

INTUITIVE SURGICAL, INC.
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Intuitive Surgical, Inc.
Trended Unaudited Quarterly and Annual Condensed Consolidated Income Statements (GAAP) and Other Metrics
(in millions, except per share data and headcount)
2015 - 2016

	<u>Q1'15</u>	<u>Q2'15</u>	<u>Q3'15</u>	<u>Q4'15</u>	<u>Q1'16</u>	<u>Q2'16</u>	<u>Q3'16</u>	<u>Q4'16</u>	<u>FY15</u>	<u>FY16</u>
<u>Condensed Income Statement</u>										
Revenue	\$ 532.1	\$ 586.1	\$ 589.7	\$ 676.5	\$ 594.5	\$ 670.1	\$ 682.9	\$ 756.9	\$ 2,384.4	\$ 2,704.4
Gross Profit	336.8	386.5	395.8	458.8	405.0	470.9	487.0	527.2	1,577.9	1,890.1
Gross Profit Margin	63.3%	65.9%	67.1%	67.8%	68.1%	70.3%	71.3%	69.7%	66.2%	69.9%
SG&A Expenses	162.0	163.3	154.9	160.3	172.8	170.8	168.0	193.7	640.5	705.3
Research and Development Expenses	44.4	49.4	51.0	52.6	53.2	54.7	62.6	69.1	197.4	239.6
Total Operating Expenses	206.4	212.7	205.9	212.9	226.0	225.5	230.6	262.8	837.9	944.9
Operating Income	130.4	173.8	189.9	245.9	179.0	245.4	256.4	264.4	740.0	945.2
Operating Margin	24.5%	29.7%	32.2%	36.3%	30.1%	36.6%	37.5%	34.9%	31.0%	35.0%
Interest and Other Income, net	4.3	4.6	3.7	5.9	5.5	8.0	10.4	11.7	18.5	35.6
Income Before Taxes	134.7	178.4	193.6	251.8	184.5	253.4	266.8	276.1	758.5	980.8
Income Tax Expense	37.7	43.9	26.3	61.8	48.1	68.9	55.8	72.1	169.7	244.9
Effective Tax Rate	28.0%	24.6%	13.6%	24.5%	26.1%	27.2%	20.9%	26.1%	22.4%	25.0%
Net Income	\$ 97.0	\$ 134.5	\$ 167.3	\$ 190.0	\$ 136.4	\$ 184.5	\$ 211.0	\$ 204.0	\$ 588.8	\$ 735.9
Earnings Per Share	\$ 2.57	\$ 3.56	\$ 4.40	\$ 4.99	\$ 3.54	\$ 4.71	\$ 5.31	\$ 5.13	\$ 15.54	\$ 18.73
Diluted Shares Outstanding	37.7	37.8	38.0	38.1	38.5	39.2	39.7	39.8	37.9	39.3
<u>Other Metrics</u>										
Cash and Investments	\$ 2,667.0	\$ 2,868.6	\$ 3,125.2	\$ 3,347.8	\$ 3,801.1	\$ 4,224.9	\$ 4,561.3	\$ 4,837.9	\$ 3,347.8	\$ 4,837.9
Capital, IP, Business Acquisitions	\$ 19.2	\$ 13.6	\$ 28.5	\$ 19.7	\$ 9.6	\$ 11.4	\$ 15.1	\$ 17.8	\$ 81.0	\$ 53.9
Share Repurchases	\$ 14.7	\$ 49.3	\$ 35.5	\$ 84.2	\$ 8.1	\$ —	\$ —	\$ 34.4	\$ 183.7	\$ 42.5
Headcount	3,118	3,179	3,178	3,211	3,317	3,460	3,625	3,755	3,211	3,755

Intuitive Surgical, Inc.
Trended Unaudited Quarterly and Annual Non-GAAP Financial Measures (#)
(in millions, except per share data)
2015 - 2016

