per share of Computer Motion common stock during the pricing period. After \_\_\_\_\_, 2003, stockholders may visit Intuitive Surgical's website, [www.intuitivesurgical.com](http://www.intuitivesurgical.com), or Computer Motion's website, [www.computermotion.com](http://www.computermotion.com), for announcements regarding the exchange ratio.

The number of shares of Intuitive Surgical common stock issuable pursuant to the merger agreement will be proportionately adjusted for any stock split, reverse stock split, stock dividend or similar event with

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respect to shares of Intuitive Surgical common stock or Computer Motion common stock effected between the date of the merger agreement and the effective time of the merger, including the proposed 1-for-2 reverse stock split described in this joint proxy statement/prospectus. Please see Amendment of Intuitive Surgical's Amended and Restated Certificate of Incorporation.

Promptly after completion of the merger, Intuitive Surgical's transfer agent will mail to former Computer Motion stockholders a letter of transmittal and instructions to be used in surrendering certificates which represented shares of Computer Motion common stock prior to the effective time of the merger. When a former Computer Motion stockholder delivers these certificates to the exchange agent along with a properly executed letter of transmittal and any other required documents, the former Computer Motion stockholder will receive Intuitive Surgical stock certificates representing the number of whole shares of Intuitive Surgical common stock to which the stockholder is entitled under the merger agreement and cash in lieu of any fractional shares of Intuitive Surgical common stock.

### **Treatment of Computer Motion Series D Convertible Preferred Stock**

All shares of Computer Motion Series D convertible preferred stock will convert into shares of Computer Motion common stock immediately prior to the effective time of the merger. The Computer Motion common stock will then be exchanged for Intuitive Surgical common stock based on the exchange ratio in the merger.

The regular conversion ratio under the Series D convertible preferred stock is fixed at approximately 1,014.5 to 1. However, under the terms of the Series D convertible preferred stock, in connection with a change of control transaction such as the merger, the holders may choose an alternative floating ratio that would return at least 135% of the original purchase price of the Series C convertible preferred stock. Under either conversion ratio, the holders of Series D convertible preferred stock are also entitled to receive accrued dividends. For purposes of the alternative ratio, the return is calculated based on the average closing bid price of Computer Motion's common stock for the 20 consecutive trading days ending 15 days prior to the special meeting, which we refer to in this joint proxy statement/prospectus as the pricing period. A floor price of \$1.38 per share is set by the terms of the Series D convertible preferred stock, so that the alternative conversion ratio cannot exceed 135% of the regular conversion ratio. The alternative conversion ratio may be higher than the regular conversion ratio if the average price of Computer Motion's common stock falls below \$1.86 during the pricing period. Each holder of Series D convertible preferred stock must elect such alternative conversion ratio by delivering a notice to Computer Motion no later than 12 trading days prior to the date of the special meeting. The shares held by any holder that does not make such election will convert into Computer Motion common stock at the regular conversion ratio immediately prior to the effective time of the merger.

In addition, the Series D convertible preferred stock accrues dividends which generally may be paid at the election of Computer Motion either in cash or in shares of Computer Motion common stock. Dividends are payable semi-annually, starting with the first dividend payment date on April 30, 2003. Computer Motion common stock issued in payment of these dividends is valued at 90% of its volume-weighted average price as reported by Bloomberg for the 20 trading days immediately prior to the dividend payment date. It is expected that dividends due on April 30, 2003 (except for the cash dividend which must be paid to St. Cloud) will be paid by issuance of additional shares of Computer Motion common stock. Dividends which accrue from April 30, 2003 to the conversion of the Series D convertible preferred stock immediately prior to the effective time of the merger will be paid by issuance of additional shares of Computer Motion common stock upon conversion. For this purpose, holders of Series D convertible preferred stock who elect the alternative conversion ratio described above (including St. Cloud) will receive additional shares of Computer Motion common stock valued at 100% of the average closing bid price of Computer Motion's common stock during the pricing period (but the value so ascribed to the Computer Motion common stock will not be less than \$1.38 per share). Computer Motion common stock issuable in payment of dividends to holders electing the regular conversion ratio will be valued at the 90% rate described above which is applicable to regular dividend payments.

