INTUITIVE SURGICAL INC
Form DEF 14A
March 08, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934
Filed by the Registrant x
Filed by a Party other than the Registrant ¨
Check the appropriate box:
¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to Section 240.14a-12
INTUITIVE SURGICAL, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
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NOTICE OF THE 2019 ANNUAL MEETING OF STOCKHOLDERS
AND
PROXY STATEMENT

The terms “Intuitive Surgical,” the “Company,” “Intuitive,” “we,” “our,” and “us” in this Proxy Statement refer to Intuitive Surgical, Inc.

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NOTICE OF THE 2019 ANNUAL MEETING OF STOCKHOLDERS

To the stockholders of Intuitive Surgical, Inc.:

We are pleased to provide notice of the 2019 Annual Meeting of Stockholders (the "Annual Meeting") of Intuitive Surgical, Inc. that will be held at 1020 Kifer Road, Sunnyvale, California 94086 on Thursday, April 25, 2019, at 3:00 p.m. Pacific Daylight Time.

Items of Business:

1. To elect nine members to the Board of Directors of the Company to serve until the 2020 Annual Meeting of Stockholders (Proposal No. 1).
2. To consider and approve, on an advisory basis, the compensation of the Company's Named Executive Officers ("NEOs") as disclosed in the Proxy Statement (Proposal No. 2).
3. To ratify the appointment of PricewaterhouseCoopers LLP ("PwC") as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2019 (Proposal No. 3).
4. To approve the amendment and restatement of the 2010 Incentive Award Plan (Proposal No. 4).
5. To consider and vote upon a stockholder proposal regarding elimination of supermajority voting provisions, (Proposal No. 5), if properly presented at the Annual Meeting.
6. To transact any other business which is properly brought before the Annual Meeting or adjournments or postponements thereof.

Record Date:

Only stockholders of record at the close of business on March 1, 2019, are entitled to notice of, and to vote at, the Annual Meeting or any adjournments or postponements thereof.

Proxy Materials:

We are pleased to continue to provide access to our proxy materials over the Internet instead of mailing printed documents. We believe that this process allows us to provide information regarding the Annual Meeting in a more timely manner, while reducing the environmental impact and the cost of our Annual Meeting. The Notice will be mailed to stockholders starting on or about March 15, 2019, and contains instructions on how to access our proxy materials over the Internet. The Notice also contains instructions on how to request a copy of our proxy materials, including the attached Proxy Statement, our 2018 Annual Report and a form of proxy card or voting instruction card.

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

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

By order of the Board of Directors

/s/ Gary S. Guthart, Ph.D.
Gary S. Guthart, Ph.D.
President and Chief Executive Officer

Sunnyvale, California
March 8, 2019

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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GENERAL INFORMATION

Why am I receiving these materials?

Our Board of Directors (the "Board") has made these materials available to you on the Internet, or has delivered printed versions of these materials to you by mail, in connection with the solicitation of proxies to be voted at our Annual Meeting of Stockholders to be held on April 25, 2019, at 3:00 p.m., Pacific Daylight Time, at the location and for the purposes as set forth in the "Notice of Annual Meeting of Stockholders." Our stockholders are invited to attend the Annual Meeting and are requested to vote on the proposals described in this Proxy Statement. The approximate date on which this Proxy Statement and form of proxy will be first sent and made available to stockholders is March 15, 2019.

What is included in these materials?

These materials include:

- This Proxy Statement for the Annual Meeting; and
- Our 2018 Annual Report to Stockholders, which includes our audited consolidated financial statements.

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

What items will be voted on at the Annual Meeting?

You will be voting on the following proposals:

1. The election of nine members to the Board to serve until the 2020 Annual Meeting of Stockholders (Proposal No. 1);
2. The advisory approval of the compensation of the Company's NEOs (Proposal No. 2);
3. The ratification of the appointment of PwC as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2019 (Proposal No. 3);
4. The approval of the amendment and restatement of the 2010 Incentive Award Plan (Proposal No. 4); and
5. Stockholder proposal regarding elimination of supermajority voting provisions (Proposal No. 5).

What are the Board's voting recommendations?

The Board recommends that you vote your shares:

- "FOR" the election of each of the nominees to the Board (Proposal No. 1);
- "FOR" the approval, on an advisory basis, of the compensation of the Company's NEOs (Proposal No. 2);
- "FOR" the ratification of the appointment of PwC as the Company's independent registered accounting firm for the fiscal year ending December 31, 2019 (Proposal No. 3);
- "FOR" the approval of the amendment and restatement of the 2010 Incentive Award Plan (Proposal No. 4); and
- "AGAINST" the stockholder proposal regarding elimination of supermajority voting provisions (Proposal No. 5).

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

Our principal executive offices are located at 1020 Kifer Road, Sunnyvale, California 94086, and our main telephone number is (408) 523-2100.

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

We are pleased to continue to take advantage of the SEC rules that allow us to furnish our proxy materials to our stockholders by providing access to such documents on the Internet instead of mailing printed copies. Accordingly, most of our stockholders of record and beneficial owners have received a Notice of Internet Availability of Proxy Materials ("Notice") and will not receive a full set of proxy materials in the mail unless requested. Instructions on how to access the proxy materials on the Internet may be found on the website referred to in the Notice. If you would like

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to receive our proxy materials electronically by email, you should follow the instructions for requesting such materials provided in the Notice. Your election to receive proxy materials electronically by email will remain in effect until you terminate such election. Choosing to receive future proxy materials electronically by email will reduce the environmental impact and the costs incurred by us in printing and mailing the proxy materials.

How can I get electronic access to the proxy materials?

Registered and Beneficial Stockholders

You can view the proxy materials for the Annual Meeting on the Internet at www.proxyvote.com.

Who may vote at the Annual Meeting?

The Board set March 1, 2019, as the record date for the Annual Meeting. All stockholders of record who owned Intuitive Surgical common stock at the close of business on March 1, 2019, are entitled to receive notice of, to attend, and to vote at the Annual Meeting. Each share of the Intuitive Surgical common stock has one vote on each matter, and there is no cumulative voting. At the close of business on the record date, there were 115,361,354 shares of common stock outstanding.

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

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

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

How can I vote my shares?

In Person — If you are a stockholder of record, you may vote in person at the Annual Meeting. If your shares are held in a brokerage account or by another nominee or trustee, you are considered the beneficial owner of shares held in street name. If you are a beneficial owner, you are also invited to attend the Annual Meeting. Since a beneficial owner is not the stockholder of record, you may not vote these shares in person at the Annual Meeting unless you obtain a "legal proxy" from the organization that holds your shares, giving you the right to vote the shares at the Annual Meeting.

Via the Internet — You may vote by proxy via the Internet by visiting www.proxyvote.com.

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

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

What is the quorum requirement for the Annual Meeting?

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

- are present and vote in person at the Annual Meeting; or
- have voted on the Internet, by telephone or by properly submitting a proxy card or voting instruction form by mail.

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Broker non-votes will also be counted as present and entitled to vote for purposes of determining if there is a quorum. If a quorum is not present, the Annual Meeting will be adjourned until a quorum is obtained.

How are proxies voted?

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

What happens if I do not give specific voting instructions?

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

- indicate when voting on the Internet or by telephone that you wish to vote as recommended by the Board, or
- sign and return a proxy card without giving specific voting instructions,

then the proxy holders will vote your shares in the manner recommended by the Board on all matters presented in this Proxy Statement and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the Annual Meeting.

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

Which ballot measures are considered "routine" or "non-routine"?

The ratification of the appointment of PwC as the Company's independent registered public accounting firm for fiscal year ending December 31, 2019 (Proposal No. 3) is considered a routine matter under applicable rules. A broker or other nominee may generally vote on routine matters, and therefore no broker non-votes are expected to exist in connection with Proposal No. 3.

The election of directors (Proposal No. 1), the advisory approval of the compensation of our NEOs (Proposal No. 2), the approval of the amendment and restatement of the 2010 Incentive Award Plan (Proposal No. 4), and the stockholder proposal regarding elimination of supermajority voting provisions (Proposal No. 5) are matters considered non-routine under applicable rules. A broker or other nominee cannot vote without instructions on non-routine matters, and therefore there may be broker non-votes on these five proposals.

What is the voting requirement to approve each of the proposals?

For Proposal No. 1, each director must be elected by the affirmative vote of a majority of the votes cast with respect to such director by the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the proposal. This means that the number of votes cast "FOR" a director must exceed the number of votes cast "AGAINST" that director, with abstentions and broker non-votes not counted as votes cast as either "FOR" or "AGAINST" such director's election.

Approval of Proposals No. 2, No. 3, No. 4, and No. 5 requires the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the proposal. Abstentions will have the same effect as a vote "AGAINST" Proposals No. 2, No. 3, No. 4, and No. 5. Broker non-votes will have no effect on the vote for Proposal No. 2, No. 4, and No. 5 and broker non-votes are generally not expected for Proposal No. 3.

How are abstentions and broker non-votes treated?

Shares represented by proxies that reflect abstentions or broker non-votes will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum. Shares voted "ABSTAIN" on proposals other than Proposal No. 1 will have the same effect as voting against the matter. Brokers, banks, and other nominees have the power to vote without receiving voting instructions from beneficial owners on Proposal No. 3, so the Company expects no broker non-votes on this proposal. For Proposals No. 1, No. 2, No. 4, and No. 5, broker non-votes are not deemed to be entitled to vote for purposes of determining whether stockholder approval of a matter has been obtained. As a result, broker non-votes are not included in the tabulation of voting results for these proposals for

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purposes of determining whether proposals have been approved. In order to minimize the number of broker non-votes, the Company encourages you to provide voting instructions to the organization that holds your shares by carefully following instructions provided on the Notice.

Can I change my vote?

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

- Delivering written notice of revocation to our Corporate Secretary at 1020 Kifer Road, Sunnyvale, California 94086.
- Submitting a later dated proxy.
- Attending the Annual Meeting and voting in person.

Your attendance at the Annual Meeting will not, by itself, constitute revocation of your proxy. You may also be represented by another person present at the Annual Meeting by executing a form of proxy designating that person to act on your behalf. Shares may only be voted by or on behalf of the record holder of shares as indicated in our stock transfer records. If you are a beneficial stockholder but your shares are held of record by another person, such as a stock brokerage firm or bank, that person must vote the shares as the record holder in accordance with the beneficial holder's instructions.

Who bears the cost of proxy solicitation and who is soliciting proxies on our behalf?

We will bear the expense of soliciting proxies, including the expense of preparing, printing and mailing this proxy statement and the proxies we solicit. Proxies will be solicited by mail, telephone, personal contact and electronic means. We have retained Mackenzie Partners, Inc. to solicit proxies for a fee of $12,000 plus a reasonable amount to cover out-of-pocket expenses for proxy solicitation services. Proxies may also be solicited by our directors, officers, and employees in person, by the Internet, by telephone or by fax, without additional remuneration. Copies of proxy materials and our 2018 Annual Report will be supplied to brokers and other nominees for the purpose of soliciting proxies from beneficial owners, and we will reimburse such brokers or other nominees for their reasonable expenses.

Who will serve as the inspector of election?

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

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

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

How can I attend the Annual Meeting?

Attendance at the Annual Meeting is limited to stockholders of record as of the close of business on March 1, 2019. Admission to the Annual Meeting will be on a first-come, first-served basis. Each stockholder may be asked to present valid picture identification, such as a driver's license or passport, and proof of stock ownership as of the record date. The use of cell phones, smartphones, pagers, recording and photographic equipment, and/or computers is not permitted in the meeting rooms at the Annual Meeting.

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Deadline for receipt of stockholder proposals for the 2020 Annual Meeting of Stockholders.

Any stockholder who meets the requirements of the proxy rules under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), may submit to the Board proposals to be considered for submission to the stockholders at the 2020 Annual Meeting of Stockholders. In order to be considered for inclusion in the proxy material to be disseminated by the Board, your proposal must comply with the requirements of Rule 14a-8 under the Exchange Act and be submitted in writing by notice delivered or mailed by first-class United States mail, postage prepaid, to our Corporate Secretary at:

Intuitive Surgical, Inc.
Attn: Corporate Secretary
1020 Kifer Road
Sunnyvale, CA 94086-5301

and must be received no later than November 16, 2019. Your notice must include the following:

- Your name and address and the text of the proposal to be introduced.
- The number of shares of stock you hold of record, beneficially own and represent by proxy as of the date of your notice.
- A representation that you intend to appear in person or by proxy at the 2020 Annual Meeting of Stockholders to introduce the proposal specified in your notice.

The chairperson of the meeting may refuse to acknowledge the introduction of your proposal if it is not made in compliance with the foregoing procedures or the applicable provisions of our Amended and Restated Bylaws ("Bylaws"). Our Bylaws also provide for separate notice procedures to recommend a person for nomination as a director or to propose business to be considered by stockholders at a meeting outside the processes of Rule 14a-8. To be considered timely under these provisions, the stockholder's notice must be received by our Corporate Secretary at our principal executive offices at the address set forth above no earlier than December 27, 2019, and no later than January 26, 2020. If the date of our 2020 Annual Meeting of Stockholders is more than 30 days before or more than 60 days after April 25, 2020, the stockholder's notice must be received not later than the 90th day prior to such annual meeting or, if later, the 10th day following the day on which public announcement of the date of such annual meeting was first made. A stockholder providing such notice must also further update and supplement such notice so that the information provided or required to be provided is true and correct as of the record date for the meeting and as of the date that is 10 business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement must be received by our Corporate Secretary at our principal executive offices not later than 5 business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date) and not later than 8 business days prior to the date for the meeting or, if practicable, any adjournment or postponement thereof (and, if not practicable, on the first practicable date prior to the date to which the meeting has been adjourned or postponed) (in the case of the update and supplement required to be made as of 10 business days prior to the meeting or any adjournment or postponement thereof). Our Bylaws also specify requirements as to the form and content of a stockholder's notice. We recommend that any stockholder wishing to make a nomination for director or to bring any other item before an annual meeting, other than proposals intended to be included in the proxy materials pursuant to Rule 14a-8, review a copy of our Bylaws, as amended and restated to date, which can be found at www.intuitive.com or, without charge, from our Corporate Secretary at the address above.

In addition, our Bylaws permit certain of our stockholders who have beneficially owned 3% or more of our outstanding common stock continuously for at least three years to submit nominations to be included in the our proxy materials for up to 25% of the total number of directors then serving. Notice of proxy access director nominations for the 2020 Annual Meeting of Stockholders must be delivered to our Corporate Secretary at our principal executive offices at the address noted above no earlier than December 27, 2019 and no later than the close of business on January 26, 2020. The notice must set forth the information required by our Bylaws with respect to each proxy access director nomination that an eligible stockholder or stockholders intend to present at the 2020 Annual Meeting of Stockholders and must otherwise be in compliance with our Bylaws.

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DIRECTORS AND CORPORATE GOVERNANCE

General Information

The Board is composed of a group of leaders with broad and diverse experience in many fields, including: management of large global enterprises, technology and innovation leadership, and healthcare. In these positions, they have also gained industry knowledge and significant and diverse management experience, including strategic and financial planning, public company financial reporting, compliance, risk management, and leadership development. Many of the directors also have experience serving as executive officers, or on boards of directors and board committees of other public companies, and have an understanding of corporate governance practices and trends. Other directors have significant academic and research experience and bring unique perspectives to the Board.

The Governance and Nominating Committee of the Board and the Board believe the skills, qualities, attributes, and experiences of its current directors provide the Company with business acumen and a diverse range of perspectives to engage each other and management to effectively address the evolving needs of the Company and represent the best interests of the Company's stockholders.

The Governance and Nominating Committee evaluates candidates recommended by stockholders using the same criteria as used for other candidates recommended by its members, other members of the Board, or other persons. The criteria are described in detail in the Nomination Process section below. In addition, our Bylaws permit a stockholder, or group of up to 20 stockholders, owning 3% or more of the Company's common stock continuously for at least three years to nominate and include in the Company's proxy materials for an annual meeting of stockholders, director candidates constituting up to 25% of the Board, provided that the stockholder (or group) and each nominee satisfy the requirements specified in the Bylaws.

The Bylaws provide for a majority voting standard in uncontested elections of directors. As such, in an election where the number of nominees for director does not exceed the number of directors to be elected, a nominee for director will be elected to the Board if the number of shares voted for the nominee exceeds the number of shares voted against the nominee. The majority voting standard would not apply, however, if the number of nominees for director exceeds the number of directors to be elected. In that case, the nominees receiving the highest number of affirmative votes of the shares entitled to vote at the meeting would be elected.

The majority voting standard will apply to the election taking place at the meeting. Consequently, in order to be elected, a nominee must receive more "for" votes than "against" votes. Proxies may not be voted for more than the nine nominees, and stockholders may not cumulate votes in the election of directors. In the event any nominee is unable or declines to serve as a director at the time of the meeting, the proxies will be voted for such nominee, if any, as may be designated by the Board to fill the vacancy. As of the date of this Proxy Statement, the Board is not aware that any nominee is unable or will decline to serve as a director.

Nominees for Director

The names of the directors being nominated for election and their ages as of February 15, 2019, are set forth below. The following biographies describe the principal occupations, positions, and directorships for at least the past five years of the nominees for director, as well as certain information regarding their individual experiences, qualifications, attributes, and skills that led the Board to conclude that they should serve on the Board, are described below. There are no family relationships among any of our director nominees or executive officers.

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Craig H. Barratt, Ph.D.
President and Chief Executive Officer of Barefoot Networks, Inc.

Director since 2011

Craig H. Barratt, Ph.D., 56, has been a member of our Board since April 2011 and has served as the independent lead director ("Lead Director") since April 2018. Dr. Barratt has been the President and Chief Executive Officer of Barefoot Networks, Inc., a computer networking company, since April 2017. He held several different roles at Google, Inc., an Internet company, from June 2013 to January 2017, including Senior Vice President, Access and Energy and Advisor. He previously served as President of Qualcomm Atheros, the networking and connectivity subsidiary of Qualcomm Inc. ("Qualcomm"), a mobile technology company, from May 2011 to February 2013. He served as President, Chief Executive Officer and a director of Atheros Communications, Inc., a fabless semiconductor company, from 2003 until its 2011 acquisition by Qualcomm. Prior to joining Atheros as Vice President of Technology in 2002, Dr. Barratt held a number of positions at ArrayComm, Inc., a company specializing in multi-antenna signal processing. Dr. Barratt holds Ph.D. and Master of Science degrees from Stanford University, as well as a Bachelor of Engineering degree in electrical engineering and a Bachelor of Science degree in pure mathematics and physics from the University of Sydney in Australia. Dr. Barratt is a co-inventor of a number of U.S. patents in fields including wireless communications and medical imaging and has co-authored a book on linear controller design.

Dr. Barratt's qualifications to serve on our Board as Lead Director include his leadership roles at various high growth technology companies.

Gary S. Guthart, Ph.D.
President and Chief Executive Officer, Intuitive Surgical, Inc.

Director since 2009

Gary S. Guthart, Ph.D., 53, joined Intuitive Surgical in April 1996. In July 2007, Dr. Guthart was promoted to President and in January 2010, he was appointed as Chief Executive Officer. Prior to that, in February 2006, Dr. Guthart assumed the role of Chief Operating Officer. Prior to joining Intuitive Surgical, Dr. Guthart was part of the core team developing foundation technology for computer enhanced-surgery at SRI International (formerly Stanford Research Institute). Dr. Guthart has served on the Board of Directors of Illumina, Inc. since December 2017 and previously served on the Board of Directors of Affymetrix, Inc. from May 2009 until its acquisition by Thermo Fisher Scientific Inc. in March 2016. He received a B.S. in Engineering from the University of California, Berkeley and an M.S. and a Ph.D. in Engineering Science from the California Institute of Technology.