	<u>Q1'15</u>	<u>Q2'15</u>	<u>Q3'15</u>	<u>Q4'15</u>	<u>Q1'16</u>	<u>Q2'16</u>	<u>Q3'16</u>	<u>Q4'16</u>	<u>FY15</u>	<u>FY16</u>
Non-GAAP Gross Profit Margin	65.6%	68.0%	69.3%	69.6%	70.0%	71.9%	73.1%	71.1%	68.2%	71.6%
Non-GAAP SG&A Expenses	\$ 131.7	\$ 133.1	\$ 129.9	\$ 137.9	\$ 146.4	\$ 143.0	\$ 142.7	\$ 163.7	\$ 532.6	\$ 595.8
Non-GAAP Research and Development Expenses	\$ 32.2	\$ 37.4	\$ 38.2	\$ 40.2	\$ 40.4	\$ 42.0	\$ 48.7	\$ 55.1	\$ 148.0	\$ 186.2
Non-GAAP Operating Margin	34.8%	38.9%	40.7%	43.3%	38.5%	44.3%	45.0%	42.2%	39.7%	42.7%
Non-GAAP Income Before Taxes	\$ 189.3	\$ 232.4	\$ 244.0	\$ 298.5	\$ 234.6	\$ 305.1	\$ 318.0	\$ 331.4	\$ 964.2	\$ 1,189.1
Non-GAAP Net Income	\$ 134.6	\$ 172.8	\$ 199.2	\$ 224.3	\$ 170.3	\$ 220.4	\$ 245.7	\$ 242.3	\$ 730.9	\$ 878.7
Non-GAAP Earnings Per Share	\$ 3.57	\$ 4.57	\$ 5.24	\$ 5.89	\$ 4.42	\$ 5.62	\$ 6.19	\$ 6.09	\$ 19.28	\$ 22.36
Diluted Shares Outstanding	37.7	37.8	38.0	38.1	38.5	39.2	39.7	39.8	37.9	39.3

Intuitive Surgical, Inc.
Trended Unaudited Quarterly and Annual Procedures, Revenue and Related Metrics
Total Company
2015 - 2016

	<u>Q1'15</u>	<u>Q2'15</u>	<u>Q3'15</u>	<u>Q4'15</u>	<u>Q1'16</u>	<u>Q2'16</u>	<u>Q3'16</u>	<u>Q4'16</u>	<u>FY15</u>	<u>FY16</u>
<u>Revenue and Related Metrics</u>										
Instruments and Accessories Revenue (millions)	\$ 277.2	\$ 296.8	\$ 298.1	\$ 325.6	\$ 322.1	\$ 339.3	\$ 348.1	\$ 386.3	\$ 1,197.7	\$ 1,395.8
Year over year growth	9 %	13 %	9 %	16%	16 %	14%	17 %	19%	12%	17%
Quarter over quarter growth (decline)	(1)%	7 %	— %	9%	(1)%	5%	3 %	11%		
Year over year procedure growth	13 %	14 %	15 %	15%	17 %	16%	14 %	15%	14%	15%
Quarter over quarter procedure growth (decline)	(2)%	8 %	— %	9%	(1)%	7%	(1)%	9%		
Service Revenue (millions)	\$ 113.9	\$ 113.3	\$ 117.4	\$ 120.2	\$ 124.5	\$ 128.1	\$ 129.7	\$ 134.7	\$ 464.8	\$ 517.0
Year over year growth	10 %	6 %	8 %	9%	9 %	13%	10 %	12%	8%	11%
Quarter over quarter growth (decline)	4 %	(1)%	4 %	2%	4 %	3%	1 %	4%		
Total Recurring Revenue (millions)	\$ 391.1	\$ 410.1	\$ 415.5	\$ 445.8	\$ 446.6	\$ 467.4	\$ 477.8	\$ 521.0	\$ 1,662.5	\$ 1,912.8
Year over year growth	9 %	11 %	9 %	14%	14 %	14%	15 %	17%	11%	15%
Quarter over quarter growth	— %	5 %	1 %	7%	— %	5%	2 %	9%		
% Recurring Revenue	74 %	70 %	70 %	66%	75 %	70%	70 %	69%	70%	71%
Systems Revenue (millions)	\$ 141.0	\$ 176.0	\$ 174.2	\$ 230.7	\$ 147.9	\$ 202.7	\$ 205.1	\$ 235.9	\$ 721.9	\$ 791.6
Year over year growth	33 %	22 %	3 %	8%	5 %	15%	18 %	2%	14%	10%
Quarter over quarter growth (decline)	(34)%	25 %	(1)%	32%	(36)%	37%	1 %	15%		
Total Revenue (millions)	\$ 532.1	\$ 586.1	\$ 589.7	\$ 676.5	\$ 594.5	\$ 670.1	\$ 682.9	\$ 756.9	\$ 2,384.4	\$ 2,704.4
Year over year growth	15 %	14 %	7 %	12%	12 %	14%	16 %	12%	12%	13%
Quarter over quarter growth (decline)	(12)%	10 %	1 %	15%	(12)%	13%	2 %	11%		
<u>Installed System Base Rollforward</u>										
Beginning Installed System Base	3,266	3,317	3,398	3,477	3,597	3,660	3,745	3,803	3,266	3,597
Systems Shipped:										
S Systems	—	1	—	—	—	1	—	—	1	1
Dual Consoles Si Systems	3	10	5	4	—	1	1	3	22	5
Single Console Si Systems	19	27	22	39	24	29	30	39	107	122
Si-e Systems	2	4	—	1	1	—	1	—	7	2
Dual Console Xi Systems	27	18	29	31	19	32	22	33	105	106
Single Console Xi Systems	48	58	61	83	66	67	80	88	250	301
Total System Units Shipped*	99	118	117	158	110	130	134	163	492	537
Trade-Ins and Retirements **	(48)	(37)	(38)	(38)	(47)	(45)	(76)	(47)	(161)	(215)
Ending Installed System Base	3,317	3,398	3,477	3,597	3,660	3,745	3,803	3,919	3,597	3,919
*Systems Shipped under Operating Leases (Included in Total System Units Shipped)	9	5	13	16	19	15	15	13	43	62