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**Treatment of Computer Motion Stock Options and Warrants**

Upon the effective time of the merger, Intuitive Surgical will assume all options and warrants to purchase Computer Motion stock then outstanding under option and warrant agreements and Computer Motion's stock option plans. Substantially all of the Computer Motion options that are outstanding at the effective time of the merger will accelerate and become immediately exercisable prior to the effective time of the merger. After the effective time of the merger, each option and warrant will represent the right to purchase that number of shares of Intuitive Surgical common stock equal to the number of shares of Computer Motion common stock covered by such option or warrant immediately before the effective time of the merger multiplied by the exchange ratio, rounded down to the nearest whole share. The exercise price per share of Intuitive Surgical common stock subject to each option or warrant will equal the pre-conversion price per share of Computer Motion common stock subject to such option or warrant divided by the exchange ratio, rounded up to the nearest whole cent.

Effective upon the execution of the merger agreement, Computer Motion's board of directors took action under Computer Motion's employee stock purchase plan to provide that:

participants are permitted to increase their payroll deductions or purchase elections from those in effect on the date of the merger agreement;

no offering period will be commenced after the date of the merger agreement; and

each participant's outstanding right to purchase shares of Computer Motion's common stock under the plan will terminate on the day immediately prior to the date on which the merger is completed, with all amounts allocated for each participant's account under the employee stock purchase plan as of the termination date being used to purchase shares of Computer Motion common stock at the applicable discount to the market price of Computer Motion's common stock pursuant to the plan, using the termination date as the final purchase date for each then outstanding offering period.

**Representations and Warranties**

The merger agreement contains customary representations and warranties of Intuitive Surgical and Computer Motion relating to, among other things, the following:

corporate organization and similar corporate matters;

capital structure;

authorization, execution, delivery, performance and enforceability of, and required consents, approvals, orders and authorizations of governmental authorities relating to, the merger agreement and related matters;

approval of the merger agreement by the boards of directors of the companies;

possession of permits and compliance with laws;

documents filed with the SEC and the accuracy of the information contained in those documents;

accuracy of the information to be provided in this joint proxy statement/prospectus;

absence of specified material changes or events;

employee benefit plans and other related matters;

labor and other employment matters and labor contracts;

tax treatment of the merger;



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the validity, binding nature and absence of material defaults with respect to specified contracts;

outstanding material litigation;

compliance with laws related to environmental matters;

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intellectual property;

compliance with laws related to taxes;

insurance policies;

receipt of fairness opinions by Intuitive Surgical and Computer Motion from Bear, Stearns & Co. Inc. and H.C. Wainwright & Co., Inc., respectively;

the respective stockholder votes required for approval of the merger;

the absence of finders or brokers fees, except to H.C. Wainwright & Co., Inc. and Bear, Stearns & Co. Inc.;

absence of any threatened or pending product liability claims;

transactions with related parties; and

eligibility to participate in federal health care programs.

**Conduct of Business by Computer Motion Prior to Completion of the Merger**

Except as contemplated or required by the merger agreement or as expressly consented to in writing by Intuitive Surgical, until the completion of the merger Computer Motion has agreed to:

conduct its operations only in the ordinary and usual course of business consistent with past practice; and

use its reasonable efforts to preserve its present business organization, keep available the services of its current executive officers, key employees and consultants and preserve its business relationships with third parties.

Except as provided in the merger agreement, until the completion of the merger, Computer Motion has agreed that it will not, directly or indirectly, do or propose to do any of the following without the prior written consent of Intuitive Surgical:

amend or otherwise change its organizational documents;

issue, sell, pledge, encumber or otherwise transfer any shares of capital stock or other equity interests other than pursuant to the terms of options outstanding as of the date of the merger agreement;

amend, waive or modify any terms of the options or warrants outstanding as of the date of the merger agreement;

sell, transfer, lease, license, encumber or otherwise dispose of, any property or assets that are material to its business except pursuant to contracts existing as of the date of merger agreement or in the ordinary course of business;

declare, make or pay any dividend or other distribution with respect to its capital stock;

enter into any agreement with respect to the voting of its capital stock;

effect any split or similar transaction of any capital stock;

acquire any interests or assets other than in the ordinary course of business;

incur any indebtedness or assume or otherwise become responsible for the obligations of any person, except for indebtedness incurred in the ordinary course of business or with a maturity of not more than one year and not in excess of \$100,000 in the aggregate;

terminate, cancel, request or agree to any material change in any material contract other than in the ordinary course of business;