Dr. Guthart brings to the Board business, operating, financial, and scientific experience. His service as the Chief Executive Officer of Intuitive Surgical enables the Board to perform its oversight function with the benefits of management's perspectives on the business.

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Amal M. Johnson
Former Executive Chairman of the Board, Author-IT, Inc.

Director since 2010

Amal M. Johnson, 66, has been a member of our Board since April 2010. Ms. Johnson has served on the Board of Directors of Essex Property Trust, Inc. since February 2018. From March 2012 to December 2017, Ms. Johnson was a member of the Board of Directors of Author-IT, Inc. ("Author-IT"), a Software as a Service ("SaaS") private company that provides a platform for creating, maintaining, and distributing single-sourced technical content, and Executive Chairman from March 2012 to October 2016. Prior to joining Author-IT, Ms. Johnson led MarketTools, Inc. ("MarketTools"), a SaaS company as Chief Executive Officer from 2005 to 2008, and then as Chairman of the Board until the company was acquired in January 2012. Prior to MarketTools, Ms. Johnson was a general partner at Lightspeed Venture Partners, focusing on enterprise software and infrastructure, from March 1999 to March 2004. Previously, Ms. Johnson also held various positions at Baan Company N.V., including as President of Baan Supply Chain Solutions, President of Baan Affiliates, and President of Baan Americas, from October 1994 to January 1999. Prior to that, Ms. Johnson served as President of ASK Manufacturing Systems from August 1993 to July 1994 and held executive positions at IBM from 1977 to June 1993. Ms. Johnson holds a Bachelor of Arts in Mathematics from Montclair State University and studied Computer Science at Stevens Institute of Technology Graduate School of Engineering. Ms. Johnson has served on the Board of Directors of CalAmp since December 2013 and Mellanox Technologies, Ltd. since October 2006. Ms. Johnson brings to the Board her leadership and operational experience, including from her service as the Chairman of the Board of Directors and Chief Executive Officer of a technology company.

Don R. Kania, Ph.D.
Former President and Chief Executive Officer of FEI Company

Director since 2018

Don R. Kania, Ph.D., 64, has been a member of our Board since July 2018. Dr. Kania has more than 25 years of experience that includes scientific research and development, global operations, and manufacturing. From August 2006 to September 2016, Dr. Kania served as Chief Executive Officer and President of FEI Company, a high-performance electron microscopy company, until its acquisition by Thermo Fisher Scientific Inc. From January 1998 to July 2006, Dr. Kania held various positions at Veeco Instruments Inc., ultimately as the Chief Operating Officer. Dr. Kania has served on the Board of Directors of Aldevron, LLC since May 2018 and previously served as a member of the Board of Directors and Chairman of the Audit Committee of American Science and Engineering, Inc. from February 2010 until its acquisition in September 2016. He also serves as an advisor to several privately held life sciences companies. Dr. Kania received his Ph.D. in Engineering and Bachelor and Master's degrees in physics from the University of Michigan. Dr. Kania's qualifications to serve on our Board include his deep scientific and leadership expertise.

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Keith R. Leonard, Jr.
Chief Executive Officer, Unity Biotechnology, Inc.

Director since 2016

Keith R. Leonard, Jr., 57, has been a member of our Board since January 2016. Mr. Leonard has more than 20 years of experience in the pharmaceutical industry and has served as the Chief Executive Officer of Unity Biotechnology, Inc., a biotechnology company, since October 2016 and Chairman of its Board of Directors since January 2016. Since February 2016, Mr. Leonard also has served as the Chairman of the Board of Directors of Sienna Biopharmaceuticals, Inc., a public biotechnology company. Previously, Mr. Leonard was President, Chief Executive Officer and a member of the Board of Directors of Kythera Biopharmaceuticals, Inc., a biopharmaceutical company that he co-founded, that focused on discovering, developing, and commercializing drugs for the aesthetic medicine market, from 2005 until its acquisition by Allergan plc in October 2015. From 1991 to 2004, Mr. Leonard held various positions at Amgen Inc., most recently as Senior Vice President and General Manager of Amgen Europe where he was responsible for all commercial operations in 28 European countries. Mr. Leonard received a B.S. in Engineering from the University of California, Los Angeles, a B.A. in History from the University of Maryland, an M.S. in Engineering from the University of California, Berkeley, and an M.B.A. from the Anderson School of Management at the University of California, Los Angeles. Mr. Leonard served on the Board of Directors of Anacor Pharmaceuticals, Inc. from June 2014 to June 2016. Mr. Leonard also serves on the Board of Directors of several private companies.
Mr. Leonard's qualifications to serve on our Board include his operational and leadership experience with public companies in the pharmaceutical industry.

Alan J. Levy, Ph.D.
Former Chief Executive Officer of Chrono Therapeutics Inc.

Director since 2000

Alan J. Levy, Ph.D., 81, has been a member of our Board since February 2000 and served as the Lead Director from April 2013 to April 2018. Dr. Levy was the Founder, Chairman and Chief Executive Officer of Chrono Therapeutics, a privately-held digital medicine company, from February 2014 to February 2018. From 2012 to 2017, he was a Senior Advisor at Frazier Healthcare Ventures, and also a Venture Partner from 2007 to 2012. From June 2010 to January 2013, he was the Chief Executive Officer of Incline Therapeutics, Inc., a novel drug/device company that was acquired by the Medicines Company in 2013. He served as Chairman of the Board of Directors of Northstar Neuroscience, Inc. ("Northstar Neuroscience"), a medical device company he co-founded, from 2007 to 2009. Prior to that, he was the President and Chief Executive Officer of Northstar Neuroscience from 1999 to 2007. From 1993 to 1998, Dr. Levy served as President and Chief Executive Officer of Heartstream, Inc., a medical device company that was acquired by Hewlett-Packard in 1998. Prior to joining Heartstream, Inc., he was President of Heart Technology, Inc. ("Heart Technology"), a medical device company that was acquired by Boston Scientific in 1995. Before joining Heart Technology, Dr. Levy was Vice President of Research and New Business Development and a member of the Board of Directors of Ethicon, a division of Johnson & Johnson. Dr. Levy holds a B.S. in Chemistry from City University of New York and a Ph.D. in Organic Chemistry from Purdue University. Dr. Levy currently serves as a director of several private companies and not-for-profit organizations.
Dr. Levy's qualifications to serve on our Board include his service as the Chief Executive Officer for three medical device companies and an understanding of physicians and other health care providers who are central to the use and development of our products.

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Jami Dover Nachtsheim
Former Corporate Vice President of the Sales and Market Group and Director of Worldwide Marketing, Intel Corporation

Director since 2017

Jami Dover Nachtsheim, 60, has been a member of our Board of Directors since April 2017. Ms. Nachtsheim served in a variety of positions with Intel Corporation from 1980 until her retirement in 2000, most recently as the Corporate Vice President of the Sales and Marketing Group and Director of Worldwide Marketing. Ms. Nachtsheim served on the Board of Directors of FEI Company from March 2010 until its acquisition by Thermo Fisher Scientific Inc. in September 2016. Ms. Nachtsheim also served on the Board of Directors of Affymetrix, Inc. from May 2009, and as Chairman starting January 2015, until its acquisition by Thermo Fisher Scientific Inc. in March 2016. Ms. Nachtsheim holds a B.S. in Business Management from Arizona State University. Ms. Nachtsheim has served as a member of the Board of Directors of several other public and private companies. Ms. Nachtsheim's qualifications to serve on our Board include her extensive experience in bringing high technology products to market and her long service as a board member of several public and private organizations. Her international experience provides useful insight to the Board's deliberations on a wide range of global business matters.

Mark J. Rubash
Chief Financial Officer Emeritus - Strategic Advisor, Eventbrite, Inc.

Director since 2007

Mark J. Rubash, 61, has been a member of our Board since October 2007. Mr. Rubash is the Chief Financial Officer Emeritus - Strategic Advisor at Eventbrite, Inc. ("Eventbrite"), a privately-held e-commerce company. He was the Chief Financial Officer at Eventbrite from June 2013 to November 2016. Prior to Eventbrite, Mr. Rubash was Chief Financial Officer at Heartflow, Inc. ("Heartflow"), a privately-held medical diagnostic services company, which he joined in March 2012. Prior to Heartflow, Mr. Rubash was the Chief Financial Officer at Shutterfly, Inc. ("Shutterfly"), an Internet-based social expression and personal publishing company. Prior to joining Shutterfly in November 2007, Mr. Rubash was the Chief Financial Officer of Deem, Inc. (formerly Rearden Commerce), an eCommerce platform company, from August 2007 to November 2007 and previous to that, Mr. Rubash was a Senior Vice President at Yahoo! Inc. ("Yahoo!") from February 2007 to August 2007. Prior to joining Yahoo!, Mr. Rubash held various senior positions at eBay Inc. from February 2001 to July 2005. Prior to that, Mr. Rubash was also an audit partner at PwC, where he was most recently the Global Leader for their Internet Industry Practice and Practice Leader for their Silicon Valley Software Industry Practice. Mr. Rubash received his B.S. in Accounting from California State University Sacramento. Mr. Rubash has served as a member of the Board of Directors and Chairman of the Audit Committee of Line 6 Corporation from April 2007 to January 2014 and has served as a member of the Board of Directors of IronPlanet, Inc. from March 2010 to May 2017 and iRhythm Technologies, Inc. since March 2016. Mr. Rubash's qualifications to serve on our Board include his experience with public company financial accounting matters and risk management.

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Lonnie M. Smith
Chairman of the Board and Former Executive Officer, Intuitive Surgical, Inc.

Director since 1997

Lonnie M. Smith, 74, has served on our Board since he joined Intuitive Surgical as Chief Executive Officer in June 1997, from Hillenbrand Industries where he was Senior Executive Vice President. Mr. Smith served as Chief Executive Officer of Intuitive Surgical from June 1997 to January 2010 and remained as an executive officer of Intuitive Surgical from January 2010 to January 2013. Mr. Smith joined Hillenbrand in 1978 and during his tenure there he was also a member of the Executive Committee, the Office of the President, and the Board of Directors. Mr. Smith has also held positions with The Boston Consulting Group and IBM Corporation. Mr. Smith received his B.S.E.E. from Utah State University and an M.B.A. from Harvard Business School. Mr. Smith served as a member of the Board of Directors of Tandem Diabetes Care, Inc. from January 2013 to December 2015 and has served as a member of the Board of Directors of several private companies.
Having been the Chief Executive Officer of the Company until 2009, Mr. Smith brings institutional knowledge of the Company’s business, structure, history, and culture to the Board and the Chairman position.

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Board Size

The number of authorized directors constituting the full Board is currently set at ten and will be reduced to nine immediately prior to the Annual Meeting. The Board evaluates the appropriateness of the size of the Board from time to time. In evaluating the size of the Board, the Board and the Governance and Nominating Committee consider a number of factors, including (i) resignations and retirements from the current Board; (ii) the availability of appropriate and qualified candidates; (iii) balancing the desire of having a small enough Board to facilitate deliberations with, at the same time, having a large enough Board to have the diversity of knowledge, experience, skills, and expertise to ensure that the Board and its committees can effectively perform their responsibilities in overseeing the Company's business; and (iv) the goal of having an appropriate mix of inside and independent directors.

Nomination Process

The Governance and Nominating Committee identifies director nominees by reviewing the desired experience, mix of skills, and other qualities to assure appropriate Board composition, taking into consideration the current Board members and the specific needs of the Company and the Board.

The Governance and Nominating Committee will consider nominees recommended by stockholders, and any such recommendations should be sent to the Corporate Secretary in writing at the executive offices as identified in this Proxy Statement. Such recommendations should comply with the notice and other requirements set forth in the Bylaws, including but not limited to stating the following information:

- The name and address of such nominating stockholder and the class or series and number of shares of securities of the Company that are, directly or indirectly, owned of record or beneficially owned by such stockholder.
- Whether the nominating stockholder intends to deliver a proxy statement and form of proxy to elect such nominee.
- Interests of the nominating stockholder required to be disclosed under the Bylaws.
- All information relating to such proposed nominee that is required to be disclosed in a proxy statement or other filings required in a contested election (including such proposed nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected).
- A description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among any nominating stockholder, on the one hand, and each proposed nominee, his or her respective affiliates and associates, on the other hand.
- A completed and signed questionnaire, representation, and agreement as provided in the Bylaws.

The Company will also request such other information as may reasonably be required to determine the eligibility of such proposed nominee to serve as an independent director or that could be material to a reasonable stockholder's understanding of the independence or lack of independence of such proposed nominee. Any recommendations received from stockholders will be evaluated in the same manner as potential nominees suggested by Board members, management, or other parties.

In addition, the Bylaws permit certain of the Company's stockholders who have beneficially owned 3% or more of the outstanding common stock continuously for at least three years to submit nominations to be included in proxy materials for up to 25% of the total number of directors then serving. Notice of proxy access director nominations for the 2020 Annual Meeting of Stockholders must be delivered to the Corporate Secretary at the principal executive offices no earlier than December 27, 2019 and no later than January 26, 2020. The notice must be set forth the information required by the Bylaws with respect to each proxy access director nomination that an eligible stockholder or stockholders intend to present at the 2020 Annual Meeting of Stockholders and must otherwise be in compliance with the Bylaws.

The Governance and Nominating Committee evaluates director candidates based upon a number of criteria, including:

- The desired experience, mix of skills, and other qualities to assure appropriate Board composition, taking into account the current Board members and the specific needs of the Company and the Board.
- The experience, knowledge, skills, and expertise of candidates, which may include experience in management, finance, marketing and accounting, across a broad range of industries with particular emphasis on healthcare and medical device industries, along with experience operating at a policy-making level in an appropriate business, financial, governmental, educational, non-profit, technological, or global field.

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- Diversity of backgrounds and perspectives, including those backgrounds and perspectives with respect to business experience, professional expertise, age, gender, and ethnic background.
- Personal and professional integrity, character, and business judgment of candidates.
- Whether candidates are independent, including as determined by the independence requirements of the SEC and the Nasdaq Stock Market.

The Governance and Nominating Committee assesses the effectiveness of its approach to consideration of Board candidates as part of its evaluation of the Board's composition to ensure that the Board reflects the knowledge, experience, skills, expertise, and diversity required for the Board to fulfill its duties.

Board Responsibilities and Corporate Governance Guidelines

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

The Board has also adopted Corporate Governance Guidelines to assist the Board in the exercise of its responsibilities and to serve the interests of the Company and its stockholders. These guidelines serve as a framework for, among other things, the composition and selection of members of the Board, director orientation and continuing education, responsibilities of directors, conduct of Board meetings, structure and conduct of Board committees, succession planning and oversight of risk management. The Company's Corporate Governance Guidelines are available on its website at www.intuitive.com.

Board Leadership

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

Mr. Smith is the Chairman of the Board and Dr. Guthart is the President and Chief Executive Officer, as well as a member of the Board. The Board has determined that the separation of the roles of Chairman of the Board and Chief Executive Officer is appropriate at this time as it allows the Chief Executive Officer to focus primarily on management responsibilities and corporate strategy, while allowing the Chairman to focus on leadership of the Board, providing feedback and advice to the Chief Executive Officer and providing a channel of communication between the Board members and the Chief Executive Officer. The Chairman of the Board presides over all Board meetings and works with the Chief Executive Officer to develop agendas for Board meetings. The Chairman advises the Chief Executive Officer and other members of senior management on business strategy and leadership development. He also works with the Board to drive decisions about particular strategies and policies and, in concert with the independent Board committees, facilitates a performance evaluation process of the Board.

Since April 2018, Dr. Barratt has served as our Lead Director. The Lead Director is elected annually by a majority of the independent directors upon receiving a recommendation from the Governance and Nominating Committee. The Lead Director's responsibilities include, among others:

- Presiding at meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors.
- Providing feedback from executive sessions of the independent directors at which the Chairman is not present, to the Chairman, the Company's Chief Executive Officer and other senior management.

- Consulting with the Chairman as to an appropriate schedule of Board meetings.
- Approving meeting agendas for the Board.

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- Advising the Chairman as to the quality, quantity, and timeliness of the information submitted by the Company's management that is necessary or appropriate for the independent directors to effectively and responsibly perform their duties.

Board Committees

The Board has established an Audit Committee, a Compensation Committee, and a Governance and Nominating Committee. The Board and its committees set schedules to meet throughout the year and also can hold special meetings and act by written consent from time to time, as appropriate. The Board has delegated various responsibilities and authority to the Audit Committee, Compensation Committee, and Governance and Nominating Committee as described below. These committees regularly report on their activities and actions to the full Board. Each of these committees of the Board has a written charter approved by the Board which is available on our website at www.intuitive.com. The Board from time to time establishes additional committees to address specific needs. During 2018, the Board held four meetings. Each incumbent director attended at least 75% of the aggregate of the total number of meetings of the Board held during the period for which he or she has been a director and the total number of meetings held by all committees of the Board on which he or she served during the periods that he or she served.

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

	Committee Membership		
Name	Audit Committee	Governance and Nominating Committee	Compensation Committee
Craig H. Barratt, Ph.D.		ü	
Michael A. Friedman, M.D. [1]			
Amal M. Johnson			Chair
Don R. Kania, Ph.D. [2]	ü		
Keith R. Leonard, Jr.	ü		
Alan J. Levy, Ph.D.		Chair	ü
Jami Dover Nachtsheim [1]		ü	ü
Mark J. Rubash	Chair		

(1) Effective February 1, 2019, Jami Dover Nachtsheim replaced Michael A. Friedman, M.D. as a member of the Governance and Nominating Committee. Effective February 1, 2019, Dr. Friedman was no longer a member of the Audit Committee.

(2) In July 2018, Don R. Kania, Ph.D. was appointed to the Board. In October 2018, he was appointed as a member of the Audit Committee.

Audit Committee

The Audit Committee assists the full Board in its general oversight of our financial reporting, internal controls, and audit functions, and is directly responsible for the appointment, compensation, and oversight of the work of the Company's independent registered public accounting firm. The Audit Committee reviews and discusses with management and the independent registered public accounting firm the annual audited and quarterly financial statements (including the related disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the annual report on Form 10-K and the quarterly reports on Form 10-Q), reviews the integrity of the financial reporting processes, both internal and external, reviews the qualifications, performance and independence of the registered public accounting firm, and prepares the Audit Committee Report included in the Proxy Statement in accordance with rules and regulations of the SEC. In addition, the Audit Committee discusses policies with respect to financial and cyber security risk assessment and risk management, including appropriate guidelines and policies to govern the processes, as well as the Company's major financial and cyber security risk exposures and the steps management has undertaken to address them. The responsibilities and activities of the Audit Committee are described in further detail in the "Audit Committee Report" in this proxy statement and the Audit Committee's charter, a copy of which can be found on the Company's website at www.intuitive.com.

During 2018, the Audit Committee consisted of Michael A. Friedman, M.D., Don R. Kania, Ph.D., Keith R. Leonard, Jr., and Mark J. Rubash. The Board has determined that all of the Audit Committee members meet the independence and experience requirements of the Nasdaq Stock Market and the SEC and that Mr. Rubash is an “audit committee financial expert” as defined under applicable rules of the SEC. In 2018, the Audit Committee met nine times.

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Governance and Nominating Committee

The Governance and Nominating Committee is responsible for matters relating to the corporate governance of the Company and the nomination of members of the Board, the Lead Director, and committees thereof. The Board has determined that all of the Governance and Nominating Committee members meet the independence requirements of the Nasdaq Stock Market. The responsibilities and activities of the Governance and Nominating Committee are described in the Governance and Nominating Committee charter, a copy of which can be found on the Company's website at www.intuitive.com.

In 2018, the Governance and Nominating Committee met twice.