**During the third quarter of 2016, we implemented a new system and processes for tracking installed *da Vinci* systems in the field. As part of the transition process, we performed a verification audit of our installed base records that identified 42 systems, mostly older standard and S models which had been retired. We removed these retired systems from our installed base estimate during the third quarter of 2016.

Intuitive Surgical, Inc.
Trended Unaudited Quarterly and Annual Procedures, Revenue and Related Metrics
United States
2015 - 2016

	<u>Q1'15</u>	<u>Q2'15</u>	<u>Q3'15</u>	<u>Q4'15</u>	<u>Q1'16</u>	<u>Q2'16</u>	<u>Q3'16</u>	<u>Q4'16</u>	<u>FY15</u>	<u>FY16</u>
<u>Revenue and Related Metrics</u>										
Instruments and Accessories Revenue (millions)	\$ 212.8	\$ 231.0	\$ 237.8	\$ 255.2	\$ 246.8	\$ 262.2	\$ 270.4	\$ 297.9	\$ 936.8	\$ 1,077.3
Year over year growth	8 %	12 %	10%	16 %	16 %	14%	14%	17%	12%	15%
Quarter over quarter growth (decline)	(3)%	9 %	3%	7 %	(3)%	6%	3%	10%		
Year over year procedure growth	11 %	10 %	12%	12 %	15 %	13%	11%	13%	11%	13%
Quarter over quarter procedure growth (decline)	(6)%	9 %	1%	8 %	(3)%	7%	—%	9%		
Service Revenue (millions)	\$ 85.0	\$ 84.3	\$ 87.9	\$ 89.9	\$ 93.7	\$ 94.8	\$ 94.7	\$ 98.7	\$ 347.1	\$ 381.9
Year over year growth	8 %	5 %	8%	10 %	10 %	12%	8%	10%	8%	10%
Quarter over quarter growth (decline)	4 %	(1)%	4%	2 %	4 %	1%	—%	4%		
Total Recurring Revenue (millions)	\$ 297.8	\$ 315.3	\$ 325.7	\$ 345.1	\$ 340.5	\$ 357.0	\$ 365.1	\$ 396.6	\$ 1,283.9	\$ 1,459.2
Year over year growth	8 %	10 %	10%	14 %	14 %	13%	12%	15%	11%	14%
Quarter over quarter growth (decline)	(1)%	6 %	3%	6 %	(1)%	5%	2%	9%		
% Recurring Revenue	78 %	75 %	74%	75 %	79 %	74%	74%	73%	76%	75%
Systems Revenue (millions)	\$ 84.6	\$ 102.5	\$ 112.8	\$ 112.0	\$ 90.2	\$ 127.8	\$ 129.0	\$ 148.8	\$ 411.9	\$ 495.8
Year over year growth	151 %	7 %	17%	9 %	7 %	25%	14%	33%	25%	20%
Quarter over quarter growth (decline)	(18)%	21 %	10%	(1)%	(19)%	42%	1%	15%		
Total Revenue (millions)	\$ 382.4	\$ 417.8	\$ 438.5	\$ 457.1	\$ 430.7	\$ 484.8	\$ 494.1	\$ 545.4	\$ 1,695.8	\$ 1,955.0
Year over year growth	24 %	9 %	11%	13 %	13 %	16%	13%	19%	14%	15%
Quarter over quarter growth (decline)	(6)%	9 %	5%	4 %	(6)%	13%	2%	10%		