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enter into any material contract;

grant any product warranty for a period longer than one year from the date of purchase;

make or authorize any capital expenditures that are in the aggregate greater than \$100,000;

except as pursuant to agreements in existence as of the date of the merger agreement, increase the compensation or benefits of directors, officers or employees;

except as pursuant to agreements in existence as of the date of the merger agreement, grant any rights to severance or termination pay to, or enter into any employment or severance agreement with, any director, officer or other employee;

take any affirmative action to amend or waive any performance or vesting criteria or accelerate vesting under any benefit plan;

pre-pay any long-term debt, except in the ordinary course of business in an amount not greater than \$25,000 in the aggregate;

accelerate or delay collection or payment of notes, accounts receivable or accounts payable in advance of or beyond their regular due dates;

vary its inventory practices in any material respect from past practices;

make any change in accounting policies or procedures other than in the ordinary course of business or as required by GAAP or by a government entity;

waive, release, assign or settle any material claims, litigation or arbitration;

make any material tax election or settle any material tax liability;

take any action that would prevent the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

amend, modify or take any action under the its rights agreement;

modify, terminate or waive any material rights with respect to any confidentiality or standstill agreement;

write up, write down or write off the book value of any assets in excess of \$200,000 in the aggregate;

take any action to exempt any person or entity from the provisions of any state takeover laws or its rights agreement;

take any action that would result in the conditions to the merger not being satisfied; or

agree, in writing or otherwise, to take any of the foregoing actions.

**Conduct of Business by Intuitive Surgical Prior to Completion of the Merger**

Except as provided in the merger agreement, until the completion of the merger Intuitive Surgical has agreed that it will not, directly or indirectly, do or propose to do any of the following without the prior written consent of Computer Motion:

amend or otherwise change its organizational documents;

declare, make or pay any dividend or other distribution with respect to its capital stock;

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enter into any agreement with respect to the voting of its capital stock;

make any change in accounting policies or procedures other than in the ordinary course of business or as required by GAAP or by a government entity;

waive, release, assign or settle any material claims, litigation or arbitration;

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take any action that would prevent the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

take any action that would result in the conditions to the merger not being satisfied; or

agree, in writing or otherwise, to take any of the foregoing actions.

**Additional Agreements**

***Stockholder Meetings***

Computer Motion has agreed to call and hold a meeting of its stockholders as soon as practicable after the date on which the registration statement of which this joint proxy statement/prospectus forms a part becomes effective for the purpose of voting upon the approval of the merger. Computer Motion's obligation to hold the special meeting will not be affected in any way as a result of any changes in the recommendation of Computer Motion's board of directors. Intuitive Surgical has agreed to call and hold a meeting of its stockholders as soon as practicable after the date on which the registration statement of which this joint proxy statement/prospectus becomes effective for the purpose of voting upon the approval of the issuance of Intuitive Surgical common stock pursuant to the merger agreement.

***Access to Information/ Confidentiality***

Each of Intuitive Surgical and Computer Motion has agreed to provide access to its books and records to the other party and its directors, officers, employees and other representatives and comply with its obligations under confidentiality agreements among the parties.

***Consents/ Filings***

Intuitive Surgical and Computer Motion have agreed to use their reasonable best efforts to take all necessary action to make the transactions contemplated by the merger agreement effective, obtain any and all consents and licenses and make all necessary filings.

***Computer Motion Rights Agreement***

Computer Motion has agreed that it will not amend or take any action with regard to its stockholder rights agreement, including a redemption of the rights issued under such agreement.

***Patent Litigation***

Pursuant to the terms of the merger agreement, Intuitive Surgical and Computer Motion have jointly stayed all pending patent disputes between the parties in the U.S. federal courts and in the U.S. and European Patent Offices. Upon completion of the merger, all such claims will be dismissed with prejudice. If the merger is not completed, the stays may be lifted and the proceedings continued.

**No Solicitation of Other Transactions by Computer Motion**

The merger agreement provides that Computer Motion will not through any representatives or otherwise:

encourage, solicit, initiate or facilitate any acquisition proposal (as defined below);

enter into any agreement with respect to any acquisition proposal or enter into any agreement requiring it to abandon, terminate or fail to consummate the transactions contemplated by the merger agreement; or

participate in any discussions or negotiations with, or furnish any information to, another party that may reasonably be expected to lead to any acquisition proposal;

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*provided, however*, that if, at any time prior to the obtaining of Computer Motion stockholders' approval of the merger agreement, Computer Motion's board of directors determines in good faith, after consultation with outside counsel, that failing to consider an unsolicited acquisition proposal would be inconsistent with its fiduciary duties, Computer Motion may furnish information to, and participate in discussions with, a person making a superior proposal. Any information that is furnished to another party that has made a superior proposal will be provided pursuant to a confidentiality agreement no more favorable to the other party than the confidentiality agreement in place between Intuitive Surgical and Computer Motion.