Compensation Committee

The Compensation Committee reviews and approves all compensation programs applicable to executive officers of the Company, including salaries, bonuses, and equity compensation. The Compensation Committee reviews and approves corporate goals and objectives relevant to the compensation of the Company's Chief Executive Officer, evaluates the performance of the Chief Executive Officer in light of those goals and objectives, and sets the Chief Executive Officer's compensation level based on this evaluation. The Compensation Committee approves any new compensation plan or any material change to an existing compensation plan whether or not subject to stockholder approval and makes recommendations to the Board with respect to the Company's incentive compensation plans and equity-based plans subject to stockholder approval. The Compensation Committee reviews and discusses with management the disclosures regarding executive compensation and inclusion of the Compensation Discussion and Analysis ("CD&A") included in the annual proxy statements. The Compensation Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee.

In 2018, the Compensation Committee directly engaged an independent compensation consultant, Compensia, Inc. ("Compensia"), to provide analysis, advice, and guidance on compensation matters.

The Board has determined that all of the Compensation Committee members meet the independence requirements of the Nasdaq Stock Market and the SEC. In 2018, the Compensation Committee met three times. The Compensation Committee operates under a charter that can be found on the Company's website at www.intuitive.com.

Compensation Committee Interlocks and Insider Participation

During 2018, the Compensation Committee consisted of Amal M. Johnson, Jami Dover Nachtsheim, and Alan J. Levy, Ph.D., none of whom is a present or former officer or employee of the Company. In addition, during 2018, none of the Company's officers had an "interlock" relationship, as that term is defined by the SEC.

Attendance at the Annual Meeting

The Company encourages, but does not require, its Board members to attend each annual meeting of stockholders. All then-members of the Board attended the 2018 Annual Meeting of Stockholders. Dr. Kania joined the Board in July 2018 and, therefore, did not attend the 2018 Annual Meeting of Stockholders.

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COMPENSATION FOR DIRECTORS

We compensate our non-employee directors for their service on our Board with a combination of cash and equity awards. The compensation provided is commensurate with their role and involvement, and consistent with competitive market practices. We provide a majority of the compensation in the form of equity to align the interests of our non-employee directors with the interests of our stockholders. We do not compensate our Chief Executive Officer for serving on our Board in addition to his regular employee compensation.

The Compensation Committee, consisting solely of independent directors, has the primary responsibility for reviewing and considering any changes to our director compensation program. Our Board determines the form and amount of director compensation after reviewing the committee's recommendation.

The Compensation Committee reviews total compensation of our non-employee directors every other year and evaluates the appropriate level and form of their compensation. In making its recommendations, the committee considers the amount of time our non-employee directors expend, as well as the skill level required of members of our Board in fulfilling their duties. It also considers the Company's financial performance, general market conditions, and advice from its independent compensation consultant, including the independent analysis of our director compensation program that is updated on a biannual basis. As part of this analysis, the compensation consultant reviews and analyzes competitive market practices in director compensation as represented by the companies in our compensation peer group. The analysis also examines how director compensation levels, practices, and design features compare to the constituent members of the compensation peer group, which is the same peer group used as a reference when setting executive compensation. The committee also considers the extent to which our Board's compensation practices align with the interests of our stockholders.

Our Board reviews the Compensation Committee's recommendations and then determines the form and amount of compensation for our non-employee directors. Our Board sets cash compensation levels with reference to the median of the competitive market and equity compensation levels to approximate the 75th percentile of the competitive market.

Following a review with its compensation consultant, the Compensation Committee determined that the compensation of our non-employee directors was consistent generally with the compensation for non-employee directors at the companies in the compensation peer group and recommended that no changes be made to the amounts of non-employee director compensation for 2018.

During 2018, our director compensation program consisted of cash and equity compensation elements, as further described below.

Annual Cash Compensation

We provide cash compensation through retainers for Board and committee service, as well as separate retainers to the chairpersons and members of our Board committees. Compensation in this manner simplifies the administration of our program and creates greater equality in rewarding service on committees of our Board. The committee and committee chair retainers compensate directors for the additional responsibilities and time commitments involved with those positions.

During 2018, the non-employee directors received the following cash compensation:

Board or Committee Position	Cash Retainer ($)
General Annual Board Retainer	60,000
Additional Annual Retainer - Audit Committee Chair	23,000
Additional Annual Retainer - Compensation Committee Chair	20,000
Additional Annual Retainer - Governance and Nominating Committee Chair	13,000
Additional Annual Retainer - Audit Committee Member	10,000
Additional Annual Retainer - Compensation Committee Member	6,000
Additional Annual Retainer - Governance and Nominating Committee Member	4,000

Cash compensation is pro-rated for the time served by a director on the Board and any Board committees.

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Equity Compensation

Non-employee directors receive grants of stock options and restricted stock unit awards which vest 100% on the earlier of (i) the first anniversary of the grant date or (ii) the next annual meeting of stockholders following the grant date, subject to continued service through such vesting date.

During 2018, the non-employee directors received the following equity compensation granted at the 2018 Annual Meeting of Stockholders:

Directors	2018 RSU Value ($) [1]	2018 Stock Option Value ($) [2]
Chairman of the Board	190,000	190,000
Lead Director	165,000	165,000
Members of the Board	140,000	140,000

(1) The number of RSUs granted is determined by taking the RSU Value and dividing by the 90 calendar-day average closing trading price of the Company's common stock reported by Nasdaq through the date of grant.

(2) The number of shares underlying the stock options granted is determined by taking the Stock Option Value and dividing by one-third of the 90 calendar-day average closing trading price of the Company's common stock reported by Nasdaq through the date of grant; provided that in no event shall the number of shares underlying the option exceed the number of shares underlying the 2015 annual option grant.

New non-employee directors receive a pro-rated equity grant based on the number of months remaining between appointment date and the expected date of the next annual grant.

The equity compensation program for our non-employee directors for 2019 is similar to the program described above for 2018.

Our stock ownership policy requires non-employee directors to own shares of our common stock having a total value equal to four times their aggregate annual cash retainer for serving as a member of our Board, not including any meeting fees, incentive awards, or committee, chair, or other similar retainers. These mandatory ownership guidelines are intended to create a clear standard that encourages our directors to remain invested in the performance of the Company's stock price. Each non-employee director has five years from the date he or she becomes subject to the stock ownership guidelines to come into compliance with the guidelines. All of our non-employee directors met the guidelines or were on track to comply with the guidelines in the relevant time frame as of the date of this proxy statement. For the purposes of determining stock ownership levels, the following forms of equity interests in the Company are included: shares owned outright by, or held in trust for the benefit of, the director or his or her spouse or children sharing the same household; shares held through a fund or other entity as to which the director has control; shares of the Company's common stock, stock units or other stock equivalents obtained through the exercise of stock options or vesting of Company equity awards; shares of common stock underlying vested stock options net of shares that would need to be withheld for the exercise price; and other stock or stock equivalent awards determined by the Compensation Committee.

The aggregate grant date fair value of total equity compensation (consisting of stock options, restricted stock unit awards, and any other equity compensation) to any non-employee director in any calendar year in respect of such director's service as a member of our Board or any Board committee during such year shall not exceed $750,000. Our Board has determined that imposing such a limit is in the best interests of the Company and its stockholders.

We reimburse non-employee directors for reasonable out-of-pocket expenses incurred in the performance of their duties as directors of the Company.

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Director Compensation Table

The following Director Compensation Table sets forth summary information concerning the compensation paid to the Company's non-employee directors for the year ended December 31, 2018, for services to the Company.

Name	Fees earned or paid in cash ($)	Stock Awards ($) (1)	Option Awards ($) (1)	Total ($)
Craig H. Barratt, Ph.D.	64,000	180,920	154,347	399,267
Michael A. Friedman, M.D.	74,000	153,620	130,945	358,565
Amal M. Johnson	80,000	153,620	130,945	364,565
Don R. Kania, Ph.D. (2)	32,500	109,261	94,599	236,360
Keith R. Leonard, Jr.	70,000	153,620	130,945	354,565
Alan J. Levy, Ph.D.	79,000	153,620	130,945	363,565
Jami Dover Nachtsheim	66,000	153,620	130,945	350,565
Mark J. Rubash	83,000	153,620	130,945	367,565
Lonnie M. Smith	60,000	208,220	177,749	445,969

(1) The amounts in these columns represent the grant date fair value of stock options and restricted stock units ("RSUs") granted to non-employee directors in 2018, determined in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 ("ASC 718"). Except for the initial grants to Don R. Kania, Ph.D. discussed below, the RSUs had a grant date fair value of $462.71 per RSU and the grant date fair value for stock options was $131.47 per share, in each case, based on the closing trading price of the Company's common stock reported by Nasdaq on the date of grant. See Note 9 of the Notes to the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K filed on February 4, 2019, for a discussion of all assumptions made by the Company in the valuation of the equity awards.

(2) Dr. Kania was appointed to the Board in July 2018. On July 31, 2018, Dr. Kania was granted: (i) 215 RSUs; and (ii) an option to purchase 647 shares of the Company's common stock, respectively, both vesting in full on the first anniversary of the date of grant, subject to continued service through such date. The RSUs had a grant date fair value of $508.19 per RSU and the grant date fair value for stock options was $146.21 per share based on the closing trading price of the Company's common stock reported by Nasdaq on the date of grant.

The table below sets forth the aggregate number of shares of the Company's common stock subject to options outstanding as well as the number of outstanding RSUs held by non-employee directors as of December 31, 2018.

Name	Number of Shares of Common Stock Underlying Options Outstanding	Number of Shares of Common Stock Underlying Options Exercisable	Number of Shares of Common Stock Subject to Outstanding RSUs
Craig H. Barratt, Ph.D.	15,496	14,322	391
Michael A. Friedman, M.D.	996	—	332
Amal M. Johnson	30,068	29,072	332
Don R. Kania, Ph.D.	647	—	215
Keith R. Leonard, Jr.	2,541	1,545	332
Alan J. Levy, Ph.D.	20,472	19,476	332
Jami Dover Nachtsheim	2,541	1,545	332
Mark J. Rubash	6,318	5,322	332
Lonnie M. Smith	3,173	1,821	450

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EXECUTIVE OFFICERS OF THE COMPANY

The Company's executive officers and their ages as of February 15, 2019, are as follows:

Name	Age	Position
Gary S. Guthart, Ph.D.	53	President and Chief Executive Officer
Salvatore J. Brogna	64	Executive Vice President and Chief Operating Officer
Myriam J. Curet, M.D.	62	Executive Vice President and Chief Medical Officer
Marshall L. Mohr	63	Executive Vice President and Chief Financial Officer
David J. Rosa	51	Executive Vice President and Chief Business Officer
Kara Andersen Reiter	54	Senior Vice President, General Counsel, and Chief Compliance Officer

The principal occupations and positions for at least the past five years of the executive officers named above, other than Dr. Guthart, are as follows:

Salvatore J. Brogna joined Intuitive Surgical as Director, Mechanical Engineering, in October 1999 and was promoted to Vice President, Engineering in July 2005. In August 2010, Mr. Brogna was appointed as Senior Vice President, Product Development. In June 2015, Mr. Brogna was promoted to the position of Executive Vice President, Product Operations. In November 2017, Mr. Brogna was promoted to the position of Executive Vice President and Chief Operating Officer. Prior to joining Intuitive Surgical, Mr. Brogna led design and development of complex robotic systems at Adept Technology and at Unimation. Mr. Brogna is a graduate of Clarkson University where he earned a B.S. and an M.S. in Mechanical Engineering.

Myriam J. Curet, M.D. joined Intuitive Surgical in December 2005 as Chief Medical Advisor. In February 2014, Dr. Curet was promoted to the position of Senior Vice President and Chief Medical Officer. In November 2017, Dr. Curet was promoted to the position of Executive Vice President and Chief Medical Officer. Dr. Curet also held a faculty position as Professor of Surgery at Stanford University. Since October 2010, she has served as a Consulting Professor of Surgery at Stanford University with a part time clinical appointment at the Palo Alto Veteran's Administration Medical Center. Dr. Curet received her M.D. from Harvard Medical School and completed her general surgery residency program at the University of Chicago. She then worked for the Indian Health Service for four years before finishing her Surgical Endoscopy fellowship at the University of New Mexico. She was on the faculty at the University of New Mexico for six years prior to joining the Stanford University Department of Surgery in 2000.

Marshall L. Mohr joined Intuitive Surgical in March 2006 as Senior Vice President and Chief Financial Officer and was promoted to Executive Vice President and Chief Financial Officer in July 2018. Prior to that, Mr. Mohr was Vice President and Chief Financial Officer of Adaptec, Inc. ("Adaptec"). Prior to joining Adaptec in July 2003, Mr. Mohr was an Audit Partner with PwC where he was most recently the Managing Partner of the firm's west region technology industry group and led its Silicon Valley accounting and audit advisory practice. Mr. Mohr also currently serves on the boards of directors of Plantronics, Inc. and Pacific Biosciences of California, Inc. Mr. Mohr received his B.B.A. in Accounting and Finance from Western Michigan University.

David J. Rosa joined Intuitive Surgical in March 1996 and has held leadership positions in engineering, clinical development, marketing and product development. In April 2011, Mr. Rosa was promoted to the position of Senior Vice President, Emerging Procedures & Technology and transitioned to the position of Senior Vice President, Scientific Affairs. In August 2014, Mr. Rosa was promoted to the position of Executive Vice President and Chief Scientific Officer. In June 2015, Mr. Rosa was appointed as Executive Vice President and Chief Commercial Officer. In January 2019, Mr. Rosa took on additional responsibility as Executive Vice President and Chief Business Officer. Prior to joining Intuitive Surgical, Mr. Rosa contributed to the development of trans-esophageal transducers for Acuson Corporation. Mr. Rosa also currently serves on the boards of directors of Kardium Inc. and Arterys Inc. Mr. Rosa graduated magna cum laude with a B.S. in Mechanical Engineering from California Polytechnic University at San Luis Obispo. He also holds a Master of Science in Mechanical Engineering from Stanford University.

Kara Andersen Reiter joined Intuitive Surgical in January 2015 as Vice President, Assistant General Counsel, and was promoted to Senior Vice President, General Counsel and Chief Compliance Officer in July 2018. Prior to joining Intuitive Surgical, Ms. Andersen Reiter was Vice President, Regulatory Affairs and Chief In House Counsel of PneumRx, Inc., a medical device company, from August 2004 to January 2015, where she had oversight of all legal and regulatory matters. Prior to that, Ms. Andersen Reiter was a litigation partner at the law firm of Keker & Van Nest. Ms. Andersen Reiter earned her J.D. from UCLA School of Law and her A.B. from Brown University. She also holds a D.E.A. (a master's-level degree) in family law from the Université de Lyon III, obtained while studying as a Fulbright Scholar following law school.

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EXECUTIVE COMPENSATION

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

Compensation Committee Report

The following report of the Compensation Committee shall not be deemed to be "soliciting material" or to otherwise be considered "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended (the "Securities Act"), or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), except to the extent that the Company specifically incorporates it by reference into such filing.

The Compensation Committee has reviewed and discussed with management the disclosures contained in the section entitled "Compensation Discussion and Analysis" of this Proxy Statement. Based upon this review and discussion, the Compensation Committee recommended to the Board that the section entitled "Compensation Discussion and Analysis" be included in this Proxy Statement for the 2019 Annual Meeting of Stockholders and incorporated by reference into the Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Members of the Compensation Committee

Amal M. Johnson (Chair) Alan J. Levy, Ph.D. Jami Dover Nachtsheim

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Compensation Discussion and Analysis

This Compensation Discussion and Analysis explains our executive compensation program including the philosophy, objectives and the policies and practices that contributed to our executive compensation actions and decisions for our 2018 named executive officers, who are listed below.

Name	Position
Gary S. Guthart, Ph.D.	President and Chief Executive Officer
Salvatore J. Brogna	Executive Vice President and Chief Operation Officer
Myriam J. Curet, M.D. (1)	Executive Vice President and Chief Medical Officer
Marshall L. Mohr (2)	Executive Vice President and Chief Financial Officer
David J. Rosa (3)	Executive Vice President and Chief Business Officer

(1) During 2018, Dr. Curet's employment with the Company was at 80% part-time and her compensation reflected this.

(2) In July 2018, Mr. Mohr was promoted to our Executive Vice President and Chief Financial Officer from his prior position as our Senior Vice President and Chief Financial Officer.

(3) In January 2019, Mr. Rosa took on additional responsibility as Executive Vice President and Chief Business Officer from his prior position as our Executive Vice President and Chief Commercial Officer.

Executive Summary

The primary objective of our executive compensation program is to attract and retain a passionate team of executives who drive innovation that enables physicians and healthcare providers to improve the quality of and access to minimally invasive care. We seek to accomplish this goal in a way that is aligned with the long-term interests of our stockholders. Our strategy has been to provide a level of fairness within our programs to drive alignment of all employees including our NEOs. This approach recognizes that as a company we are all one team with one mission. We believe our executive compensation program effectively aligns the interests of our NEOs with our objective of creating sustainable long-term value.

Results of Stockholder Advisory Vote on Named Executive Officer Compensation

At our 2018 Annual Meeting of Stockholders, we conducted a stockholder advisory vote on the 2017 compensation of our then NEOs (commonly known as a "Say-on-Pay" vote). Our stockholders approved the 2017 compensation of our then NEOs, with approximately 95% of the votes cast voted in favor of the proposal. The Compensation Committee took the results of this Say-on-Pay vote into consideration when making compensation decisions following the 2018 Annual Meeting of Stockholders.

We believe that the outcome of the Say-on-Pay vote reflects our stockholders' support of our compensation philosophy, specifically our efforts to attract, retain, and motivate our executive officers, including our NEOs. Accordingly, no significant design changes were made to the executive compensation program as a result of the Say-on-Pay vote on 2017 NEO compensation. Further, any design changes resulting from the Say-on-Pay vote would not typically affect compensation until the following fiscal year due to the timing of our annual meeting of stockholders relative to the Compensation Committee meeting at which compensation decisions are made.

We value the opinions of our stockholders and will continue to consider the outcome of future Say-on-Pay votes, as well as feedback received throughout the year, when making compensation decisions for our executive officers, including our NEOs.

Based on the results of a separate stockholder advisory vote on the frequency of future stockholder advisory votes regarding the compensation of our NEOs conducted at our 2017 Annual Meeting of Stockholders, our Board determined that we will hold Say-on-Pay votes on an annual basis.

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2018 Financial Highlights

In 2018, we continued to grow the number of procedures performed worldwide using our products. In the U.S., the procedure growth was largely attributable to growth in general surgery procedures as well as moderate growth in more mature gynecologic and urologic procedures. International procedure growth was primarily driven by continued growth in prostatectomy and earlier stage growth in kidney cancer procedures, general surgery, and gynecology.

Measure (Amounts in millions of USD, except procedures and system placements)	Fiscal 2018	Fiscal 2017	Percentage Change
Revenue	$3,724.2	$3,138.2	19 %
Worldwide procedures	1,037,000	877,000	18 %
System placements	926	684	35 %
Income from operations	$1,199.4	$1,062.9	13 %
Non-GAAP income from operations (*)	$1,537.4	$1,315.9	17 %
Net income (**)	$1,127.9	$670.9	68 %
Non-GAAP net income (*)	$1,305.1	$1,056.8	23 %
Cash, cash equivalents, and investments	$4,834.4	$3,846.5	26 %
Repurchases and retirement of common stock (***)	$—	$2,274.0	(100)%

(*) Non-GAAP Financial Measures. Non-GAAP adjusted financial measures should be viewed in addition to, and not as an alternative for, financial results prepared in accordance with U.S. GAAP. See Exhibit A to this proxy statement for more information about these non-GAAP financial measures and for a reconciliation of these non-GAAP measures to the most comparable GAAP measures.