Installed System Base Rollforward

Beginning Installed System Base	2,223	2,254	2,295	2,344	2,399	2,431	2,474	2,501	2,223	2,399
Systems Shipped:										
S Systems	—	—	—	—	—	—	—	—	—	—
Dual Consoles Si Systems	—	7	1	—	—	—	—	—	8	—
Single Console Si Systems	9	10	12	14	11	11	12	11	45	45
Si-e Systems	1	1	—	1	1	—	1	—	3	2
Dual Console Xi Systems	18	9	23	17	17	22	15	21	67	75
Single Console Xi Systems	35	45	44	51	45	46	57	68	175	216
Total System Units Shipped*	63	72	80	83	74	79	85	100	298	338
Trade-Ins and Retirements **	(32)	(31)	(31)	(28)	(42)	(36)	(58)	(38)	(122)	(174)
Ending Installed System Base	2,254	2,295	2,344	2,399	2,431	2,474	2,501	2,563	2,399	2,563

*Systems Shipped under Operating Leases (Included in Total System Units Shipped)

	9	5	13	15	19	13	14	11	42	57
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**During the third quarter of 2016, we implemented a new system and processes for tracking installed *da Vinci* systems in the field. As part of the transition process, we performed a verification audit of our installed base records that identified 31 systems, mostly older standard and S models which had been retired. We removed these retired systems from our installed base estimate during the third quarter of 2016.

Intuitive Surgical, Inc.
Trended Unaudited Quarterly and Annual Procedures, Revenue and Related Metrics
Outside of United States
2015 - 2016