In addition, Computer Motion has agreed that the Computer Motion board of directors will not, except in the case of a superior proposal, withdraw or modify its approval and recommendation of the approval of the merger agreement, approve or recommend any other acquisition proposal, or cause Computer Motion to enter into any letter of intent or agreement related to any other acquisition proposal.

The merger agreement defines an acquisition proposal as any offer or proposal concerning the following:

a merger, consolidation, business combination, or similar transaction involving Computer Motion;

a sale, lease or other disposition of more than 20% of Computer Motion's assets;

the issuance, sale or other disposition of securities representing more than 20% of the voting power of Computer Motion;

any transaction in which any person or group of persons acquires beneficial ownership, or the right to acquire beneficial ownership, of 20% or more of the outstanding voting capital stock of Computer Motion; or

any combination of the foregoing.

The merger agreement defines a superior proposal as a bona fide acquisition proposal involving a merger of Computer Motion or the sale, lease or other transfer of 20% or more of Computer Motion's assets, voting power or capital stock made by a third party that was not solicited by Computer Motion or its affiliates or representatives and which, in the good faith judgment of Computer Motion's board of directors:

if accepted, is reasonably likely to be completed; and

if completed, based on a written opinion of Computer Motion's financial advisor, would result in a transaction that is more favorable to Computer Motion's stockholders, from a financial point of view, than the transactions contemplated by the merger agreement.

**Conditions to Completion of the Merger**

The obligations of Intuitive Surgical and Computer Motion to effect the merger are subject to the fulfillment or waiver, prior to the effective time of the merger, of various conditions, including the following:

the registration statement covering the issuance of shares of Intuitive Surgical common stock to be issued pursuant to the merger agreement, of which this joint proxy statement/prospectus forms a part, will have become effective in accordance with the provisions of the Securities Act of 1933 and not be subject to any stop order suspending the effectiveness of the registration statement issued or threatened by the SEC;

the merger agreement, the merger and the other transactions contemplated by the merger agreement will have been approved by the requisite vote of the stockholders of Computer Motion and Intuitive Surgical;

no governmental agency or court will have instituted any action or proceeding that enjoins or prohibits the completion of the merger or any other transaction contemplated by the merger agreement;

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all material consents, approvals and authorizations of any governmental entity or otherwise required pursuant to the merger agreement shall have been obtained;

the shares of Intuitive Surgical common stock issuable in the merger will have been approved for listing on Nasdaq; and

specified patent litigation stays will have been obtained and remain in full force and effect.

In addition, the obligations of Intuitive Surgical and Intuitive Merger Corporation to effect the merger are subject to the fulfillment or waiver, prior to the effective time of the merger, of each of the following conditions:

the representations and warranties of Computer Motion will be true and correct as of the effective time of the merger (except that those representations and warranties that speak as of the date of the merger agreement or some other date need only be true as of that date), except where the failure of those representations and warranties to be true and correct does not have a material adverse effect on Computer Motion;

Computer Motion will have performed or complied with all agreements and covenants required by the merger agreement, except to the extent such nonperformance or noncompliance does not have a material adverse effect on Computer Motion;

Computer Motion will have obtained all requisite consents, approvals and authorizations, other than consents, approvals and authorizations the failure of which to obtain would not have a material adverse effect on Computer Motion;

since the date of the merger agreement, no material adverse change to Computer Motion's business that arises out of or relates to (1) any forfeiture, impairment, invalidity or diminution in value of Computer Motion's intellectual property, (2) the issuance of any shares of capital stock or other equity interests of Computer Motion or (3) the incurrence by Computer Motion of any liability or obligation (other than pursuant to the Loan and Security Agreement); and

no action or claim will be pending or threatened wherein an unfavorable judgment or ruling would prevent consummation of any transaction contemplated by the merger agreement, cause any transaction contemplated by the merger agreement to be rescinded following completion, or materially adversely affect the right or powers of Intuitive Surgical to own and operate Computer Motion.

In addition, the obligations of Computer Motion to effect the merger are subject to the fulfillment or waiver, prior to the effective time of the merger, of each of the following conditions:

the representations and warranties of Intuitive Surgical will be true and correct as of the effective time of the merger (except that those representations and warranties that speak as of the date of the merger agreement or some other date need only be true as of that date), except where the failure of those representations and warranties to be true and correct does not have a material adverse effect on Intuitive Surgical; and

Intuitive Surgical will have performed or complied with all agreements and covenants required by the merger agreement, except to the extent such nonperformance or noncompliance does not have a material adverse effect on Intuitive Surgical.