(**) In fiscal 2017, the Tax Cuts and Jobs Act (the “2017 Tax Act”) was enacted on December 22, 2017, which resulted in an income tax expense of $317.8 million primarily related to a one-time deemed repatriation tax on undistributed foreign earnings and the revaluation of deferred taxes due to a reduction of the U.S corporate income tax rate.

(***) In January 2019, our Board increased the authorized amount available under the Company’s common stock repurchase program to an aggregate of $2.0 billion, including amounts remaining under previous authorization.

Recent Operational Highlights

- In February 2019, we received U.S. FDA clearance of the Ion endoluminal system, our new flexible robotic-assisted catheter-based platform, designed to navigate through very small lung airways to reach peripheral nodules for biopsies.
- In 2018, the annual number of procedures exceeded 1 million for the first time, with more than 6 million procedures performed to-date.
- In the third quarter of 2018, we commercially launched our da Vinci SP Surgical System, the latest in our integrated product family that enables surgeons to access narrow workspaces while maintaining high quality vision, precision, and control.
- The Intuitive-Fosun joint venture in China began direct operations for da Vinci products and services in January 2019.
- The Company began direct operations for da Vinci products and services in India and Taiwan in May and December 2018, respectively.
- In October 2018, the China National Health Commission announced a new quota to allow the sale of 154 new surgical robots into China through 2020, which includes da Vinci Surgical Systems. In December 2018, the Company also obtained clearance for the da Vinci Xi Surgical System in China.
- The Company received U.S. Food and Drug Administration clearance for the Vessel Sealer Extend, the da Vinci SP Surgical System for use in certain urology procedures, the SureForm 60, a single-patient use 60mm stapler, and the SureForm 45, a single-patient use 45mm stapler, in April 2018, May 2018, July 2018, and January 2019, respectively.
- In Japan, 12 da Vinci procedures within the specialties of general surgery, gynecology, and cardiothoracic surgery were granted national reimbursement status effective April 1, 2018 and our da Vinci X system was approved in April 2018.

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2018 Executive Compensation Highlights

Consistent with our business results, the Compensation Committee took the following actions with respect to the 2018 compensation of our NEOs:

- Annual Cash Incentive Bonuses. The 2018 Corporate Incentive Program (the "CIP"), our annual performance-based cash incentive program, for our NEOs was funded at 108.2% and paid out in February 2019. The CIP was funded based on our actual level of achievement as measured against a pre-established adjusted operating income goal and pre-established strategic Company performance goals. See the section entitled "Annual Performance-Based Cash Bonuses" below for a detailed discussion of the CIP.
- Base Salary. Base salaries were increased on average 3% - 4% for our NEOs and slightly higher for those who also received a promotional increase. These base salary increases took into consideration the changes in responsibility for each NEO, the competitive market for executive talent, Company performance, and the other factors described in the section entitled "Executive Compensation Elements" below.
- Equity Awards. The Compensation Committee granted equity awards in the form of stock options and RSUs. The size of each award was based on several factors including managing the Company's burn rate, reducing our equity overhang in the long run, maintaining our ability to compete for outstanding talent, maintaining our corporate compensation philosophies, and the executive officer's experience and performance.

Pay for Performance

We believe our executive compensation program is closely aligned with stockholders' interests. While base salary and an annual performance-based cash bonus opportunity incentivize the achievement of shorter-term goals, our long-term equity awards in the form of stock options, which are typically subject to either a 4-year or 3.5-year vesting requirement and a 10-year term, and RSUs which are typically subject to a 4-year vesting requirement, represent a longer-term compensation structure that promotes retention and continuous commitment to the operating results of the Company. We further believe this compensation mix rewards each executive officer for their individual contributions to the Company, both present and future. At this phase in our growth cycle, a majority of the annual total direct compensation of our executive officers is directly tied, through the use of stock options and RSUs, to the growth in the value of our common stock. To illustrate this point, the following chart displays the historical relationship between the annual total direct compensation of our Chief Executive Officer, and the changes in stockholder value as reflected by the percentage change in value of the market price of our common stock.

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For illustration purposes, our Chief Executive Officer's annual total direct compensation consists of base salary paid, annual cash bonus earned, and the grant date fair value of his long-term equity awards (including stock options and RSUs) granted in the following year. The chart assumes a like number of stock options to the February 15, 2019, grant will be granted on August 15, 2019, using the same Black-Scholes fair value as of February 15, 2019. Our stock return is calculated based on the closing market price of our common stock on the date of the fiscal year end. The stock return is indexed to 2014 such that it represents the stock price percentage change over the 2014 fiscal year end price of $176.31, and our Chief Executive Officer's annual total direct compensation is similarly indexed to his 2014 annual total direct compensation.

Executive Compensation Policies and Practices

The Compensation Committee has adopted and is committed to maintaining a comprehensive governance framework for executive compensation which aligns with long-term stockholder interests. This framework includes the following:

- Independence. The Compensation Committee is comprised solely of independent directors.
- Independent Adviser. The Compensation Committee engaged an independent compensation consultant, Compensia, to provide analysis, advice and guidance on compensation matters.
- Biennial Executive Compensation Review. The Compensation Committee reviews a biennial compensation assessment prepared by Compensia which includes approval of the executive compensation strategy and philosophy and peer group of companies.
- Succession Planning. We review the risks associated with key executive officer positions and endeavor to ensure adequate succession plans are in place.
- Stock Ownership Guidelines. We maintain stock ownership guidelines for our executive officers and members of our Board.
- Compensation At-Risk. Our executive compensation program is designed so a significant portion of compensation is "at risk" based on corporate performance, including equity-based compensation, to align the interests of our executive officers and stockholders.
- No Employment Agreements. We do not have employment agreements with any of our executive officers. All executive officers are employed "at will."
- No Executive Retirement Plans. We do not provide pensions or other supplemental executive retirement health, or insurance benefits.
- No Executive Perquisites. We do not provide any perquisites or other personal benefits to our executive officers that are not otherwise available on the same basis to our other full-time employees.
- No Special Health or Welfare Benefits. Our executive officers participate in broad-based company-sponsored health and welfare benefits programs on the same basis as our other full-time, salaried employees.
- No Tax Reimbursements. We do not provide any tax reimbursement payments (including "gross-ups") on any element of executive compensation.

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- "Double-Trigger" Change-in-Control Arrangements. All change-in-control payments and benefits pursuant to the Company-wide change in control plan are based on a "double-trigger" arrangement (that is, they require both a change-in-control of the Company plus a qualifying termination of employment before payments and benefits are paid).
- No Repricing. All of the Company's equity plans expressly prohibit stock option repricing without stockholder approval.
- No Buyout of Underwater Options. All of the Company's active equity plans also expressly prohibit the Company from buying out stock options whose exercise price exceeds the fair market value of our common stock, often referred to as underwater options, for cash.
- No Liberal Recycling of Shares. All of the Company's active equity plans prohibit the liberal recycling of shares or underlying awards granted under these plans.
- No Automatic Single Trigger Vesting of Awards. None of the Company's active equity plans provide for automatic acceleration of equity awards upon a change in control of the Company.

Executive Compensation Philosophy

Goal of Executive Compensation Program

The primary objective of our executive compensation program is to attract and retain a passionate team of executives who will provide leadership to make surgery more effective, less invasive, and easier on surgeons, patients, and their families. We seek to accomplish this goal in a way that is aligned with the long-term interests of our stockholders. We employ a "team-based" approach to compensating our executive officers, which is predicated on two principles.

- Each executive officer must demonstrate exceptional individual performance to remain a part of our executive team. We believe that executive officers who underperform should be removed from our executive team and have their compensation adjusted accordingly, or be dismissed from the Company.
- Each executive officer must contribute as a member of the team to our overall success rather than merely achieve specific objectives within his or her area of responsibility.

As a result of this team-based approach, the Compensation Committee carefully considers the relative compensation levels among all members of the executive team. Accordingly, our executive compensation program is designed to be internally consistent and equitable to further the Company's success. As reflected in the discussion below, the differences in the amounts awarded to each of our executive officers, including our NEOs, relate primarily to the experience, responsibilities, and performance of each individual executive officer, and differing market practices for compensation in each executive officer's function.

Compensation Mix

Historically, our equity program provides awards in both stock options and RSUs. We relied on these long-term equity awards to attract, motivate, and retain an outstanding executive team and to ensure a strong connection between our executive compensation program and the long-term interests of our stockholders. We believe stock options are an effective compensation element for attracting innovative and passionate executive officers that rewards stockholder value creation. By ensuring that our executive officers have a significant portion of their potential compensation tied to long-term stock price performance, we are able to closely align the interest of our executive officers with the interests of our stockholders.

In 2018, the majority of Dr. Guthart's and the other NEOs' total compensation is long-term equity based compensation. By linking more of our NEOs total compensation to long-term equity emphasizes variable pay, which is consistent with the Company's pay-for-performance philosophy.

Named Executive Officer	Base Salary as a % of Total Compensation	Annual Performance-based Cash Bonus as a % of Total Compensation	Fair Value of 2018 Equity Grants as a % of Total Compensation
Gary S. Guthart, Ph.D.	12%	13%	75%
Other NEOs	12%	10%	78%

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Executive Compensation Process

Role of Compensation Committee

The Compensation Committee oversees our executive compensation program (including our executive compensation policies and practices), approves the compensation of our executive officers including our NEOs (other than Dr. Guthart), and administers our various equity plans.

The Compensation Committee reviews the performance of Dr. Guthart to determine whether to make any changes to his compensation. Following its approval, the Compensation Committee presents such changes to the independent members of our Board for review and ratification.

Role of Executive Officers

Dr. Guthart makes recommendations to the Compensation Committee regarding the salary, annual cash bonus award, and equity awards for the executive officers other than himself. At the Compensation Committee's request, Dr. Guthart reviews with the Compensation Committee the individual performance of each of the other executive officers, including each of our NEOs. The Compensation Committee gives considerable weight to Dr. Guthart's evaluations and determines whether the recommended changes in each executive officer's compensation, if any, are appropriate.

The Compensation Committee receives support from our Human Resources Department in designing our executive compensation program and analyzing competitive market practices. In addition, Dr. Guthart participates in Compensation Committee meetings, providing input from our executive team on organizational structure, executive development, and financial analysis.

Role of Compensation Consultant

In 2018, the Compensation Committee directly retained the services of Compensia, an independent national executive compensation consulting firm, to assist it in fulfilling its duties and responsibilities. Compensia does not provide services to Intuitive management outside of the services provided to the Compensation Committee unless directed by the Compensation Committee.

The Committee annually reviews the performance of Compensia. As part of the annual review, the Compensation Committee considers the independence of the consultant in accordance with SEC and Nasdaq rules and has concluded that no conflict of interest exists with respect to the work that Compensia performs for the Compensation Committee.

Competitive Positioning

While the Compensation Committee does not establish compensation levels based solely on a review of competitive market data, it believes that such data is a useful tool in its deliberations as it recognizes that our compensation policies and practices must be competitive in the marketplace for us to be able to attract, motivate, and retain qualified executive officers. Generally, the Compensation Committee reviews our executive compensation relative to our established competitive market (based on an analysis of the compensation policies and practices of a select group of peer companies) every two years. The Compensation Committee uses the competitive market data when evaluating all aspects of executive compensation. As a reference point for our NEOs, we use the market median for cash and incentive values, the 75th percentile for long term incentive values, and the market median and 75th percentile for the total direct compensation values.

The Compensation Committee engages Compensia to assist with updating our compensation peer group and assessing the competitiveness of our executive compensation program. In evaluating and making changes to the compensation peer group, the Compensation Committee considered the following selection criteria: (1) location of the company (U.S.-based); (2) ownership structure of the company (publicly-traded); (3) company's industry (medical device, medical supplies, life sciences tools and services and technology); (4) revenues (approximately 1/3 to 3x the Company's last four quarters' revenue); and (5) market capitalization (approximately 1/3 to 3x the Company's market capitalization).

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After considering the analysis performed by Compensia, the Compensation Committee selected the following direct compensation peer group for use in 2018:

Agilent Technologies, Inc.	Dentsply Sirona, Inc.	Illumina, Inc.	Teleflex Incorporated
Becton, Dickinson and Company	Edwards Lifesciences Corporation	Mettler-Toledo International, Inc.	Varian Medical Systems, Inc.
Boston Scientific Corporation	Hologic, Inc.	ResMed, Inc.	Waters Corporation
The Cooper Companies, Inc.	IDEXX Laboratories, Inc.	Stryker Corporation	Zimmer Biomet Holdings, Inc.

Executive Compensation Elements

The following table lists the elements of our 2018 executive compensation program. By using a mix of fixed and variable compensation elements it is designed to drive corporate performance using specific measures that correlate to stockholder value and align with our financial and strategic Company goals.

	Fixed	Variable Short-Term	Variable Long-Term		Other
	Base Salary	Annual Performance-based Cash Bonus	Stock Options	RSUs	Benefits
Primary Purpose	Attract, Reward, and Retain Provide competitive, fixed cash compensation	Provide focus on annual financial and non-financial goals, motivate team performance	Create ownership and align with stockholder interests		Encourage wellness and financial savings
Performance Measures		Adjusted operating income and strategic corporate objectives			
Performance Period/Vesting Period	Ongoing; Annual review	1-year performance period	4- and 3.5-year vesting ratably	4-year vesting ratably	Ongoing

Base Salary

In July 2018, the Compensation Committee reviewed the base salaries of our executive officers, including our NEOs, for possible adjustments. After taking into consideration our “team-based” approach to compensation, the Compensation Committee set the base salaries of our NEOs as follows:

Named Executive Officer	Base Salary as of August 1, 2018 ($)	Base Salary as of August 1, 2017 ($)	Percentage Change	
Gary S. Guthart, Ph.D.	780,000	757,050	3.0	%
Salvatore J. Brogna [1]	569,250	520,000	9.5	%
Myriam J. Curet, M.D. [2]	518,750	472,219	9.9	%
Marshall L. Mohr [3]	525,000	489,250	7.3	%
David J. Rosa	556,973	540,750	3.0	%

(1) In November 2017, in connection with his appointment as the Executive Vice President and Chief Operating Officer, Mr. Brogna’s base salary was first increased to $550,000 per year. During 2018, his base salary increased by 3.5% to $569,250 compared with his base salary in November 2017.

(2) Dr. Curet was employed part-time at 80% in 2018 and 2017, and her base salary is reported in the table as converted to a full-time basis. In November 2017, in connection with her appointment as the Executive Vice President and Chief Medical Officer, Dr. Curet’s base salary was first increased to $400,000 per year (or $500,000

per year on a full-time basis). During 2018, her base salary increased by 3.75% to $415,000 (or $518,750 per year on a full-time basis) compared with her base salary in November 2017.

(3) In connection with his appointment as the Executive Vice President and Chief Financial Officer, Mr. Mohr's base salary was increased to $525,000 per year effective July 2018.

The base salaries earned by our NEOs during 2018 are set forth in the "2018 Summary Compensation Table" below.

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Annual Performance-Based Cash Bonuses

We use annual cash bonuses to motivate and reward our executive officers, including our NEOs, to achieve or exceed our short-term financial and operational objectives while making progress towards our longer-term growth and other goals. Consistent with our executive compensation philosophy, these annual cash bonuses constitute a smaller portion of the target total direct compensation opportunity of our executive officers than their long-term equity awards.

At the end of each year, the Compensation Committee determines the amount of the award to be paid to each executive officer by comparing actual results to the performance goals for the year. The Compensation Committee may, in its discretion, reduce or increase the amount of any individual award based on an executive officer's overall performance and his or her contribution to the achievement of our performance goals.

Target Annual Cash Bonus Opportunities

Given our emphasis on long-term stockholder value creation over annual operating results, the CIP targets are set relatively low to the competitive market, as reflected by the target annual cash bonus opportunities of our executive officers. For 2018, the target and maximum annual cash bonuses opportunities as a percentage of base salary under the CIP for our NEOs were set as follows:

Named Executive Officer	Target Annual Cash Bonus Opportunity (as a percentage of base salary)	Maximum Annual Cash Bonus Opportunity (as a percentage of base salary) [(1)]
Gary S. Guthart, Ph.D.	100.0%	125.0%
Salvatore J. Brogna	70.0%	87.5%
Myriam J. Curet, M.D.	70.0%	87.5%
Marshall L. Mohr	70.0%	87.5%
David J. Rosa	70.0%	87.5%

(1) The maximum annual cash bonus opportunity (as a percentage of base salary) is calculated at 125% of the target; however, the Compensation Committee may award higher amounts based on individual performance.

Annual Cash Bonus Plan Formula and Funding

For 2018, the CIP was funded through an incentive pool based on our achievement of an adjusted operating income ("AOI") goal as set forth in our annual operating plan, and paid to our executive officers based on our actual level of achievement of AOI and several pre-established corporate performance objectives (the "Company Performance Goals"). For purposes of the CIP, "AOI" is defined as operating income excluding non-cash share-based compensation expense, non-cash amortization of intangible assets, and litigation charges.

For 2018, the CIP incentive pool was funded based on an AOI target set at the previous year's AOI level plus a pre-established increase in AOI for the year and could be funded up to a maximum of 125% of target. The amount of the incentive pool that is paid out as annual cash bonuses for each executive officer, including each NEO, is determined by an equal weighting of achievement of the AOI goal and Company Performance Goals. In the event that the AOI target was not achieved, the incentive pool would not be funded, and our NEOs would not be eligible to receive any bonus under the CIP. Typically, the overall CIP payout will not exceed the amount by which the incentive pool is funded.

The Company Performance Goals are established at the corporate level by the executive team and Dr. Guthart, then reviewed and approved by the Board of Directors annually at the beginning of the fiscal year. For 2018, the Performance Goals fell into four categories: Business Metrics, Regional Strategic Goals, Strategic Operations/Quality Goals and Corporate Strategy. Given their relationship to our annual operating plan and business strategy and because the Company Performance Goals and their specific target levels are highly confidential, we do not publicly disclose them. We believe their disclosure would provide our competitors, customers and other third parties with significant insights regarding our confidential business strategies that could cause us substantial competitive harm.

The Company Performance Goals are designed to focus on the short-term objectives that we believe ultimately drive the long-term success of the Company. There is a risk that payments with respect to any specific goal will not be made at all or will be made at less than 100% of the target level. The achievement of the goals may be affected by several factors including, but not limited to, the impact of changes in healthcare legislation and policy, global and regional

conditions, credit markets and the related impact on healthcare spending, timing and success of product development and market acceptance of developed products, changes in trade agreements and/or tariffs imposed on cross-border commerce, and regulatory approvals, clearances, and restrictions. Because several of these factors are not entirely within the control of our NEOs and given the “stretch” nature of the goal-setting process, we believe that

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it would be relatively difficult to fully achieve the Company Performance Goals in any year. The challenge of the goals and uncertainty in the environment ensures that any payments under the CIP are truly performance-based, which is consistent with the plan's objectives.

2018 Bonus Decisions

For 2018, target funding was set at AOI of $1,449 million and maximum funding of 125% of the pool was set at AOI of $1,811 million, with funding at intermediate levels determined based on linear interpolation. Based on our actual achievement of AOI of $1,598 million or 116.3% achievement, weighted at 50% and actual achievement of Company Performance Goals of 100.0%, weighted at 50%, the CIP was funded at 108.2% of the target level for our NEOs.

The annual cash bonus payments made to our NEOs for 2018 are set forth in the "2018 Summary Compensation Table" below.

Long-Term Equity Awards

Our long-term incentive compensation consists of equity awards in the form of stock options and RSUs. We grant these equity awards to ensure that our executive officers, including our NEOs, have a continuing stake in our long-term success. The Compensation Committee believes that these types of equity awards best meet our overall goals of alignment with long-term performance and stockholder value creation, and retention of our executive officers. The Compensation Committee also believes granting awards with multi-year vesting requirements and, with respect to options, a 10-year term creates a substantial retention incentive and encourages our executive officers to focus on our long-term business objectives and long-term stock price performance.