	<u>Q1'15</u>	<u>Q2'15</u>	<u>Q3'15</u>	<u>Q4'15</u>	<u>Q1'16</u>	<u>Q2'16</u>	<u>Q3'16</u>	<u>Q4'16</u>	<u>FY15</u>	<u>FY16</u>
<u>Revenue and Related Metrics</u>										
Instruments and Accessories Revenue (millions)	\$ 64.4	\$ 65.8	\$ 60.3	\$ 70.4	\$ 75.3	\$ 77.1	\$ 77.7	\$ 88.4	\$ 260.9	\$ 318.5
Year over year growth	11 %	19%	5 %	15%	17 %	17%	29 %	26 %	13%	22 %
Quarter over quarter growth (decline)	6 %	2%	(8)%	17%	7 %	2%	1 %	14 %		
Year over year procedure growth	22 %	27%	28 %	27%	22 %	25%	25 %	23 %	26%	24 %
Quarter over quarter procedure growth (decline)	12 %	4%	(4)%	13%	8 %	7%	(4)%	11 %		
Service Revenue (millions)	\$ 28.9	\$ 29.0	\$ 29.5	\$ 30.3	\$ 30.8	\$ 33.3	\$ 35.0	\$ 36.0	\$ 117.7	\$ 135.1
Year over year growth	15 %	12%	9 %	7%	7 %	15%	19 %	19 %	11%	15 %
Quarter over quarter growth	2 %	—%	2 %	3%	2 %	8%	5 %	3 %		
Total Recurring Revenue (millions)	\$ 93.3	\$ 94.8	\$ 89.8	\$ 100.7	\$ 106.1	\$ 110.4	\$ 112.7	\$ 124.4	\$ 378.6	\$ 453.6
Year over year growth	13 %	16%	6 %	13%	14 %	16%	26 %	24 %	12%	20 %
Quarter over quarter growth (decline)	5 %	2%	(5)%	12%	5 %	4%	2 %	10 %		
% Recurring Revenue	62 %	56%	59 %	46%	65 %	60%	60 %	59 %	55%	61 %
Systems Revenue (millions)	\$ 56.4	\$ 73.5	\$ 61.4	\$ 118.7	\$ 57.7	\$ 74.9	\$ 76.1	\$ 87.1	\$ 310.0	\$ 295.8
Year over year growth (decline)	(22)%	54%	(15)%	7%	2 %	2%	24 %	(27)%	2%	(5)%
Quarter over quarter growth (decline)	(49)%	30%	(16)%	93%	(51)%	30%	2 %	14 %		
Total Revenue (millions)	\$ 149.7	\$ 168.3	\$ 151.2	\$ 219.4	\$ 163.8	\$ 185.3	\$ 188.8	\$ 211.5	\$ 688.6	\$ 749.4
Year over year growth (decline)	(4)%	30%	(3)%	10%	9 %	10%	25 %	(4)%	7%	9 %
Quarter over quarter growth (decline)	(25)%	12%	(10)%	45%	(25)%	13%	2 %	12 %		
<u>Installed System Base Rollforward</u>										
Beginning Installed System Base	1,043	1,063	1,103	1,133	1,198	1,229	1,271	1,302	1,043	1,198
Systems Shipped:										
S Systems	—	1	—	—	—	1	—	—	1	1
Dual Consoles Si Systems	3	3	4	4	—	1	1	3	14	5
Single Console Si Systems	10	17	10	25	13	18	18	28	62	77
Si-e Systems	1	3	—	—	—	—	—	—	4	—
Dual Console Xi Systems	9	9	6	14	2	10	7	12	38	31
Single Console Xi Systems	13	13	17	32	21	21	23	20	75	85
Total System Units Shipped*	36	46	37	75	36	51	49	63	194	199
Trade-Ins and Retirements	(16)	(6)	(7)	(10)	(5)	(9)	(18)	(9)	(39)	(41)
Ending Installed System Base	1,063	1,103	1,133	1,198	1,229	1,271	1,302	1,356	1,198	1,356
*Systems Shipped under Operating Leases (Included in Total System Units Shipped)	—	—	—	1	—	2	1	2	1	5

**During the third quarter of 2016, we implemented a new system and processes for tracking installed *da Vinci* systems in the field. As part of the transition process, we performed a verification audit of our installed base records that identified 11 systems, mostly older standard and S models which had been retired. We removed these retired systems from our installed base estimate during the third quarter of 2016.

Intuitive Surgical, Inc.
Reconciliation of Unaudited GAAP Financial Measures to Non-GAAP Financial Measures
(in millions, except per share data)
2015 - 2016