**Termination of the Merger Agreement**

The merger agreement may be terminated at any time prior to the effective time of the merger by mutual written consent of the parties. In addition, the merger agreement may be terminated at any time



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prior to the effective time of the merger by either Intuitive Surgical or Computer Motion under the following circumstances:

if the merger has not been completed by August 31, 2003, unless it is the terminating party's failure to fulfill any obligation under the merger agreement that resulted in the failure of the merger to occur on or before that date;

if any governmental entity has issued an order or ruling permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by the merger agreement;

if the approval by the stockholders of Computer Motion required for completion of the merger is not obtained, unless any of the events specified in the first four bullets of the succeeding paragraph occurs, in which case only Intuitive Surgical may terminate the merger agreement pursuant to this provision; or

if the approval of the stockholders of Intuitive Surgical for the issuance of Intuitive Surgical common stock in the merger is not obtained at a duly held meeting of the stockholders of Intuitive Surgical.

In addition, the merger agreement may be terminated at any time prior to the effective time of the merger by Intuitive Surgical under the following circumstances:

if the Computer Motion board of directors (1) withdraws or adversely modifies its recommendation of the merger or (2) determines to recommend to the stockholders of Computer Motion that they approve an acquisition proposal other than that contemplated by the merger agreement or has determined to accept a superior proposal;

if a tender or exchange offer for 35% or more of the shares of Computer Motion common stock is commenced and the Computer Motion board of directors fails to recommend that the stockholders of Computer Motion not tender their shares in such offer;

if any person or group becomes the beneficial owner of 35% or more of the outstanding shares of Computer Motion common stock;

if for any reason Computer Motion fails to call or hold the stockholder's meeting for the purpose of voting upon the approval of the merger agreement before August 31, 2003; or

if after the date of the merger agreement (1) there occurs a material adverse change to Computer Motion that is not cured within 10 days after written notice thereof or (2) Computer Motion breaches its obligations under the merger agreement, such breach would have a material adverse effect and such breach is not cured within 10 days after written notice thereof. For this purpose, a material adverse change is a material adverse change to Computer Motion's business that arises out of or relates to (1) any forfeiture, impairment, invalidity or diminution in value of Computer Motion's intellectual property, (2) the issuance of any shares of capital stock or other equity interests of Computer Motion or (3) the incurrence by Computer Motion of any liability or obligation (other than pursuant to the Loan and Security Agreement).

In addition, the merger agreement may be terminated at any time prior to the effective time of the merger by Computer Motion under the following circumstances:

if the Computer Motion board of directors determines to accept a superior proposal, but only if Computer Motion's stockholders fail to approve the merger at the Computer Motion special meeting held for the purpose of voting upon the approval of the merger agreement and Computer Motion pays Intuitive Surgical the termination fee and expenses under the merger agreement, unless Computer Motion is then in breach of its nonsolicitation obligations under the merger agreement, in which case it may not terminate the merger agreement pursuant to this provision; or

if after the date of the merger agreement Intuitive Surgical breaches specified obligations under the merger agreement that are not cured within 10 days of the written notice thereof.

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**Expenses and Termination Fees**

***Expenses***

Generally, all fees and expenses incurred in connection with the merger agreement and the transactions contemplated by the merger agreement will be paid by the party incurring those expenses. However, Intuitive Surgical and Computer Motion will share equally all regulatory filing fees and expenses related to printing, filing and mailing this joint proxy statement/prospectus and the related registration statement.

***Computer Motion Termination Fee***

If the merger agreement is terminated because the merger is not approved by Computer Motion's stockholders, Computer Motion will pay Intuitive Surgical an amount equal to Intuitive Surgical's expenses related to the merger up to \$1.25 million. In addition, in the event an acquisition proposal has been publicly announced and not expressly and publicly withdrawn prior to Computer Motion's stockholder vote rejecting the merger agreement and (1) Computer Motion enters into an agreement concerning a transaction that constitutes an acquisition proposal within 12 months of the termination of the merger agreement or (2) any person other than Intuitive Surgical purchases a majority of the assets or equity interests of Computer Motion pursuant to a tender, exchange or other offer that is publicly announced within 12 months of the termination of the merger agreement, Computer Motion will pay Intuitive Surgical a termination fee of \$2.5 million, less the amount of any payment for Intuitive Surgical's expenses related to the merger. In addition, Computer Motion will pay Intuitive Surgical's expenses and a termination fee of \$2.5 million (less the amount of any payment for Intuitive Surgical's expenses related to the merger) if the merger agreement is terminated because:

the Computer Motion board of directors (1) withdraws or adversely modifies its recommendation of the merger or (2) determines to recommend to the stockholders of Computer Motion that they approve an acquisition proposal other than that contemplated by the merger agreement or has determined to accept a superior proposal;

a tender or exchange offer for 35% or more of the shares of Computer Motion common stock is commenced and Computer Motion's board of directors fails to recommend that the stockholders of Computer Motion not tender their shares in such offer;

a person or group becomes the beneficial owner of 35% or more of the outstanding shares of Computer Motion's common stock;