Individual grant awards are determined using various factors including competitive market data, current value of our common stock, overall available stock pool and the individual performance of each NEO. The Compensation Committee considers Dr. Guthart's recommendations for other NEOs when approving equity awards. The Compensation Committee determines and presents its recommendation for Dr. Guthart to the Board of Directors for their approval.

The equity awards granted to our NEOs in 2018 are set forth in the "2018 Summary Compensation Table" and the "2018 Grants of Plan-Based Awards Table" below.

The Compensation Committee authorized the following equity awards in 2019, 2018, and 2017 for the NEOs:

	Shares of Company Common Stock Underlying RSUs Granted			Shares of Company Common Stock Subject to Options Granted		
Named Executive Officer	2019 (1)	2018	2017	2019 (1)	2018	2017
Gary S. Guthart, Ph.D.	5,000	5,667	8,001	15,000	17,000	24,000
Salvatore J. Brogna	3,000	4,167	6,000	9,000	12,500	18,000
Myriam J. Curet, M.D.	2,333	4,000	3,999	7,000	12,000	12,000
Marshall L. Mohr	2,333	2,833	5,001	7,000	8,500	15,000
David J. Rosa	3,000	4,167	6,000	9,000	12,500	18,000

(1) As described above, stock options are granted bi-annually in February and August. Although the number of options to be granted in August 2019 will be determined at a future date, we anticipate that a like number to the February 2019 award will be granted. We have included both the February 2019 grant and the estimated August 2019 grant in this table. Please refer to the section "Equity Award Grant Policies" for more information on the vesting terms of these awards. For 2019, 2018, and 2017, we targeted the stock option to RSU grant ratio at approximately 3:1 for our NEOs.

The equity awards granted to our NEOs in 2018 are set forth in the "2018 Summary Compensation Table" and the "2018 Grants of Plan-Based Awards Table" below.

Equity Award Grant Policies

The Compensation Committee reviews and approves annual equity award grants to our executive officers, including our NEOs. Stock options are granted to our executive officers, bi-annually on February 15 and August 15 of each year. RSUs are granted on February 15 of each year. The February stock option grants vest over a four-year period, while the August stock option grants vest over a 3.5-year period. The RSUs vest 25% annually over a four-year period.

We do not time the granting of stock options with any favorable or unfavorable news released by the Company. Initial stock option grants are consistently granted on the fifth business day of the month after employment begins. Proximity of any awards to an earnings announcement or other market events is coincidental.

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Welfare and Other Employee Benefits

We have established a tax-qualified Section 401(k) retirement plan for all employees, including our NEOs, who satisfy certain eligibility requirements, including requirements relating to age and length of service. Beginning in 2015, we began matching contributions made to the plan by our eligible employees, including executive officers. We match 200% of employee contributions up to $1,500 per calendar year per person. All matching employer contributions are fully vested when made.

In addition, we provide all of our employees who work 30 hours or more per week, including our NEOs, a variety of health and welfare benefits. These benefits include medical, dental, and vision benefits, medical and dependent care flexible spending accounts, short-term and long-term disability insurance, accidental death and dismemberment insurance, and basic life insurance coverage.

Our employee benefits programs are intended to be affordable and competitive in relation to the market. We adjust our employee benefits programs as needed based upon regular monitoring of applicable laws and practices and the competitive market.

Perquisites and Other Personal Benefits

Currently, we do not view perquisites or other personal benefits as a significant component of our executive compensation program. Accordingly, we do not provide perquisites to our executive officers, including our NEOs, except in limited situations where we believe it is appropriate to assist an individual in the performance of his or her duties, to make our executive officers more efficient and effective, and for recruitment and retention purposes.

In the future, we may provide perquisites or other personal benefits in limited circumstances, such as where we believe it is appropriate to assist an individual executive officer in the performance of his or her duties, to make our executive officers more efficient and effective, and for recruitment, motivation, or retention purposes. All future practices with respect to perquisites or other personal benefits will be approved and subject to periodic review by the Compensation Committee.

Post-Employment Compensation

In December 2008, our Board approved and adopted a change in control plan (the “Change in Control Plan”). Under the Change in Control Plan, all eligible employees of the Company who have been employed at least six months prior to the date of their separation from service, including our executive officers, are eligible to receive certain payments and benefits in the event of a termination of employment without cause or an involuntary separation from service within 12 months after a change in control of the Company.

We believe the Change in Control Plan is beneficial to our stockholders because it minimizes the uncertainty presented to our valuable workforce in the case of a change in control of the Company. In addition, we provide the Change in Control Plan to encourage our employees to work at a dynamic and rapidly growing business where their long-term compensation largely depends on future stock price appreciation. In the case of our executive officers, the Change in Control Plan is intended to mitigate a potential disincentive for them when they are evaluating a potential acquisition of the Company, particularly when the services of the executive officers may not be required by the acquiring entity. In such a situation, we believe that these protections are necessary to encourage retention of the executive officers through the conclusion of the transaction, and to ensure a smooth management transition. The payments and benefits provided under the Change in Control Plan have been designed to provide our eligible employees, including our executive officers, with consistent treatment that is competitive with current market practices.

A description of the terms and conditions of the Change in Control Plan, as well as information about the estimated payments and benefits that our NEOs would have been eligible to receive as of December 31, 2018, are set forth in “Potential Payments Upon Termination or Change in Control” below.

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Other Compensation Policies

Stock Ownership Guidelines

We believe that stock ownership by our executive officers, including our NEOs, and the members of our Board is important to link the risks and rewards inherent in stock ownership of these individuals and our stockholders. In January 2015, our Board adopted executive officer stock ownership guidelines requiring each individual serving as an executive officer to maintain beneficial ownership of a minimum dollar amount of shares of our common stock. For the purposes of determining stock ownership levels, the following forms of equity interests are included: shares owned outright by, or held in trust for the benefit of, the executive officer or his or her spouse or children sharing the same household; shares held through a fund or other entity as to which the executive officer has control; shares of our common stock, stock units or other stock equivalents obtained through the exercise of stock options or vesting of equity awards; shares of common stock underlying vested stock options net of shares that would need to be withheld for the exercise price; and other stock or stock equivalent awards determined by the Compensation Committee.

These stock ownership guidelines are intended to create a clear standard that encourages these executive officers to remain invested in the performance of our stock price. Each executive officer has five years from the date he or she becomes subject to the stock ownership guidelines to achieve compliance with the guidelines. The current ownership levels specified by these guidelines require each NEO to maintain a minimum level of stock ownership equal to four times his or her annual base salary. All of our NEOs met the guidelines or were on track to comply with the guidelines in the relevant time frame as of the date of this proxy statement.

Compensation Recovery Policy

Currently, we have not implemented a policy regarding retroactive adjustments to any cash or equity-based incentive compensation paid to our executive officers and other employees where the payments were predicated upon the achievement of financial results that were subsequently the subject of a financial restatement.

Derivatives Trading, Hedging, and Pledging Policies

Our Insider Trading Policy provides that no employee, officer, or director may acquire, sell, or trade in any interest or position relating to the future price of Company securities, such as a put option, a call option or a short sale (including a short sale “against the box”), or engage in hedging transactions (including “cashless collars”). In addition, our Insider Trading Policy provides that no employee, officer, or director may pledge Company securities as collateral to secure loans. This prohibition means, among other things, that these individuals may not hold Company securities in a “margin” account, which would allow the individual to borrow against their holdings to buy securities.

Tax and Accounting Considerations

Deductibility of Compensation

Section 162(m) of the Internal Revenue Code (the “Code”) disallows a tax deduction for any publicly held corporation for individual compensation exceeding $1 million in any taxable year for “covered employees.” As a result of the 2017 Tax Act, covered employees generally consist of our Chief Executive Officer, Chief Financial Officer, and each of the next three highest compensated officers for the taxable year without regard to whether such executive officers are serving at the end of the taxable year, and anyone who previously has been a covered employee for any taxable year beginning after December 31, 2016. In addition, as a result of the 2017 Tax Act, the “qualified performance-based compensation” exemption from this $1 million deduction limit was, with certain limited exceptions, eliminated.

The Compensation Committee believes that, in establishing the cash and equity incentive compensation plans and arrangements for our executive officers, the potential deductibility of the compensation payable under those plans and arrangements should be only one of a number of relevant factors taken into consideration, and not the sole governing factor. For that reason, the Compensation Committee may deem it appropriate to provide one or more executive officer with the opportunity to earn incentive compensation, whether through cash incentive awards tied to our financial performance or equity incentive awards tied to the executive officer’s continued service, which may be in excess of the amount deductible by reason of Section 162(m) or other provisions of the Code.

The Compensation Committee believes it is important to maintain cash and equity incentive compensation at the requisite level to attract and retain the individuals essential to our financial success, even if all or part of that compensation may not be deductible by reason of the Section 162(m) limitation.

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Nonqualified Deferred Compensation

The Compensation Committee takes into account whether components of the compensation for our executive officers will be adversely impacted by the penalty tax imposed by Section 409A of the Code, and aims to structure these components to be compliant with or exempt from Section 409A to avoid such potential adverse tax consequences.

"Golden Parachute" Payments

Sections 280G and 4999 of the Code provide that certain executive officers and other service providers who are highly compensated or hold significant equity interests may be subject to an excise tax if they receive payments or benefits in connection with a change in control of the company that exceeds certain prescribed limits, and that we, or a successor, may forfeit a deduction on the amounts subject to this additional tax. We did not provide any executive officer, including any NEO, with a "gross-up" or other reimbursement payment for any tax liability that he or she might owe as a result of the application of Sections 280G or 4999 during 2018 and we have not agreed and are not otherwise obligated to provide any executive officer, including any NEO with such a "gross-up" or other reimbursement.

Accounting for Share-Based Compensation

We follow ASC 718 for our share-based compensation awards. ASC 718 requires companies to measure the compensation expense for all share-based payment awards made to employees and directors, including stock options and RSUs, based on the grant date "fair value" of these awards. This calculation is performed for accounting purposes and reported in the compensation tables below, even though our executive officers may never realize any value from their awards. ASC 718 also requires companies to recognize the compensation cost of their share-based compensation awards in their income statements over the period that an executive officer is required to render service in exchange for the option or other award.

COMPENSATION RISK CONSIDERATIONS

The Compensation Committee considers, in establishing and reviewing our employee compensation programs, whether each of these programs encourages unnecessary or excessive risk taking. The Company, after reviewing and discussing the compensation programs with the Compensation and Audit Committees of our Board, believes that the programs are balanced and do not motivate or encourage unnecessary or excessive risk taking because of, in part, the following:

- Base salaries are fixed in amount and thus do not encourage risk taking.
- While annual performance-based awards focus on achievement of short-term goals, and short-term goals may encourage the taking of short-term risks at the expense of long-term results, the Company's performance-based award programs represent a reasonable portion of employees' target total direct compensation opportunities.
- Performance-based awards are based on various departmental and Company-wide metrics; funding for the awards is capped at the Company level and the distribution of the funds to executive officers and other employees is at the discretion of the Compensation Committee.
- Long-term equity awards are important to help further align employees' interests with those of our stockholders. The ultimate value of the awards is tied to the Company's stock price and since awards are staggered and subject to long-term vesting schedules, they help ensure that our executive officers have significant value tied to our long-term stock price performance. As described above in the Compensation Discussion and Analysis, we have established procedures related to the timing and approval of equity awards.

Because of the above, we believe that our employee compensation programs appropriately balance risk and the desire to focus employees on specific short-term goals important to the Company's success.

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COMPENSATION OF NAMED EXECUTIVE OFFICERS

2018 Summary Compensation Table

The following Summary Compensation Table sets forth summary information concerning the compensation provided to our NEOs in the years ended December 31, 2018, 2017, and 2016, for services to our Company in all capacities, with the exception of Dr. Curet, whose total compensation is shown only for 2018 and 2017, the years in which she was a NEO.

Name and Principal Position	Year	Salary ($) [1]	Stock Awards ($) [2]	Option Awards ($) [2]	Non-Equity Incentive Plan Compensation ($) [3]	Total ($)
Gary S. Guthart, Ph.D. President and Chief Executive Officer	2018	766,613	2,371,980	2,474,658	809,827	6,423,078
	2017	744,188	1,911,546	1,570,974	833,512	5,060,220
	2016	707,788	2,408,220	626,635	834,593	4,577,236
Salvatore J. Brogna Executive Vice President and Chief Operating Officer	2018	558,021	1,744,140	1,819,601	454,230	4,575,992
	2017	513,334	1,433,480	1,178,230	450,000	3,575,044
	2016	482,500	1,739,270	452,569	425,801	3,100,140
Myriam J. Curet, M.D. Executive Vice President and Chief Medical Officer	2018	406,250	1,674,240	1,746,817	324,450	4,151,757
	2017	374,027	955,414	785,487	300,000	2,414,928
Marshall L. Mohr Executive Vice President and Chief Financial Officer	2018	505,635	1,185,780	1,237,329	400,155	3,328,899
	2017	480,938	1,194,806	981,859	385,360	3,042,963
	2016	466,250	1,337,900	348,130	380,385	2,532,665
David J. Rosa Executive Vice President and Chief Business Officer	2018	547,510	1,744,140	1,819,601	432,600	4,543,851
	2017	531,563	1,433,480	1,178,230	450,000	3,593,273
	2016	510,417	1,739,270	452,569	417,297	3,119,553

(1) The amounts reported in this column include payments in respect of accrued paid-time off made in addition to salary earned. The amount reported for Dr. Curet reflects her 80% part-time basis.

(2) The amounts reported in these columns represent the grant date fair values of the stock options granted to the NEOs and the RSUs granted to the NEOs in the fiscal year, determined in accordance with ASC 718. The grant date fair value for RSUs is measured based on the closing fair market value of the Company’s common stock on the date of grant. See Note 9 of the Notes to the Consolidated Financial Statements contained in our Annual Report on Form 10-K filed on February 4, 2019, for a discussion of all assumptions made by us in determining the grant date fair value of these equity awards.

(3) Represents the annual bonus earned in the designated fiscal year under the CIP paid in February of the following year. See the “Compensation Discussion and Analysis” section above for a more detailed discussion.

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2018 Grants of Plan-Based Awards

The following table summarizes information about the non-equity incentive awards and equity-based awards granted to our NEOs in 2018:

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards [1]			All Other Stock Awards: # of Shares of Stock or Units [2]	All Other Option Awards: # of Securities Underlying Options [2]	Exercise or Base Price of Options or Awards ($/Share)	Grant Date Fair Value of Options and Awards ($) [3]
		Threshold ($)	Target ($)	Maximum ($)				
Gary S. Guthart, Ph.D.	2/15/2018				5,667			2,371,980
	2/15/2018					8,500	418.56	1,113,749
	8/15/2018					8,500	522.77	1,360,909
	Cash Incentive		780,000	975,000				
Salvatore J. Brogna	2/15/2018				4,167			1,744,140
	2/15/2018					6,250	418.56	818,933
	8/15/2018					6,250	522.77	1,000,668
	Cash Incentive		398,475	498,094				
Myriam J. Curet, M.D.	2/15/2018				4,000			1,674,240
	2/15/2018					6,000	418.56	786,176
	8/15/2018					6,000	522.77	960,641
	Cash Incentive		290,500	363,125				
Marshall L. Mohr	2/15/2018				2,833			1,185,780
	2/15/2018					4,250	418.56	556,875
	8/15/2018					4,250	522.77	680,454
	Cash Incentive		367,500	459,375				
David J. Rosa	2/15/2018				4,147			1,744,140
	2/15/2018					6,250	418.56	818,933
	8/15/2018					6,250	522.77	1,000,668
	Cash Incentive		389,881	487,351				

(1) For 2018, Dr. Guthart had a bonus target of 100% of base salary and Messrs. Brogna, Rosa, and Mohr as well as Dr. Curet had a bonus target of 70% of base salary. At its discretion, the Compensation Committee has the authority to pay any NEO in excess of or below his or her targeted bonus amount. The goals for 2018 were approved by the Compensation Committee in January 2018. The payout amounts for each NEO were reviewed and approved by the Compensation Committee and the Board in January 2019 upon reviewing results for 2018. The maximum bonus or performance payout is calculated at 125% of the target. See “Compensation Discussion and Analysis” section above for detailed discussion of the CIP.

(2) The options were granted under our Amended and Restated 2010 Incentive Award Plan. The February 15 option grants vest 6/48 at the end of six months and 1/48 per month thereafter through a four-year period, subject to continued employment through the applicable vesting date. The August 15 option grants vest 7/48 at the end of one month and 1/48 per month thereafter through a 3.5-year period, subject to continued employment through the applicable vesting date. The February 15 RSU grants vest 1/4 increments annually over a four-year period, subject to continued employment through the applicable vesting date.

(3) The amounts shown represent the fair value per share as of the grant date of such award determined pursuant to stock compensation accounting, multiplied by the number of shares. See Note 9 of the Notes to the Consolidated Financial Statements contained in our Annual Report on Form 10-K filed on February 4, 2019, for a discussion of

all assumptions made by us in determining the value of the equity awards.