	<u>Q1'15</u>	<u>Q2'15</u>	<u>Q3'15</u>	<u>Q4'15</u>	<u>Q1'16</u>	<u>Q2'16</u>	<u>Q3'16</u>	<u>Q4'16</u>	<u>FY15</u>	<u>FY16</u>
GAAP gross profit	\$ 336.8	\$ 386.5	\$ 395.8	\$ 458.8	\$ 405.0	\$ 470.9	\$ 487.0	\$ 527.2	\$ 1,577.9	\$ 1,890.1
Share-based compensation expense	8.8	8.5	9.4	9.0	8.7	9.1	10.2	9.6	35.7	37.6
Amortization of intangible assets	3.3	3.3	3.2	2.9	2.2	2.1	1.8	1.7	12.7	7.8
Non-GAAP gross profit	\$ 348.9	\$ 398.3	\$ 408.4	\$ 470.7	\$ 415.9	\$ 482.1	\$ 499.0	\$ 538.5	\$ 1,626.3	\$ 1,935.5
Non-GAAP gross profit margin (1)	65.6%	68.0%	69.3%	69.6%	70.0%	71.9%	73.1%	71.1%	68.2%	71.6%
GAAP SG&A expenses	\$ 162.0	\$ 163.3	\$ 154.9	\$ 160.3	\$ 172.8	\$ 170.8	\$ 168.0	\$ 193.7	\$ 640.5	\$ 705.3
Share-based compensation expense	(23.1)	(23.6)	(25.0)	(23.0)	(24.2)	(23.4)	(25.3)	(24.5)	(94.7)	(97.4)
Litigation recoveries (charges)	(7.2)	(6.6)	—	0.6	(2.2)	(4.4)	—	(5.5)	(13.2)	(12.1)
Non-GAAP SG&A expenses	\$ 131.7	\$ 133.1	\$ 129.9	\$ 137.9	\$ 146.4	\$ 143.0	\$ 142.7	\$ 163.7	\$ 532.6	\$ 595.8
GAAP research and development expenses	\$ 44.4	\$ 49.4	\$ 51.0	\$ 52.6	\$ 53.2	\$ 54.7	\$ 62.6	\$ 69.1	\$ 197.4	\$ 239.6
Share-based compensation expense	(9.3)	(9.1)	(9.8)	(9.5)	(9.9)	(10.2)	(11.4)	(11.5)	(37.7)	(43.0)
Amortization of intangible assets	(2.9)	(2.9)	(3.0)	(2.9)	(2.9)	(2.5)	(2.5)	(2.5)	(11.7)	(10.4)
Non-GAAP research and development expenses	\$ 32.2	\$ 37.4	\$ 38.2	\$ 40.2	\$ 40.4	\$ 42.0	\$ 48.7	\$ 55.1	\$ 148.0	\$ 186.2
GAAP operating income	\$ 130.4	\$ 173.8	\$ 189.9	\$ 245.9	\$ 179.0	\$ 245.4	\$ 256.4	\$ 264.4	\$ 740.0	\$ 945.2
Share-based compensation expense	41.2	41.2	44.2	41.5	42.8	42.7	46.9	45.6	168.1	178.0
Amortization of intangible assets	6.2	6.2	6.2	5.8	5.1	4.6	4.3	4.2	24.4	18.2
Litigation charges (recoveries)	7.2	6.6	—	(0.6)	2.2	4.4	—	5.5	13.2	12.1
Non-GAAP operating income	\$ 185.0	\$ 227.8	\$ 240.3	\$ 292.6	\$ 229.1	\$ 297.1	\$ 307.6	\$ 319.7	\$ 945.7	\$ 1,153.5
Non-GAAP operating margin (2)	34.8%	38.9%	40.7%	43.3%	38.5%	44.3%	45.0%	42.2%	39.7%	42.7%
GAAP income before taxes	\$ 134.7	\$ 178.4	\$ 193.6	\$ 251.8	\$ 184.5	\$ 253.4	\$ 266.8	\$ 276.1	\$ 758.5	\$ 980.8
Share-based compensation expense	41.2	41.2	44.2	41.5	42.8	42.7	46.9	45.6	168.1	178.0
Amortization of intangible assets	6.2	6.2	6.2	5.8	5.1	4.6	4.3	4.2	24.4	18.2
Litigation charges (recoveries)	7.2	6.6	—	(0.6)	2.2	4.4	—	5.5	13.2	12.1
Non-GAAP income before taxes	\$ 189.3	\$ 232.4	\$ 244.0	\$ 298.5	\$ 234.6	\$ 305.1	\$ 318.0	\$ 331.4	\$ 964.2	\$ 1,189.1
GAAP net income	\$ 97.0	\$ 134.5	\$ 167.3	\$ 190.0	\$ 136.4	\$ 184.5	\$ 211.0	\$ 204.0	\$ 588.8	\$ 735.9
Share-based compensation expense	41.2	41.2	44.2	41.5	42.8	42.7	46.9	45.6	168.1	178.0
Amortization of intangible assets	6.2	6.2	6.2	5.8	5.1	4.6	4.3	4.2	24.4	18.2
Litigation charges (recoveries)	7.2	6.6	—	(0.6)	2.2	4.4	—	5.5	13.2	12.1
Tax adjustments	(17.0)	(15.7)	(18.5)	(12.4)	(16.2)	(15.8)	(16.5)	(17.0)	(63.6)	(65.5)
Non-GAAP net income	\$ 134.6	\$ 172.8	\$ 199.2	\$ 224.3	\$ 170.3	\$ 220.4	\$ 245.7	\$ 242.3	\$ 730.9	\$ 878.7
Non-GAAP net income per share - diluted	\$ 3.57	\$ 4.57	\$ 5.24	\$ 5.89	\$ 4.42	\$ 5.62	\$ 6.19	\$ 6.09	\$ 19.28	\$ 22.36
Diluted Shares Outstanding	37.7	37.8	38.0	38.1	38.5	39.2	39.7	39.8	37.9	39.3