Computer Motion fails to call or hold a stockholder meeting for the purpose of voting upon the approval of the merger agreement before August 31, 2003; or

after the date of the merger agreement, (1) there occurs a material adverse change (as described above) to Computer Motion that is not cured within 10 days after written notice thereof or (2) Computer Motion breaches its obligations under the merger agreement that are not cured within 10 days after written notice thereof.

***Intuitive Surgical Termination Fee***

If the merger agreement is terminated because the approval of the stockholders of Intuitive Surgical for the issuance of Intuitive Surgical common stock pursuant to the merger agreement is not obtained, Intuitive Surgical will pay Computer Motion an amount equal to Computer Motion's expenses related to the merger up to \$1.25 million. In addition, Intuitive Surgical will pay Computer Motion's expenses and a termination fee of \$2.5 million (less the amount of any payment for Computer Motion's expenses related to the merger) if the merger agreement is terminated because Intuitive Surgical breaches specified obligations under the merger agreement that are not cured within 10 days after written notice thereof.

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**Amendment and Waiver**

Subject to applicable law, the parties may amend the merger agreement in writing at any time prior to the completion of the merger. At any time prior to the completion of the merger, any party to the merger agreement may (1) extend the time for performance of any of the obligations of the other party, (2) waive any inaccuracies in the representations and warranties of the other party and (3) waive compliance by the other party with any of the agreements or conditions in the merger agreement.

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**STOCKHOLDER SUPPORT AGREEMENTS**

*The following summary describes certain material provisions of the stockholder support agreements, the forms of which are attached to this joint proxy statement/prospectus as Annex B and Annex C and are incorporated by reference in this joint proxy statement/prospectus. This summary may not contain all of the information about the stockholder support agreement that is important to you. We encourage you to read the stockholder support agreements carefully in their entirety.*

**Intuitive Surgical Stockholders**

As an inducement to Intuitive Surgical and Intuitive Merger Corporation to enter into the merger agreement and in connection with the execution and delivery of the merger agreement, Susan Barnes, Gary Guthart, Scott Halsted, Russell Hirsch, Richard Kramer, Jim Lawrence, Alan Levy, Fred Moll, Jerome McNamara and Lonnie Smith, each of whom is an officer and/or director of Intuitive Surgical, entered into a stockholder support agreement with Intuitive Surgical and Intuitive Merger Corporation. As of the record date for the Intuitive Surgical annual meeting, these stockholders collectively held an aggregate of approximately 2.8 million shares of Intuitive Surgical common stock, representing approximately 7% of the Intuitive Surgical common stock outstanding on that date.

Pursuant to the terms of the stockholder support agreements, each stockholder agreed to vote (1) in favor of the issuance of Intuitive Surgical common stock pursuant to the merger agreement and (2) against any action or agreement that would impede, interfere with, delay, postpone or attempt to discourage issuance of Intuitive Surgical common stock pursuant to the merger agreement. In addition, each stockholder appointed Lonnie Smith and Susan Barnes in their respective capacities as officers of Intuitive Surgical as such stockholder's proxy and attorney-in-fact to vote such stockholder's shares of Intuitive Surgical common stock in accordance with the provisions of the stockholder support agreement and revoked all prior proxies. Each stockholder also agreed not to sell or otherwise dispose of such stockholder's Intuitive Surgical shares nor to solicit any acquisition proposal.

The stockholder support agreements terminate upon the earliest to occur of (1) March 7, 2005, (2) the effective time of the merger or (3) 120 days after payment of any termination fee pursuant to the merger agreement. Please see [The Merger Agreement](#) [Termination of the Merger Agreement](#).

**Computer Motion Stockholders**

As an inducement to Intuitive Surgical and Intuitive Merger Corporation to enter into the merger agreement and in connection with the execution and delivery of the merger agreement, Joseph DeVivo, Daniel Doiron, Robert Duggan, Eric Halvorson, Jeffrey Henley, William Meloche, David Munjal, Stephen Pedroff, David Stuart, Eugene Teal and Darrin Uecker, each of whom is an officer and/or director of Computer Motion, entered into a stockholder support agreement with Intuitive Surgical and Intuitive Merger Corporation. As of the record date for the Computer Motion special meeting, these stockholders collectively held an aggregate of approximately 2.8 million shares of Computer Motion common stock and 1,191 shares of Computer Motion Series D convertible preferred stock, collectively, representing approximately 14% of the voting power of the Computer Motion common and preferred stock outstanding on that date.