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Outstanding Equity Awards as of December 31, 2018

The following table summarizes the outstanding stock options and RSUs that were held by our NEOs as of December 31, 2018:

	Option Awards					Stock Awards	
Name	Grant Date	# of Securities Underlying Unexercised Options (# Exercisable)	# of Securities Underlying Unexercised Options (# Unexercisable) (*)	Option Exercise Price ($/share)	Option Expiration Date	Shares or units of stock that have not vested (#) [1]	Market value of shares or units of stock that have not vested ($) [2]
Gary S. Guthart, Ph.D.	2/16/2010	71,666	—	111.43	2/16/2020		
	2/15/2011	95,625	—	113.73	2/15/2021		
	2/15/2012	42,000	—	168.41	2/15/2022		
	8/15/2012	42,000	—	172.44	8/15/2022		
	2/15/2013	22,500	—	189.74	2/15/2023		
	8/15/2013	22,500	—	127.91	8/15/2023		
	2/18/2014	11,250	—	148.03	2/18/2024		
	8/15/2014	11,250	—	153.05	8/15/2024		
	2/17/2015	8,049	351	171.33	2/17/2025	2,599	1,244,713
	8/17/2015	8,051	349	177.68	8/17/2025		
	2/16/2016	1,863	768	178.39	2/16/2026	6,750	3,232,710
	2/15/2017	5,499	6,501	238.91	2/15/2027	6,000	2,873,520
	8/15/2017	5,501	6,499	328.46	8/15/2027		
	2/15/2018	1,770	6,730	418.56	2/15/2028	5,667	2,714,040
	8/15/2018	1,771	6,729	522.77	8/15/2028		
Salvatore J. Brogna	2/17/2015	153	306	171.33	2/17/2025	2,274	1,089,064
	8/17/2015	153	305	177.68	8/17/2025		
	2/16/2016	102	1,422	178.39	2/16/2026	4,874	2,334,256
	8/15/2016	102	1,422	231.00	8/15/2026		
	2/15/2017	188	4,873	238.91	2/15/2027	4,500	2,155,140
	8/15/2017	750	4,874	328.46	8/15/2027		
	2/15/2018	1,302	4,948	418.56	2/15/2028	4,167	1,995,660
	8/15/2018	1,303	4,947	522.77	8/15/2028		
Myriam J. Curet, M.D.	2/15/2013	8,650	—	189.74	2/15/2023		
	2/17/2015	438	175	171.33	2/17/2025	1,299	622,117
	8/17/2015	437	174	177.68	8/17/2025		
	2/16/2016	312	875	178.39	2/16/2026	3,000	1,436,760
	8/15/2016	2,125	875	231.00	8/15/2026		
	2/15/2017	2,751	3,249	238.91	2/15/2027	2,999	1,436,281
	8/15/2017	2,751	3,249	328.46	8/15/2027		
	2/15/2018	1,250	4,750	418.56	2/15/2028	4,000	1,915,680
	8/15/2018	1,251	4,749	522.77	8/15/2028		
Marshall L. Mohr	2/15/2011	40,500	—	113.73	2/15/2021		
	2/15/2012	21,000	—	168.41	2/15/2022		
	8/15/2012	21,000	—	172.44	8/15/2022		

2/15/2013	18,000	—	189.74	2/15/2023		
8/15/2013	18,000	—	127.91	8/15/2023		
2/18/2014	9,375	—	148.03	2/18/2024		
8/15/2014	9,375	—	153.05	8/15/2024		
2/17/2015	6,541	284	171.33	2/17/2025	2,112	1,011,479

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	8/17/2015	6,540	285	177.68	8/17/2025		
	2/16/2016	2,656	1,094	178.39	2/16/2026	3,750	1,795,950
	8/15/2016	2,657	1,093	231.00	8/15/2026		
	2/15/2017	3,437	4,063	238.91	2/15/2027	3,750	1,795,950
	8/15/2017	3,438	4,062	328.46	8/15/2027		
	2/15/2018	885	3,365	418.56	2/15/2028	2,833	1,356,780
	8/15/2018	886	3,364	522.77	8/15/2028		
	2/15/2011	48,000	—	113.73	2/15/2021		
	2/15/2012	21,000	—	168.41	2/15/2022		
David J. Rosa	8/15/2012	21,000	—	172.44	8/15/2022		
	2/15/2013	18,000	—	189.74	2/15/2023		
	8/15/2013	36,000	—	127.91	8/15/2023		
	2/18/2014	9,375	—	148.03	2/18/2024		
	8/7/2014	13,500	—	147.27	8/7/2024		
	8/15/2014	9,375	—	153.05	8/15/2024		
	2/17/2015	7,044	306	171.33	2/17/2025	2,274	1,089,064
	8/17/2015	7,045	305	177.68	8/17/2025		
	2/16/2016	3,453	1,422	178.39	2/16/2026	4,874	2,334,256
	8/15/2016	3,453	1,422	231.00	8/15/2026		
	2/15/2017	4,127	4,873	238.91	2/15/2027	4,500	2,155,140
	8/15/2017	4,126	4,874	328.46	8/15/2027		
	2/15/2018	1,302	4,948	418.56	2/15/2028	4,167	1,995,660
	8/15/2018	1,303	4,947	522.77	8/15/2028		

(*) All of the listed options, except the August 2015, 2016, 2017, 2018 and August 15, 2014, grants, vest 6/48 of the underlying option shares upon completion of six months of service following the date of grant and 1/48 per month thereafter, contingent upon continued employment. The August 2015, 2016, 2017, 2018, and August 15, 2014, options vest 7/48 of the underlying option shares upon completion of one month of service following the date of the grant and 1/48 per month thereafter, contingent upon continued employment. All of these options have a ten-year term.

(1) All of the listed RSUs vest in 1/4 increments annually over a four-year period from the date of grant, subject to continued employment through the applicable vesting date.

(2) The dollar amounts shown are determined by multiplying the number of unvested units by $478.92 (the closing price of the Company's common stock on December 31, 2018, the last trading day of the Company's fiscal year).

Option Exercises and Stock Vested During Fiscal 2018

The following table summarizes the stock options exercised and vesting of RSUs during the year ended December 31, 2018, and the value realized upon exercise of stock options and vesting of stock awards by our NEOs:

	Option Awards		Stock Awards	
Name	Number of Shares Acquired Upon Exercise (#)	Value Realized Upon Exercise ($) [1]	Number of Shares Acquired Upon Vesting (#)	Value Realized Upon Vesting ($) [2]
Gary S. Guthart, Ph.D.	220,834	93,539,546	9,851	4,128,847
Salvatore J. Brogna	11,221	3,042,302	7,771	3,258,611
Myriam J. Curet, M.D.	10,415	3,186,221	5,047	2,116,753
Marshall L. Mohr	30,750	11,161,763	6,798	2,852,284
David J. Rosa	106,500	43,663,962	8,896	3,841,249

(1) The value realized equals the excess of the fair market value of our common stock at exercise over the option exercise price, multiplied by the number of shares for which the option was exercised.

(2) The dollar amounts shown above for stock awards are determined by multiplying the number of shares that vested by the per-share closing price of the Company's common stock on the vesting date.

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Potential Payments Upon Termination or Change in Control

The following table shows potential payments to the NEOs upon a change in control of the Company and subsequent involuntary separation from service within 12 months after the change in control, in accordance with the Change in Control Plan. Under this plan, all eligible employees of the Company who have been employed at least six months prior to the separation from service date, including executive officers, are entitled to the following severance payments and benefits in the event of a termination of employment without cause or an involuntary separation from service within 12 months after a change in control of the Company:

- a lump sum cash payment in the amount equal to the sum of six months of such eligible employee's base compensation (defined in the Change in Control Plan as base salary and target bonus) plus an additional one month of base compensation for every year of such eligible employee's service with the Company, such severance not to exceed 12 months;
- six months of COBRA premiums, provided that such eligible employee elects continued coverage under COBRA; and
- 100% vesting of all outstanding unvested equity awards that the eligible employee then holds.

The amounts shown assume that a qualifying termination of employment was effective December 31, 2018, the last business day of the year, under the Change in Control Plan and are estimates of the amounts that would be paid to the NEOs upon such a termination of employment. The terms and conditions of the Change in Control Plan (including the definitions of the key plan terms) are set forth in the plan document.

Name	Base Compensation and Target Bonus ($) [1]	COBRA Premiums ($)	Total Value of Equity Acceleration ($) [2]	Total Potential Payment ($)
Gary S. Guthart, Ph.D.	1,755,000	13,929	13,453,254	15,222,183
Salvatore J. Brogna	1,067,344	9,657	10,741,596	11,818,597
Myriam J. Curet, M.D.	778,125	4,512	7,552,328	8,334,965
Marshall L. Mohr	984,735	9,657	8,522,571	9,516,963
David J. Rosa	1,044,324	13,929	10,741,596	11,799,849

(1) Amounts shown are the maximum potential payment the executive officer would have received as of December 31, 2018. Amounts of parachute payment cut-back as described below, if any, would be calculated upon actual termination of employment. The amount shown for Dr. Curet reflects her 80% part-time employment as of December 31, 2018.

(2) Amounts shown assume that all stock options would be exercised immediately upon termination of employment. Stock option values represent the excess of the market value of the option shares for which vesting is accelerated over the exercise price for those option shares, using $478.92 per share for the market value, which is the closing market price of a share of our common stock on December 31, 2018, the last trading day of our 2018 fiscal year. The dollar amounts of RSUs are determined by multiplying the number of shares subject to the RSUs for which vesting is accelerated by $478.92.

For purposes of the Change in Control Plan, an involuntary separation from service of a NEO generally means, (i) without the executive's express written consent, the assignment to the executive of any duties or the significant reduction of the executive's duties, authority or responsibilities, which is inconsistent with the executive's duties, authority or responsibilities in effect immediately prior to such assignment, or the removal of the executive from such duties, authority or responsibilities; (ii) a reduction by the Company in the base compensation of the executive as in effect immediately prior to such reduction; (iii) a material reduction by the Company in the kind or level of employee benefits to which the executive is entitled immediately prior to such reduction with the result that the executive's overall benefits package is significantly reduced; (iv) the relocation of the executive to a facility or a location more than 25 miles from the executive's then present location, without the executive's express written consent; (v) any purported termination of the executive by the Company which is not effected for disability or for cause, or any purported termination for which the grounds relied upon are not valid; (vi) the failure of the Company to obtain the assumption of the agreement by any successors contemplated in the Change in Control Plan; or (vii) any act or set of

facts or circumstances which would, under California case law or statute constitute a constructive termination of the executive. In order for an executive to terminate employment in an involuntary separation from service, he or she must provide notice to the Company of the existence of a condition listed above, within 30 days of the initial existence of the condition, and the Company shall have 30 days following receipt of such notice to remedy such condition and not make any payments hereunder in connection with such termination of employment.

The payments and benefits pursuant to the Change in Control Plan are subject to a NEO's timely execution and non-revocation of a release of claims. Further, the Change in Control Plan specifically include a so-called parachute payment "best pay" provision, where payments and benefits will either be made to the executive in full or as to such

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lesser amount as which would result in no portion of the payments and benefits being subject to an excise tax under Section 280G of the Internal Revenue Code, whichever of the foregoing amounts is greater on an after-tax basis.

Pay Ratio

Annual total compensation of the CEO for 2018	$6,423,078
Annual total compensation of the median employee for 2018	$163,552
Ratio of annual total compensation of the CEO to the annual total compensation of the median employee for 2018	39.3:1

The Company believes that there have been no significant changes to its employee population or employee compensation arrangements during 2018. The median employee for 2018 is the same as 2017. In determining the median employee, the Company chose December 31, 2017 as the date for establishing the employee population used in identifying the median employee and used fiscal 2017 as the measurement period. The Company identified the median employee using a consistently applied compensation measure that consists of annual base salary or wages, target annual performance-based cash bonuses, target commissions, and long-term equity awards based on their grant date fair values. Permanent employees who joined in 2017 and permanent employees who were on leave during 2017 were assumed to have worked for the entire year. All U.S. and non-U.S. employees employed as of December 31, 2017, were captured. No cost-of-living adjustments were made.

The annual total compensation of the CEO and the annual total compensation of the median employee were calculated in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Board has determined that the following directors are "independent" under current Nasdaq rules: Craig H. Barratt, Ph.D., Michael A. Friedman, M.D., Amal M. Johnson, Don R. Kania, Ph.D., Keith R. Leonard, Jr., Alan J. Levy, Ph.D., Jami Dover Nachtsheim, Mark J. Rubash, and Lonnie M. Smith.

The Company has adopted a written policy for approval of transactions between the Company and its related parties, such as directors, director nominees, executive officers, greater than five percent beneficial owners, and each of their respective immediate family members, as well as any firm, corporation or other entity in which such persons are employed, serve as general partner, principal or similar position or in which such persons own a five percent or greater beneficial ownership interest, where the amount involved in the transaction exceeds or is expected to exceed $120,000 in a single calendar year. The policy provides that the Audit Committee review transactions subject to the policy and determine whether or not to approve or ratify those transactions. In doing so, they take into account:

- Whether the terms of the transaction are fair to the Company and on the same basis as would apply if the transaction did not involve a related party.
- Whether there are business reasons for the Company to enter into the related party transaction.
- Whether the transaction would impair the independence of an outside director.
- Whether the transaction would present an improper conflict of interest for any director or executive officer of the Company.
- Any other factors deemed appropriate.

No member of the Audit Committee may participate in the approval of a related party transaction for which he or she is a related party.

In addition, each of the following types of related party transactions are deemed to be approved under the policy:

- Compensation to an executive officer or director of the Company required to be disclosed in the Proxy Statement pursuant to Item 402 of Regulation S-K; or compensation to an executive officer who is not an immediate family member of a related party, provided that such compensation would have been reported pursuant to Item 402 of Regulation S-K as compensation earned for services to the Company if the executive was a "named executive officer", and such compensation has been approved, or recommended to the Board for approval, by the Compensation Committee of the Board.
- The following transactions that are in the Company's ordinary course of business and where the financial interest of the related party arises only in the following indirect manners:
  a) from the related party's position as a director of another corporation or organization that is a party to the transaction;
  b) from the direct or indirect ownership by the related party (or parties, in the aggregate) of less than a 10% equity interest in another person (other than a partnership) which is a party to the transaction; or
  c) from the related party's position as a limited partner in a partnership in which the related party (or parties, in the aggregate) has or have an interest of less than 10%, and the related party is not a general partner of and does not have another position in the partnership.
- Transactions that are in the Company's ordinary course of business and where the interest of the related party arises solely from the ownership of a class of equity securities in the Company and all holders of such class of equity securities of the Company will receive the same benefit on a pro rata basis.

A summary of all material related party transactions, if any, is provided to the Audit Committee for its review at each regularly scheduled Audit Committee meeting. If advance approval of a related party transaction is not feasible, then the transaction may be preliminarily entered into by management upon prior approval by the Chair of the Audit Committee and will be subject to ratification by the Audit Committee at the next regularly scheduled meeting.

On August 8, 2017, in connection with the proposed settlement (the "Settlement") of purported stockholders' derivative lawsuits entitled Public School Teachers' Pension and Retirement Fund of Chicago, In re Intuitive Surgical, Inc. Shareholder Derivative Litigation and City of Plantation Police Officers' Employees' Retirement System and the other similar stockholder derivative lawsuits (collectively, the "Derivative Litigation"), the Board agreed to pay $15.0 million to the Company, comprised of a cash payment of $5.0 million, which was partly covered by existing insurance, and the return to the Company of Intuitive stock options such that the number of shares subject to the options returned multiplied by the market price of the underlying shares as of the close of trading on September 15, 2016 (the date the

Settling Parties executed the Memorandum of Understanding relating to the Settlement) equaled $10.0 million. Adjusted

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to reflect the three-for-one stock split the Company effected in October 2017, the price of a share of Intuitive stock as of the close of trading on September 15, 2016, was $228.06, and the aggregate number of shares subject to the options cancelled was 43,848. Based on the price per share of the Company's common stock on February 1, 2018, the date when the options were cancelled, the difference between the fair market value of the shares of common stock underlying the cancelled options and the exercise price of such options was $11.0 million. The Settlement provided for a dismissal with prejudice and release of all claims brought in the Derivative Litigation, and also included terms that required the Company to reimburse the plaintiffs' attorneys' fees.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information in the following table sets forth the ownership of our common stock, as of December 31, 2018, by: (i) any person who is known by us to be the beneficial owner of more than five percent of our common stock; (ii) each of our NEOs named in the Compensation Discussion and Analysis section; (iii) each of our directors; and (iv) all executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. For the purposes of calculating the percent ownership, as of December 31, 2018, approximately 115,364,827 shares were issued and outstanding, including any individual who beneficially owns shares represented by options exercisable or RSU shares vested within 60 days after December 31, 2018, these shares are treated as if outstanding for that person, but not for any other person. Unless otherwise noted below, the address for each beneficial owner listed is c/o Intuitive Surgical, Inc., 1020 Kifer Rd., Sunnyvale, California 94806.

The following table indicates those owners and their total number of beneficially owned shares, including shares subject to options exercisable or RSU shares vested within 60 days after December 31, 2018; however, unless otherwise indicated, these shares do not include any options or RSUs awarded after December 31, 2018:

	Beneficial Ownership	
Beneficial Owner	Number of Shares	Percent of Total
T. Rowe Price Associates, Inc.	10,390,506 (1)	9.1 %
The Vanguard Group	8,530,948 (2)	7.5 %
BlackRock, Inc.	8,327,815 (3)	

engage in transactions with affiliates; or

- encumber our intellectual property.

Our credit facility may limit our ability to finance future operations or capital needs or to engage in, expand or pursue our business activities. It may also prevent us from engaging in activities that could be beneficial to our business and our stockholders unless we repay the outstanding debt, which may not be desirable or possible.

We have pledged substantially all of our assets other than our intellectual property to secure our obligations under our credit facility. If we default on our obligations and are unable to obtain a waiver for such a default, the lenders would have a right to accelerate the debt and terminate all commitments under our credit facility. They would also have the right to foreclose on the pledged assets, including our cash and cash equivalents. Any such action on the part of lenders against us would significantly harm our business and our ability to operate.

Raising additional capital may cause dilution to our existing stockholders, restrict our operations or require us to relinquish rights to our technologies or product candidates.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of collaborations, strategic alliances, licensing arrangements, other marketing and distribution arrangements, equity offerings, and debt financings. We do not have any committed external source of funds. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a stockholder. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through marketing and distribution arrangements or other collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates, or we may need to grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

We are a company with a limited operating history upon which to base an investment decision.

We are a company with a limited operating history and have not demonstrated an ability to perform the functions necessary for the successful commercialization of any product candidates. The successful commercialization of any product candidates will require us to perform a variety of functions, including:

- continuing to undertake preclinical development and clinical trials;
- participating in regulatory approval processes;
- formulating and manufacturing products; and
- conducting sales and marketing activities.

Our operations have been limited to organizing and staffing our company, acquiring, developing and securing our proprietary technology and undertaking preclinical and clinical trials of our product candidates. These operations provide a limited basis for you to assess our ability to commercialize our product candidates and the advisability of investing further in our securities.

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Our financial results may fluctuate from quarter to quarter, which makes our results difficult to predict and could cause our results to fall short of expectations.

Our financial results may fluctuate as a result of a number of factors, many of which are outside of our control. For these reasons, comparing our financial results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our revenues, if any, may fluctuate from quarter to quarter and our future quarterly and annual expenses as a percentage of our revenues may be significantly different from those we have recorded in the past or which we expect for the future. Our financial results in some quarters may fall below expectations. Any of these events as well as the various risk factors listed in this Risk Factors section could adversely affect our financial results and cause our stock price to fall.

Risks Related to the Discovery, Development and Commercialization of Our Product Candidates

We are heavily dependent on the success of abaloparatide-SC which is under clinical development. We cannot be certain that abaloparatide-SC will receive regulatory approval or be successfully commercialized even if we receive regulatory approval.

Abaloparatide-SC is our only product candidate in late-stage clinical development, and our business currently depends heavily on its successful development, regulatory approval and commercialization. We have no drug products for sale currently and may never be able to develop marketable drug products. The research, testing, manufacturing, labeling, approval, sale, marketing and distribution of drug products are subject to extensive regulation by the FDA and other foreign regulatory authorities in the United States and other countries, which regulations differ from country to country. We are not permitted to market abaloparatide-SC in the United States unless and until we receive approval of a New Drug Application, or NDA, from the FDA, or in any foreign countries unless and until we receive the requisite approval from regulatory authorities in foreign countries. In addition, the approval of abaloparatide-TD as a line extension to abaloparatide-SC is dependent on the earlier approval of abaloparatide-SC. We have not submitted an NDA to the FDA or comparable applications to regulatory authorities in other countries. Obtaining approval of a product candidate is an extensive, lengthy, expensive and uncertain process, and any approval of abaloparatide-SC may be delayed, limited or denied for many reasons, including:

- we may not be able to demonstrate that abaloparatide is safe and effective as a treatment for osteoporosis to the satisfaction of the FDA or other foreign regulatory authorities;
- the results of our clinical studies may not meet the level of statistical or clinical significance required for marketing approval;
- the FDA or other foreign regulatory authorities may disagree with the number, design, size, conduct or implementation of our clinical studies;
- any clinical research organizations, or CROs, that we have retained or may in the future retain, to conduct clinical studies may take actions outside of our control that materially adversely impact our clinical studies;
- the FDA or other foreign regulatory authorities may not find the data from preclinical studies and clinical studies sufficient to demonstrate that abaloparatide s clinical and other benefits outweigh its safety risks;
- the FDA or other foreign regulatory authorities may disagree with our interpretation of data from our preclinical studies and clinical studies or may require that we conduct additional studies;

- the FDA or other foreign regulatory authorities may not accept data generated at our clinical study sites;

- the FDA or other foreign regulatory authorities may not agree with our proposed labeling and may require labeling that undermines or otherwise significantly impairs the commercial value of the product if it were to be approved with such labeling;

- the FDA may require development of a Risk Evaluation and Mitigation Strategy, or REMS, as a condition of approval;

- if our NDA is reviewed by an advisory committee, the FDA may have difficulties scheduling an advisory committee meeting in a timely manner or the advisory committee may recommend against approval of our application or may recommend that the FDA require, as a condition of approval, additional preclinical studies or clinical studies, limitations on approved labeling or distribution and use restrictions; or

- the FDA or other foreign regulatory authorities may identify deficiencies in the manufacturing processes or facilities of our third-party manufacturers.