(1) Non-GAAP gross profit margin is calculated by dividing non-GAAP gross profit by revenue.

(2) Non-GAAP operating margin is calculated by dividing non-GAAP operating income divided by revenue.

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This information is supplemental to the fourth quarter 2016 earnings press release issued by Intuitive Surgical, Inc. on January 24, 2017, and should be read in conjunction with that release and the Company's Annual Report on Form 10-K for the year ended December 31, 2016, when filed with the U.S. Securities and Exchange Commission.

(#) About Non-GAAP Financial Measures

To supplement our consolidated financial statements, which are prepared and presented in accordance with accounting principles generally accepted in the United States (“GAAP”), we use the following non-GAAP financial measures: non-GAAP gross profit, non-GAAP gross profit margin, non-GAAP SG&A expenses, non-GAAP research and development (“R&D”) expenses, non-GAAP income from operations, non-GAAP operating margin, non-GAAP income before taxes, non-GAAP net income, and non-GAAP net income per diluted share (“EPS”). The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

We use these non-GAAP financial measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures provide meaningful supplemental information regarding our performance and liquidity by excluding non-cash charges, such as amortization of intangible assets and share-based compensation (“SBC”) expenses, and other special items. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting, and analyzing future periods. These non-GAAP financial measures also facilitate management’s internal comparisons to our historical performance and liquidity. We believe these non-GAAP financial measures are useful to investors because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they are used by our institutional investors and the analyst community to help them analyze the performance of our business.

Non-GAAP gross profit. We define non-GAAP gross profit as gross profit excluding the amortization of intangible assets and expenses related to SBC.

Non-GAAP SG&A expenses. We define non-GAAP SG&A expenses as SG&A expenses excluding the amortization of intangible assets, expenses related to SBC, and litigation charges and recoveries.

Non-GAAP R&D expenses. We define non-GAAP R&D expenses as R&D expenses excluding the amortization of intangible assets and expenses related to SBC.

Non-GAAP income from operations. We define non-GAAP income from operations as income from operations excluding the amortization of intangible assets, expenses related to SBC, and litigation charges and recoveries.

Non-GAAP income before taxes. We define non-GAAP income before taxes as income before taxes excluding the amortization of intangible assets, expenses related to SBC, and litigation charges and recoveries.

Non-GAAP net income and EPS. We define non-GAAP net income as net income excluding the amortization of intangible assets, expenses related to SBC, and litigation charges and recoveries, net of the related tax effects. The tax effects are determined by applying a calculated non-GAAP effective tax rate, which is commonly referred to as the with-and-without method. Without excluding these tax effects, investors would only see the gross effect that these non-GAAP adjustments had on our operating results. We define non-GAAP EPS as non-GAAP net income divided by the weighted average outstanding shares, on a fully-diluted basis.

There are a number of limitations related to the use of non-GAAP measures versus measures calculated in accordance with GAAP. Non-GAAP gross profit, non-GAAP SG&A expenses, non-GAAP R&D expenses, non-GAAP income from operations, non-GAAP income before taxes, non-GAAP net income, and non-GAAP EPS exclude amortization of intangible assets and SBC, which are recurring expenses. SBC has been and will continue to be for the foreseeable future a significant recurring expense in our business. In addition, the components of the costs that we exclude in our calculation of non-GAAP net income and non-GAAP EPS may differ from the components that our peer companies exclude when they report their results of operations. Management addresses these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP net income and non-GAAP EPS and evaluating non-GAAP net income and non-GAAP EPS together with net income and EPS calculated in accordance with GAAP.