Pursuant to the terms of the stockholder support agreements, each stockholder agreed to vote (1) in favor of the approval and adoption the merger agreement and (2) against any action or agreement that would impede, interfere with, delay, postpone or attempt to discourage the merger. In addition, each stockholder appointed Lonnie Smith and Susan Barnes in their respective capacities as officers of Intuitive Surgical as such stockholder's proxy and attorney-in-fact to vote such stockholder's shares of Computer Motion stock in accordance with the provisions of the stockholder support agreement and revoked all prior proxies. Each stockholder also agreed not to sell or otherwise dispose of such stockholder's Computer Motion shares nor to solicit any acquisition proposal.

The stockholder support agreements terminate upon the earliest to occur of (1) March 7, 2005, (2) the effective time of the merger or (3) 120 days after payment of any termination fee pursuant to the merger agreement. Please see [The Merger Agreement](#) [Termination of the Merger Agreement](#).

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**LOAN AND SECURITY AGREEMENT**

In connection with the execution of the merger agreement, Intuitive Surgical and Computer Motion entered into a loan and security agreement, pursuant to which Intuitive Surgical has agreed to provide a short-term secured bridge loan facility of up to \$7.3 million to Computer Motion. Computer Motion will use up to \$5.0 million of the facility for working capital and other general corporate purposes and up to \$2.3 million of the facility to repay existing indebtedness. As of the date of this joint proxy statement/ prospectus, \$ million is outstanding under this facility. The facility will terminate and all outstanding amounts thereunder will become due and payable 120 following termination of the merger agreement, subject to specified acceleration events described below. Interest on amounts borrowed under the facility will accrue at a rate of 8% per year and is not due and payable until the maturity date. In order to secure repayment of the loan, Computer Motion granted Intuitive Surgical a first-priority security interest in, and lien on, specified assets of Computer Motion, including present and future accounts receivable, inventory, equipment, letters of credit and intellectual property rights. There can be no assurance that this collateral will be sufficient to secure Computer Motion's obligations under the Loan and Security Agreement

The loan and security agreement contains customary representations and warranties by Computer Motion relating to, among other things, the following:

corporate organization and similar corporate matters;

authorization, execution, delivery, performance and enforceability of the loan and security agreement;

purpose of the loan;

existing indebtedness;

title to property and assets;

intellectual property;

financial condition; and

location of collateral.

The obligation of Intuitive Surgical to make loans under the facility is subject to customary conditions, including the following:

execution and delivery of the loan documents and other specified documents and certificates from Computer Motion in form and substance satisfactory to Intuitive Surgical;

Intuitive Surgical shall have received evidence of a valid and perfected first-priority lien and security interest in the collateral and intellectual property of Computer Motion;

Intuitive Surgical shall have received evidence that the merger agreement and other ancillary agreements are in full force and effect;

Intuitive Surgical shall have received evidence of insurance on specified Computer Motion assets in form and substance satisfactory to Intuitive Surgical; and

Intuitive Surgical shall have received additional terminations and other documents as Intuitive Surgical may reasonably request.

Amounts borrowed under the loan and security agreement, together with accrued interest, will be due and payable on the earlier to occur of 120 days following termination of the merger agreement or any of the following events:

the sale, lease, license, exchange or transfer of all or substantially all of the assets of Computer Motion (other than pursuant to the merger agreement);

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the completion of a recapitalization, reorganization, merger, consolidation or other transaction resulting in the transfer of control of Computer Motion (other than pursuant to the merger agreement); or

any voluntary or involuntary action to liquidate, dissolve or wind down the business of Computer Motion.

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**UNAUDITED PRO FORMA**

**CONDENSED COMBINED CONSOLIDATED FINANCIAL DATA  
OF INTUITIVE SURGICAL AND COMPUTER MOTION**

The following unaudited pro forma condensed combined consolidated balance sheet as of December 31, 2002 and the unaudited pro forma condensed combined consolidated statement of operations for the year ended December 31, 2002 are based on the historical financial statements of Intuitive Surgical and Computer Motion after giving effect to the merger as a purchase of Computer Motion by Intuitive Surgical using the purchase method of accounting and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined consolidated financial statements.