In addition, the FDA or other foreign regulatory authorities may change its approval policies or adopt new regulations. For example, on February 15, 2012, we received a letter from the FDA stating that, after internal consideration, the agency believes that a minimum of 24-month fracture data are necessary for approval of new products for the treatment of postmenopausal osteoporosis. Our ongoing abaloparatide-SC pivotal Phase 3 Clinical Trial is designed to produce fracture data based on an 18-month primary endpoint. Based on our discussions with the FDA, we believe that continued use of the 18-month primary endpoint will be acceptable, provided that our NDA includes the 24-month fracture data derived from a 6-month extension of the abaloparatide 80 µg and placebo groups in our Phase 3 study, which groups will receive an approved alendronate (generic Fosamax) therapy for osteoporosis management. We plan to submit our NDA with the 24-month fracture data. We cannot be certain that the FDA will be supportive of this plan, will not change

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this approval policy again or will not adopt other approval policies or regulations that adversely affect any NDA that we may submit, the occurrence of any of which may further delay FDA approval.

Before we submit an NDA to the FDA for abaloparatide-SC as a proposed treatment for osteoporosis, we must complete our pivotal Phase 3 study based upon 18-month fracture data and the 6-month extension study, a carcinogenicity study in rats, and bone quality studies in rats and monkeys. We also may need to complete several additional studies, including, but not limited to, a thorough QT Phase 1 study, a Phase 1 pharmacokinetic, or PK, study in renal patients, a Phase 1 absolute bioavailability PK study and several drug interaction studies. Not all of these studies have commenced and the results of these studies will have an important bearing on the approval of abaloparatide. In addition to fracture and bone mineral density, or BMD, our pivotal Phase 3 study will measure a number of other potential safety indicators, including blood calcium levels, orthostatic hypotension, nausea, dizziness and anti-abaloparatide antibodies which may have an important bearing on the approval of abaloparatide.

We cannot assure you that we will receive the approvals necessary to commercialize any of our product candidates, including abaloparatide-SC, abaloparatide-TD, RAD1901 and RAD140, or any product candidate we may acquire or develop in the future. We will need FDA approval to commercialize our product candidates in the United States and approvals from the regulatory authorities in foreign jurisdictions to commercialize our product candidates in those jurisdictions. In order to obtain FDA approval of any product candidate, we must submit to the FDA an NDA demonstrating that the product candidate is safe for humans and effective for its indicated use. This demonstration requires significant research and animal tests, which are referred to as preclinical studies, as well as human tests, which are referred to as clinical trials. Satisfaction of the FDA s regulatory requirements typically takes many years, depends upon the type, complexity and novelty of the product candidate and requires substantial resources for research, development and testing. We cannot predict whether our research and clinical approaches will result in drugs that the FDA considers safe for humans and effective for proposed uses. The FDA has substantial discretion in the drug approval process and may require us to conduct additional preclinical and clinical testing or to perform post-marketing studies. The approval process may also be delayed by changes in government regulation, future legislation or administrative action or changes in FDA policy that occur prior to or during its regulatory review, such as the request we received from the FDA with respect to providing a minimum of 24-month fracture data for approval of abaloparatide. Delays in obtaining regulatory approvals may:

- delay commercialization of, and our ability to derive product revenues from, our product candidates;
- impose costly procedures on us; and
- diminish any competitive advantages that we may otherwise enjoy.

Even if we comply with all FDA requests, the FDA may ultimately reject one or more of our NDAs. We may never obtain regulatory clearance for any of our product candidates. Failure to obtain FDA approval of any of our product candidates will severely undermine our business by leaving us without a saleable product, and therefore without any source of revenues, until another product candidate can be developed. There is no guarantee that we will ever be able to develop or acquire any product candidate.

In foreign jurisdictions, we must receive approval from the appropriate regulatory authorities before we can commercialize any drugs. Foreign regulatory approval processes generally include all of the risks associated with the FDA approval procedures described above. We cannot assure you that we will receive the approvals necessary to commercialize any of our product candidates for sale outside the United States.

Clinical trials are very expensive, time-consuming and difficult to design and implement.

Human clinical trials are very expensive and difficult to design and implement, in part because they are subject to rigorous regulatory requirements. A substantial portion of our abaloparatide development costs are denominated in euros and any adverse movement in the dollar/euro exchange rate will result in increased costs and require us to raise additional capital to complete the development of our products. The clinical trial process is also time consuming. Furthermore, failure can occur at any stage of the trials, and we could encounter problems that cause us to abandon or repeat clinical trials. The commencement and completion of clinical trials may be delayed by several factors, including:

- changes in government regulation, administrative action or changes in FDA or other foreign regulatory authority policy with respect to clinical trials that change the requirements for approval;
- unforeseen safety issues;
- determination of dosing issues;
- lack of effectiveness during clinical trials;
- slower than expected rates of patient recruitment and enrollment;
- failure of sites to comply with requirements for conducting clinical trials;
- inability to monitor patients adequately during or after treatment; and
- inability or unwillingness of medical investigators to follow our clinical protocols.

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In addition, we, the FDA, or other equivalent regulatory authorities and ethics committees with jurisdiction over our studies may suspend our clinical trials at any time if it appears that we are exposing participants to unacceptable health risks or if the FDA or other or other foreign regulatory authorities find deficiencies in our regulatory submissions or the conduct of these trials. Therefore, we cannot predict with any certainty the schedule for existing or future clinical trials. Any such unexpected expenses or delays in our clinical trials could increase our need for additional capital, which may not be available on favorable terms or at all.

Most of our investigational product candidates are in early stages of clinical trials.

Except for abaloparatide-SC and abaloparatide-TD, each of our other product candidates (i.e., RAD1901 and RAD140) is in the early stages of development and requires extensive preclinical and clinical testing. We cannot predict with any certainty if or when we might submit an NDA or equivalent application to foreign regulatory authorities for regulatory approval for any of our product candidates or whether any such NDA or equivalent application would be accepted for filing by FDA or approved if filed.

The results of clinical trials may not support our product candidate claims.

Even if our clinical trials are completed as planned, we cannot be certain that the results will support regulatory approval of our product candidates. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful, and we cannot be sure that the results of later clinical trials will replicate the results of prior clinical trials and preclinical testing. For example, our Phase 3 trial of abaloparatide-SC for fracture prevention may not replicate the positive efficacy results for BMD seen in our two Phase 2 trials. The clinical trial process may fail to demonstrate that our product candidates are safe for humans and effective for proposed uses. This failure would cause us to abandon a product candidate and may delay development of other product candidates. Any delay in, or termination of, our clinical trials will delay the submission of our NDAs to the FDA or equivalent application to foreign regulatory authorities and, ultimately, our ability to commercialize our product candidates and generate product revenues. In addition, our clinical trials to date have involved small patient populations. Because of the small sample sizes, the results of these clinical trials may not be indicative of future results.

In addition, third parties could conduct clinical trials using the product candidates we license. We would have no control over how these trials are conducted and the results could potentially contradict the results we have obtained, or will obtain from the clinical trials we conduct.

If serious adverse or undesirable side effects are identified during the development of our product candidates, we may need to abandon our development of some of our product candidates.

All of our product candidates are still in preclinical or clinical development. It is impossible to predict when or if any of our product candidates will prove effective or safe in humans or will receive regulatory approval, if ever. If our product candidates result in undesirable side effects or have characteristics that are unexpected, we may need to abandon their development.

Any product candidate for which we obtain marketing approval could be subject to restrictions or withdrawal from the market and we may be subject to penalties if we fail to comply with regulatory requirements or if we experience unanticipated problems with our products, when

and if any of them are approved.

Any product candidate for which we obtain marketing approval, along with the manufacturing processes, post-approval clinical data, labeling, advertising and promotional activities for such product, will be subject to continual requirements of and review by the FDA and other foreign regulatory authorities. These requirements include submissions of safety and other post-marketing information and reports, registration and listing requirements, current good manufacturing practices, or cGMP, requirements relating to quality control, quality assurance and corresponding maintenance of records and documents, and requirements regarding the distribution of samples to physicians and recordkeeping. Even if we obtain marketing approval of a product candidate, the approval may be subject to limitations on the indicated uses for which the product may be marketed or to the conditions of approval, or contain requirements for costly post-marketing testing and surveillance to monitor the safety or efficacy of the product. The FDA closely regulates the post-approval marketing and promotion of drugs to ensure drugs are marketed only for the approved indications and in accordance with the provisions of the approved labeling. The FDA imposes stringent restrictions on manufacturers communications regarding off-label use and, if we do not market our products for their approved indications, we may be subject to enforcement action for off-label marketing.

In addition, later discovery of previously unknown problems with our products, manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may yield various results, including:

- restrictions on such products, manufacturers or manufacturing processes;
- restrictions on the labeling or marketing of a product;

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- restrictions on product distribution or use;
- requirements to conduct post-marketing clinical trials;
- warning or untitled letters;
- withdrawal of the products from the market;
- refusal to approve pending applications or supplements to approved applications that we submit;
- voluntary or mandatory recall of products and related publicity requirements;
- fines, restitution or disgorgement of profits or revenue;
- suspension or withdrawal of marketing approvals;
- refusal to permit the import or export of our products;
- product seizure; or
- injunctions or the imposition of civil or criminal penalties.

The commercial success of any product candidates that we may develop will depend upon the degree of market acceptance by physicians, patients, healthcare payers and others in the medical community.

Even if the FDA or other foreign regulatory authority approves one or more of our product candidates, physicians and patients may not accept and use them. Acceptance and use of any of our products will depend upon a number of factors including:

- perceptions by members of the healthcare community, including physicians, about the safety and effectiveness of our drug;
- cost-effectiveness of our product relative to competing products;
- availability of coverage and reimbursement for our product from government or other healthcare payers; and
- effectiveness of marketing and distribution efforts by us and our licensees and distributors, if any.

Because we expect sales of our current product candidates, if approved, to generate substantially all of our product revenues for the foreseeable future, the failure of these drugs to gain market acceptance would harm our business and would require us to seek additional financing.

We may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may be more profitable or for which there is a greater likelihood of success.

Because we have limited financial and managerial resources, we narrowly focus on research programs and product candidates that we identify for specific indications. As a result, we may forego or delay pursuit of opportunities with other product candidates or for other indications that later prove to have greater commercial potential. Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future research and development programs and product candidates for specific indications may not yield any commercially viable products. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such product candidate.

If we experience delays in the enrollment of patients in our clinical trials, our receipt of necessary regulatory approvals could be delayed or prevented.

We may not be able to initiate or continue clinical trials for some of our product candidates if we are unable to locate and enroll a sufficient number of eligible patients to participate in these trials as required by the FDA or other foreign regulatory authorities. In addition, many of our competitors have ongoing clinical trials for product candidates that could be competitive with our product candidates, and patients who would otherwise be eligible for our clinical trials may instead enroll in clinical trials of our competitors product candidates.

Enrollment delays in our clinical trials may result in increased development costs for our product candidates, which would cause the value of the company to decline and limit our ability to obtain additional financing. Our inability to enroll a sufficient number of patients for any of our current or future clinical trials would result in significant delays or may require us to abandon one or more clinical trials altogether.

Risks Related to Our Dependence on Third Parties

Our drug development program depends upon third-party researchers, investigators and collaborators who are outside our control.

We depend upon independent researchers, investigators and collaborators, to conduct our preclinical and clinical trials under agreements with us. These third parties are not our employees and we cannot control the amount or timing of resources that they

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devote to our programs. These third parties may not assign as great a priority to our programs or pursue them as diligently as we would if we were undertaking such programs ourselves. If outside collaborators fail to devote sufficient time and resources to our drug-development programs, or if their performance is substandard, the approval of our FDA or foreign regulatory authority applications, if any, and our introduction of new drugs, if any, will be delayed. These collaborators may also have relationships with other commercial entities, some of whom may compete with us. If our collaborators assist competitors at our expense, our competitive position would be harmed.

If a regulatory or governmental authority determines that a financial interest in the outcome of the Phase 3 study of abaloparatide-SC by any of the entities managing our Phase 3 clinical trial affected the reliability of the data from the Phase 3 clinical trial, our ability to use the data for our planned regulatory submissions could be compromised, which could harm our business and the value of our common stock.

The Phase 3 clinical trial and subsequent extension studies of abaloparatide-SC are being managed by Nordic at certain clinical sites operated by the Center for Clinical and Basic Research, or CCBR, a leading global CRO with extensive experience in global osteoporosis registration studies. Nordic controls, and holds an ownership interest in, the local CCBR clinical sites. The clinical trial investigators are employees of CCBR and may also hold an equity interest in the local CCBR clinical trials.

In consideration of Nordic s management of our Phase 3 clinical trial and subsequent extension studies, we have agreed to make various cash payments to Nordic denominated in both euros and U.S. dollars over the course of the Phase 3 study equal to a total of up to approximately 48.6 million ($61.4 million) and a total of up to approximately $4.4 million plus up to an additional $5.0 million in aggregate performance incentive payments, payable in cash or stock depending on the timing of the closing of an underwritten offering of shares of our common stock. We also agreed to sell shares of capital stock to Nordic that were exchanged in the Merger for 6,443 shares of our series A-5 convertible preferred stock for proceeds of approximately $0.5 million. These shares of our series A-5 convertible preferred stock automatically converted into 28,258 shares of our common stock upon the listing of our common stock on the NASDAQ Global Market. Pursuant to the terms of our agreements with Nordic, we were required to issue to Nordic shares of stock with an aggregate value of up to approximately 44.3 million ($55.9 million) and $0.8 million in consideration of Nordic s management of the Phase 3 clinical trial. These shares of stock accrued at a quarterly rate based on the progress of the Phase 3 clinical trial and were issuable at a price per share equal to the greater of (1) the fair market value of our common stock as of the applicable accrual date or (2) $81.42 and rounding down the resulting quotient to the nearest whole number. On each of December 31, 2013 and March 31, 2014, our Board of Directors declared a stock dividend to pay all shares of stock that had accrued as of such dates and that are anticipated to accrue through December 31, 2014, representing an aggregate of 682,958 shares of our Series A-6 convertible preferred stock that automatically converted into 2,995,453 shares of our common stock upon the listing of our common stock on the NASDAQ Global Market. Following the completion of our initial public offering of shares of our common stock on June 11, 2014, or our IPO, all compensation remaining payable to Nordic in consideration of their management of our Phase 3 clinical trial became payable in cash.

The fair market value of our common stock may be subject to wide fluctuations in response to various factors, many of which are beyond our control, including any negative outcome of the Phase 3 study. Accordingly, the shares of stock that we have issued to Nordic in consideration of Nordic s management of the Phase 3 clinical trial may be less than the full value originally anticipated under our agreements with Nordic, assuming Nordic did not expect the fair market value of our stock to fluctuate widely over the term of such agreements. As a result, the total consideration that Nordic will receive in cash and stock may be viewed to be below the market price paid by other companies for comparable clinical trial services.

Because of the potential decrease in the value of the common stock issued to Nordic upon a negative outcome of the Phase 3 study, Nordic, CCBR and the clinical trial investigators may be viewed as having a financial interest in the outcome of the study. We have obtained written acknowledgments from the clinical trial investigators certifying that they have no financial interest in the outcome of the Phase 3 clinical trial. However, if the FDA, the European Medicines Agency, or EMA, or any other similar regulatory or governmental authority determines that Nordic, CCBR or the clinical trial investigators have a financial interest that affected the reliability of the data from the Phase 3 clinical trial, we

could be subject to additional regulatory scrutiny and the utility of the Phase 3 clinical trial for purposes of our planned regulatory submissions could be compromised, which could have a material adverse effect on our business and the value of our common stock.

We will rely exclusively on third parties to formulate and manufacture our product candidates.

We have no experience in drug formulation or manufacturing and do not intend to establish our own manufacturing facilities. We lack the resources and expertise to formulate or manufacture our own product candidates. We have entered into agreements with contract manufacturers to manufacture abaloparatide for use in clinical trial activities. These contract manufacturers are currently our only source for the production and formulation of abaloparatide. We may not have sufficient clinical supplies of abaloparatide but believe that our contract manufacturers will be able to produce sufficient supply of abaloparatide to complete all of the planned abaloparatide

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clinical studies. If our contract manufacturers are unable to produce, in a timely manner, adequate clinical supplies to meet the needs of our clinical studies, we would be required to seek new contract manufacturers that may require us to modify our finished product formulation and modify or terminate our clinical studies for abaloparatide. Any modification of our finished product or modification or termination of our Phase 3 Clinical Trial could adversely affect our ability to obtain necessary regulatory approvals and significantly delay or prevent the commercial launch of the product if it were to be approved, which would materially harm our business and impair our ability to raise capital.

We depend on a number of single source contract manufacturers to supply key components of abaloparatide. For example, we depend on Lonza Group Ltd., or Lonza, which produces supplies of bulk drug product of abaloparatide to support the abaloparatide-SC and abaloparatide-TD clinical studies and any potential commercial launch. We also depend on Vetter Pharma Fertigung GmbH & Co, or Vetter, and Ypsomed AG, or Ypsomed, for the production of finished supplies of abaloparatide-SC and we depend on 3M for the production of abaloparatide-TD. Because of our dependence on Vetter for the fill and finish part of the manufacturing process for abaloparatide-SC, we are subject to the risk that Vetter may not have the capacity from time to time to produce sufficient quantities of abaloparatide to meet the needs of our clinical studies or be able to scale to commercial production of abaloparatide. Because the manufacturing process for abaloparatide-TD requires the use of 3M s proprietary technology, 3M is our sole source for finished clinical trial supplies of abaloparatide-TD. To date, we have not entered into a commercial supply agreement with 3M. If we were not able to negotiate commercial supply terms with 3M, as we depend on 3M for production of abaloparatide-TD, we would be unable to commercialize this product if it were to be approved. Or, if we are forced to accept unfavorable terms for our future relationship with 3M, our business and financial condition would be materially harmed.

While we are currently in discussions, to date, we have not entered into a long-term agreement with any of Lonza, Vetter or Ypsomed, each of whom currently produces abaloparatide or related components on a purchase order basis for us. Accordingly, Lonza, Vetter and Ypsomed could terminate their relationship with us at any time and for any reason. We may not be able to negotiate long-term agreements on acceptable terms, or at all. If our relationship with any of these contract manufacturers is terminated, or if they are unable to produce abaloparatide or related components in required quantities, on a timely basis or at all, or if we are forced to accept unfavorable terms for our future relationship, our business and financial condition would be materially harmed. If any of our current product candidates or any product candidates we may develop or acquire in the future receive FDA or foreign regulatory authority approval, we will rely on one or more third-party contractors to manufacture our drugs or related components. Our anticipated future reliance on a limited number of third-party manufacturers exposes us to the following risks:

- We may be unable to identify manufacturers on acceptable terms, or at all, because the number of potential manufacturers is limited and the FDA must approve any replacement contractor. This approval would require new testing and compliance inspections. In addition, a new manufacturer would have to be educated in, or develop substantially equivalent processes for, production of our products after receipt of FDA approval, if any.

- Our third-party manufacturers might be unable to formulate and manufacture our drugs or related components in the volume and of the quality required to meet our clinical needs and commercial needs, if any.

- Our future contract manufacturers may not perform as agreed or may not remain in the contract manufacturing business for the time required to supply our clinical trials or to successfully produce, store and distribute our products.