The unaudited pro forma condensed balance sheet gives effect to the merger of Intuitive Surgical and Computer Motion as if it had occurred of December 31, 2002. The unaudited pro forma condensed combined consolidated statement of operations gives effect to the proposed merger of Intuitive Surgical and Computer Motion as if it had occurred on January 1, 2002. The pro forma information is based on the historical, audited consolidated financial statements of Intuitive Surgical, the audited consolidated financial statements of Computer Motion, and the assumptions, estimates, and adjustments described in the notes to the unaudited pro forma condensed combining financial statements. The assumptions, estimates, and adjustments are preliminary and have been made solely for purposes of developing such pro forma information.

Under the purchase method of accounting, the total estimated purchase price, calculated as described in Note 1 to these unaudited pro forma condensed combined consolidated financial statements, is allocated to the net tangible and intangible assets of Computer Motion acquired in connection with the merger, based on their fair values as of the completion of the merger. A preliminary valuation was conducted in order to assist management of Intuitive Surgical in determining the fair values of a significant portion of these assets. This preliminary valuation has been considered in management's estimates of the fair values reflected in these unaudited pro forma condensed combined consolidated financial statements. A final determination of these fair values, which cannot be made prior to the completion of the merger, will include management's consideration of a final valuation. This final valuation will be based on the actual net tangible and intangible assets of Computer Motion that exist as of the date of completion of the merger.

Further, the unaudited pro forma condensed combined consolidated financial statements do not include any adjustments for liabilities resulting from integration planning, as management is in the process of making these assessments and estimates of these costs are not currently known. However, liabilities ultimately will be recorded for severance or other costs associated with removing redundant operations that would affect amounts in the pro forma financial statements.

These unaudited pro forma condensed combined consolidated financial statements have been prepared based on preliminary estimates of fair values. Amounts allocated to intangible assets may increase significantly, which could result in a material increase in amortization of intangible assets. Therefore, the actual amounts recorded as of the completion of the merger may differ materially from the information presented in these unaudited pro forma condensed combined consolidated financial statements. The impact of ongoing integration activities, the timing of completion of the merger, and other changes in Computer Motion's net tangible and intangible assets, which occur prior to completion of the merger, as well as the receipt of the final valuation, could cause material differences in the information presented.

The unaudited pro forma condensed combined consolidated financial statements should be read in conjunction with the historical audited consolidated financial statements and accompanying notes of Intuitive Surgical and Computer Motion incorporated by reference into this joint proxy statement/prospectus, and the summary of selected historical consolidated financial data included elsewhere in this joint proxy statement/prospectus. The unaudited pro forma condensed combined consolidated financial statements are not intended to represent or be indicative of the consolidated results of operations or financial condition of Intuitive Surgical that would have been reported had the merger been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations or financial condition of the merged entity.

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	Historical			Pro Forma Combined
	Intuitive Surgical	Computer Motion	Pro Forma Adjustments	
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$ 17,607	\$ 2,704	\$	\$ 20,311
Short-term investments	33,232			33,232
Accounts receivable, net	16,887	6,786		23,673
Inventory, net	8,738	5,866	2,004(a)	16,608
Prepaid and other current assets	2,161	1,471		3,632
	<u>78,625</u>	<u>16,827</u>	<u>2,004</u>	<u>97,456</u>
Property and equipment, net	10,388	4,967		15,355
Intangible and other assets	2,568	56	24,900(b)	79,295
			3,700(c)	
			48,071(d)	
	<u>91,581</u>	<u>21,850</u>	<u>78,675</u>	<u>192,106</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
Current Liabilities				
Note payable to stockholder	\$	\$ 1,000	\$	\$ 1,000
Accounts payable	9,282	3,541		12,823
Other accrued liabilities	10,432	7,953	2,000(f)	15,985
			(4,400)(j)	
Deferred revenue	4,838	2,461	(1,045)(e)	6,254
Current portion of notes payable	1,511			1,511
	<u>26,063</u>	<u>14,955</u>	<u>(3,445)</u>	<u>37,573</u>
Deferred revenue		1,226	(478)(e)	748
Long-term notes payable and other	1,838	18		1,856
	<u>27,901</u>	<u>16,199</u>	<u>(3,923)</u>	<u>40,177</u>
Stockholders equity	63,680	5,651	83,004(h)	151,929
			(406)(i)	
	<u>91,581</u>	<u>21,850</u>	<u>78,675</u>	<u>192,106</u>

See Notes to Unaudited Pro Forma Condensed Combined Consolidated Financial Statements.



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**UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED**

**STATEMENT OF OPERATIONS**

**Year Ended December 31, 2002**  
**(in thousands, except per share data)**

**Historical**