- Drug manufacturers are subject to ongoing periodic unannounced inspection by the FDA, the Drug Enforcement Administration, and corresponding state agencies to ensure strict compliance with cGMP, and other government regulations and corresponding foreign standards and failure to comply with cGMP or corresponding foreign standards can result in compliance actions that may limit a manufacturer s production or prohibit a manufacturer from producing some or all products at a facility. We do not have control over third-party manufacturers compliance with these regulations and standards.

- If any third-party manufacturer makes improvements in the manufacturing process for our products, we may not own, or may have to share, the intellectual property rights to the innovation.

Each of these risks could delay our clinical trials, the approval, if any, of our product candidates by the FDA or the commercialization of our product candidates or result in higher costs or deprive us of potential product revenues.

If we are not able to establish additional collaborations, we may have to alter our development plans.

Our product development programs and the potential commercialization of our product candidates will require substantial additional cash to fund expenses. For some of our product candidates, we may decide to collaborate with pharmaceutical and biotechnology companies for the development and potential commercialization of those product candidates.

We face significant competition in seeking appropriate collaborators. Collaborations are complex and time-consuming to negotiate and document. We may also be restricted under existing collaboration agreements from entering into agreements on certain terms with other potential collaborators. We may not be able to negotiate collaborations on acceptable terms, or at all. If that were to occur, we

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may have to curtail the development of a particular product candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or reduce the scope of our sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to increase our expenditures to fund development or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us on acceptable terms or at all. If we do not have sufficient funds, we will not be able to bring our product candidates to market and generate product revenue.

Risks Related to Marketing and Sale of Our Products

We have no experience selling, marketing or distributing products and currently do not have the internal capability to do so.

We currently have no sales, marketing or distribution capabilities. Our future success depends, in part, on our ability to enter into and maintain collaborative relationships for such capabilities, the collaborators strategic interest in the products under development and such collaborators ability to successfully market and sell any such products. We intend to build an internal sales force to market and sell our products to specialists and to pursue collaborative arrangements to market and sell our products to primary care physicians. To the extent that we depend on third parties for marketing and distribution, any revenues we receive will depend upon the efforts of such third parties, and we cannot assure you that their efforts will be successful. In addition, we cannot assure you that we will be able to establish or maintain relationships with such third party collaborators or that we would be able to market and sell our products in the United States or overseas through an in-house sales force in lieu of such relationships.

If we cannot compete successfully for market share against other drug companies, we may not achieve sufficient product revenues and our business will suffer.

The market for our product candidates is characterized by intense competition and rapid technological advances. If any of our product candidates receives FDA or other foreign regulatory authority approval, it will compete with a number of existing and future drugs and therapies developed, manufactured and marketed by others. Existing or future competing products may provide greater therapeutic convenience or clinical or other benefits for a specific indication than our products, or may offer comparable performance at a lower cost. If our products fail to capture and maintain market share, we may not achieve sufficient product revenues and our business will suffer.

We will compete against fully integrated pharmaceutical companies and smaller companies that are collaborating with larger pharmaceutical companies, academic institutions, government agencies and other public and private research organizations. Many of these competitors have compounds already approved or in development. In addition, many of these competitors, either alone or together with their collaborative partners, operate larger research and development programs or have substantially greater financial resources than we do, as well as significantly greater experience in:

- developing drugs;
- undertaking preclinical testing and human clinical trials;

- obtaining FDA and other foreign regulatory approvals of drugs;
- formulating and manufacturing drugs; and
- launching, marketing and selling approved drugs.

Developments by competitors may render our products or technologies obsolete or non-competitive.

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. Some of the drugs that we are attempting to develop, such as abaloparatide-SC, abaloparatide-TD, RAD1901 and RAD140 will have to compete against existing therapies if they are approved. In addition, a large number of companies are pursuing the development of pharmaceuticals that target the same diseases and conditions that we are targeting. We face competition from pharmaceutical and biotechnology companies in the United States and abroad. In addition, companies doing business in different but related fields represent substantial competition. Many of these organizations competing with us have substantially greater capital resources, larger research and development staffs and facilities, longer drug development history in obtaining regulatory approvals and greater manufacturing and marketing capabilities than we do. These organizations also compete with us to attract qualified personnel and parties for acquisitions, joint ventures or other collaborations, and therefore, we may not be able to hire or retain qualified personnel to run all facets of our business. These risks could render our products or technologies obsolete or non-competitive.

Our ability to generate product revenues will be diminished if our drugs sell for inadequate prices or patients are unable to obtain adequate levels of reimbursement.

Our ability to commercialize our drugs, alone or with collaborators, will depend in large part on the extent to which coverage and reimbursement will be available from:

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- government and health administration authorities;
- private health maintenance organizations and health insurers; and
- other healthcare payers.

Significant uncertainty exists as to the reimbursement status of newly approved healthcare products. Healthcare payers, including Medicare, are challenging the prices charged for medical products and services. Government and other healthcare payers increasingly attempt to contain healthcare costs by limiting both coverage and the level of reimbursement for drugs. Even if one of our product candidates is approved by the FDA or other foreign regulatory authority, insurance coverage may not be available, and reimbursement levels may be inadequate, to cover the costs of our drug. If government and other healthcare payers do not provide adequate coverage and reimbursement levels for our product candidates, once approved, market acceptance of our products could be reduced.

We may incur substantial liabilities and may be required to limit commercialization of our products in response to product liability lawsuits.

The testing and marketing of medical products entail an inherent risk of product liability. Even if one of our investigational product candidates is approved by the FDA or other foreign regulatory authority, if we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our products. Our inability to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of pharmaceutical products we develop, alone or with collaborators.

Risks Related to Our Intellectual Property

If we fail to comply with our obligations in our intellectual property licenses with third parties, we could lose license rights that are important to our business.

We are a party to a number of intellectual property license agreements with third parties and expect to enter into additional license agreements in the future. Our existing license agreements impose, and we expect that any future license agreements will impose, various diligence, milestone payment, royalty, insurance and other obligations on us. If we fail to comply with these obligations, our licensors may have the right to terminate these agreements, in which event we might not be able to develop and market any product that is covered by these agreements. Termination of these licenses or reduction or elimination of our licensed rights may result in our having to negotiate new or reinstated licenses with less favorable terms. The occurrence of such events could materially harm our business.

If our efforts to protect our intellectual property related to abaloparatide-SC, abaloparatide-TD, RAD1901 and/or RAD140 fail to adequately protect these assets or if we are unable to secure all necessary intellectual property, we may lose the ability to license or successfully commercialize one or more of these candidates.

Our commercial success is significantly dependent on intellectual property related to our product portfolio. We are either the licensee or assignee of numerous issued and pending patent applications that cover various aspects of our assets, including abaloparatide-SC, abaloparatide-TD, RAD1901 and RAD140.

Patents covering abaloparatide as a composition of matter have been issued in the United States (US Patent No. 5,969,095) and several additional countries. Because the abaloparatide composition of matter patent was filed in 1996, it is expected to have a normal expiration in approximately 2016 in the United States (this date does not include the possibility of Hatch-Waxman patent term extension, which could extend the expiration in the United States into the first quarter of 2021 if an application for extension is made and the maximum extension is granted by the United States Patent and Trademark Office, USPTO), and additional countries where it has issued. We believe that European Patent No. 0847278, which was included in the license from Ipsen and claimed the composition of matter of abaloparatide, has lapsed due to Ipsen s failure to pay annuities. While we are seeking to address the lapse of right, we believe that the data and market exclusivity provided in Europe for a new chemical entity, coupled with the need for a potential competitor to conduct clinical trials, will likely provide a longer barrier to entry than the patent protection provided by the original European patent term, which would have expired in 2016, plus a five year maximum Supplemental Protection Certificate.

We and Ipsen are also co-assignees to US Patent No. 7,803,770 that we believe provides exclusivity until 2028 in the United States (absent any Hatch-Waxman patent term extension) for the method of treating osteoporosis with the intended therapeutic dose for abaloparatide-SC.

We and Ipsen Pharma SAS, or Ipsen, are also co-assignees to US Patent No. 8,148,333 that we believe provides exclusivity until 2027 in the United States (absent any Hatch-Waxman patent term extension) for the intended therapeutic formulation for abaloparatide-SC.

We and 3M are co-assignees to several foreign and corresponding U.S. patent applications with the earliest priority date of April 22, 2011, which cover various aspects of abaloparatide for microneedle application. Any issued claims resulting from these applications

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will expire no earlier than 2032. However, pending patent applications in the United States and elsewhere may not issue since the interpretation of the legal requirements of patentability in view of claimed inventions are not always predictable. Additional intellectual property covering abaloparatide-TD technology exists in the form of proprietary information protected as trade secrets. These can be accidentally disclosed to, independently derived by or misappropriated by competitors, possibly reducing or eliminating the exclusivity advantages of this form of intellectual property, thereby allowing those competitors more rapid entry into the marketplace with a competitive product thus reducing our advantage with abaloparatide-TD. In addition, trade secrets may in some instances become publicly available through required disclosures in regulatory files. Alternatively, competitors may sometimes reverse engineer a product once it becomes available on the market. Even where a competitor does not use an identical technology for the delivery of abaloparatide, it is possible that they could achieve an equivalent or even superior result using another technology. Such occurrences could lead to either one or more alternative competitor products becoming available on the market and/or one or more generic competitor products on the market gaining market share and causing a corresponding decrease in market share and/or price for abaloparatide-TD.

Patents covering RAD1901 as a composition of matter, as well as the use of RAD1901 for the treatment of estrogen-dependent breast cancer, have been issued in the United States, Canada and Australia and are pending in Europe and India. The RAD1901 composition of matter patents in the United States expire in 2023 and 2026 (absent any Hatch-Waxman patent term extension). Additional patent applications relating to methods of treating vasomotor symptoms and clinical dosage strengths using RAD1901 have been filed. Pending patent applications in the United States and elsewhere may not issue since the interpretation of the legal requirements of patentability in view of any claimed invention before a patent office are not always predictable. As a result, we could encounter challenges or difficulties in building, maintaining and/or defending our intellectual property both in the United States and abroad.

Patent applications covering RAD140 and other SARM compounds have been granted in the United States, Europe, Canada, Mexico, Japan and Australia, and are pending in the United States and elsewhere. The RAD140 composition of matter case expires in 2029 in the United States (absent any Hatch-Waxman patent term extension) and additional countries if and when it issues.

Since patents are technical legal documents that are frequently subject to intense litigation pressure, there is risk that even if one or more patents related to our products does issue and is asserted that the patent(s) will be found invalid, unenforceable and/or not infringed when subject to said litigation. Finally, the intellectual property laws and practices can vary considerably from one country to another and also can change with time. As a result, we could encounter challenges or difficulties in building, maintaining and defending our intellectual property both in the United States and abroad.

We may become party to, or threatened with, future adversarial proceedings or litigation regarding intellectual property rights with respect to patents issued or licensed to us, including interference proceedings before the USPTO. Third parties may assert infringement claims against us. If we are found to infringe a third party s intellectual property rights, we could be required to obtain a license from such third party to continue developing and marketing our products and technology. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us. We could be forced, including by court order, to cease commercializing the infringing technology or product. In addition, we could be found liable for monetary damages. A finding of infringement could prevent us from commercializing our product candidates or force us to cease some of our business operations, which could materially harm our business. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on our business. For example, we are aware of a provisional patent application recently filed with the USPTO that could be relevant to the use of RAD1901 to treat indications for which we are developing RAD1901. If a patent issues from this patent application with claims covering the use of RAD1901 to treat indications for which we are developing RAD1901, including metastatic breast cancer, we may need to license the patent in order to commercialize RAD1901 specifically for the treatment of such indications. We are evaluating whether to enter into negotiations for such license. We cannot assure you that we will be able to secure a license on reasonable terms, if at all. If we need a license of such patent in order to commercialize RAD1901 and are unable to secure one on reasonable terms, our business would be materially harmed.

If we are unable to obtain and maintain patent protection for our technology and products, or if our licensors are unable to obtain and maintain patent protection for the technology or products that we license from them, our competitors could develop and commercialize technology and products similar or identical to ours, and our ability to successfully commercialize our technology and products may be adversely affected.

Our success depends in large part on our and our licensors ability to obtain and maintain patent protection in the United States and other countries with respect to our proprietary technology and products. In some circumstances, we may not have the right to control the preparation, filing and prosecution of patent applications, or to maintain the patents, covering technology or products that we license from third parties. Therefore, we cannot be certain that these patents and applications will be prosecuted and enforced in a manner consistent with the best interests of our business. In addition, if third parties who license patents to us fail to maintain these patents, or lose rights to those patents, the rights we have licensed may be reduced or eliminated.

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The patent position of biotechnology and pharmaceutical companies generally is highly uncertain, involves complex legal and factual questions and has in recent years been the subject of much litigation. As a result, the issuance, scope, validity, enforceability and commercial value of our and our licensors patent rights are highly uncertain. Our and our licensors pending and future patent applications may not result in patents being issued that protect our technology or products or that effectively prevent others from commercializing competitive technologies and products. Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of our patents or narrow the scope of our patent protection. The laws of foreign countries may not protect our rights to the same extent as the laws of the United States. Assuming the other requirements for patentability are met, in the United States, prior to March 16, 2013, the first to make the claimed invention was entitled to the patent (a first-to-invent system), while outside the United States, the first to file a patent application is entitled to the patent (a first-to-file system). With the implementation of the Leahy-Smith America Invents Act, the United States now has a first-to-file system for patent applications filed on or after March 16, 2013. We may become involved in opposition, interference or derivation proceedings challenging our patent rights or the patent rights of others. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. Therefore, we cannot be certain that we or our licensors were the first to make the inventions claimed in our owned and licensed patents or pending patent applications, or that we or our licensors were the first to file for patent protection of such inventions. An adverse determination in any such proceeding could reduce the scope of, or invalidate our patent rights, allow third parties to commercialize our technology or products and compete directly with us, without payment to us, or result in our inability to manufacture or commercialize products without infringing third-party patent rights.

Even if our owned and licensed patent applications issue as patents, they may not issue in a form that will provide us with any meaningful protection, prevent competitors from competing with us or otherwise provide us with any competitive advantage. Our competitors may be able to circumvent our owned or licensed patents by developing similar or alternative technologies or products in a non-infringing manner. The issuance of a patent is not conclusive as to its scope, validity or enforceability, and our owned and licensed patents may be challenged in the courts or patent offices in the United States and abroad. Any challenges may result in patent claims being narrowed, invalidated or held unenforceable, which could limit our ability to stop or prevent us from stopping others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of our technology and products. Given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our owned and licensed patents may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours.

Payments, fees, submissions and various additional requirements must be met in order for pending patent applications to advance in prosecution and issued patents to be maintained. Rigorous compliance with these requirements is essential to procurement and maintenance of patents integral to our product portfolio.

Periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on patents and/or patent applications will come due for payment periodically throughout the lifecycle of patent applications and issued patents. In order to help ensure that we comply with any required fee payment, documentary and/or procedural requirements as they might relate to any patents for which we are an assignee or co-assignee, we employ competent legal help and related professionals as needed to comply with those requirements. Our outside patent counsel uses Computer Packages, Inc. for patent annuity payments. We depend on Eisai and/or Ipsen to comply with any required fee payment, documentary and/or procedural requirements as they might relate to any patents we have licensed. Failure to meet a required fee payment, document production or procedural requirement can result in the abandonment of a pending patent application or the lapse of an issued patent. In some instances the defect can be cured through late compliance but there are situations where the failure to meet the required event cannot be cured. Any failures could compromise the intellectual property protection around our preclinical or clinical candidates and possibly weaken or eliminate our ability to protect our eventual market share for that product.

If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed.

In addition to our patented technology and products, we rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. We seek to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties that have access to our trade secrets, such as our corporate collaborators, outside scientific collaborators, sponsored researchers, contract manufacturers, consultants, advisors and other third parties. We also enter into confidentiality and invention or patent assignment agreements with our employees and consultants. However, any of these parties may breach the agreements and disclose our proprietary information, and we may not be able to obtain adequate remedies for any breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States are less willing or unwilling to protect trade secrets. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to, or independently developed by a competitor, our competitive position would be harmed.

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If we infringe the rights of third parties, we could be prevented from selling products and could be forced to pay damages and defend against litigation.

If our products, methods, processes and other technologies infringe the proprietary rights of other parties, we could incur substantial costs and may have to:

- obtain licenses, which may not be available on commercially reasonable terms, if at all;
- abandon an infringing drug candidate;
- redesign our products or processes to avoid infringement;
- stop using the subject matter claimed in the patents held by others;
- pay damages; or
- defend litigation or administrative proceedings which may be costly whether we win or lose, which could result in a substantial diversion of our financial and management resources.

We may become involved in lawsuits to protect or enforce our patents, which could be expensive, time consuming and unsuccessful.

Competitors may infringe our patents. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time consuming. In addition, in an infringement proceeding, a court may decide that a patent of ours is invalid or unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology in question. An adverse result in any litigation proceeding could put one or more of our patents at risk of being invalidated or interpreted narrowly. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, our licensors may have rights to file and prosecute these types of claims, and we may be reliant on them to do so.

We may be subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Some of our employees were previously employed at universities or other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although we try to ensure that our employees do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or these employees have used or disclosed intellectual property, including trade secrets or other proprietary information, of any such employee s former employer. Litigation may be necessary to defend against these claims. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management.

Intellectual property litigation could cause us to spend substantial resources and distract our personnel from their normal responsibilities.

Even if resolved in our favor, litigation or other legal proceedings relating to intellectual property claims may cause us to incur significant expenses, and could distract our technical and management personnel from their normal responsibilities, delaying the development of our product candidates. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments, and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock. Litigation or other proceedings could substantially increase our operating losses and reduce our resources available for development activities. We may not have sufficient financial or other resources to adequately conduct any litigation or proceedings. Some of our competitors may be able to sustain the costs of any litigation or proceedings more effectively than we can because of their substantially greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace.

Risks Related to Legislation and Administrative Actions

Healthcare reform may have a material adverse effect on our industry and our results of operations.

From time to time, legislation is implemented to reign in rising healthcare expenditures. In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or PPACA. PPACA includes a number of provisions affecting the pharmaceutical industry, including annual, non-deductible fees on any entity that manufactures or imports some types of branded prescription drugs and biologics, beginning in 2011, and increases in Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program. In addition, among other things, PPACA also establishes a

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new Patient-Centered Outcomes Research Institute to oversee, identify priorities and conduct comparative clinical effectiveness research. Congress has proposed a number of legislative initiatives to alter PPACA, including possible repeal of PPACA. At this time, it remains unclear whether there will be any changes made to particular provisions of PPACA or its entirety. In addition, other legislative changes have been proposed and adopted since PPACA was enacted. Most recently, on August 2, 2011, President Obama signed into law the Budget Control Act of 2011, which may result in such changes as aggregate reductions to Medicare payments to providers of up to two percent per fiscal year, starting in 2013. The full impact on our business of PPACA and the Budget Control Act is uncertain. We cannot predict whether other legislative changes will be adopted, if any, or how such changes would affect the pharmaceutical industry generally or our business in particular.

We are subject to healthcare laws, regulation and enforcement, and our failure to comply with those laws could have a material adverse effect on our results of operations and financial conditions.

We are subject to several healthcare regulations and enforcement by the federal government and the states and foreign countries in which we conduct our business. The laws that may affect our ability to operate include:

- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, which governs the conduct of various electronic healthcare transactions and protects the security and privacy of protected health information;

- the federal healthcare programs Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual for, or the purchase, order or recommendation of, any good or service for which payment may be made under federal healthcare programs such as the Medicare and Medicaid programs;

- the federal transparency requirements under PPACA, which require manufacturers of drugs, devices, biologics and medical supplies to report to the Department of Health and Human Services information related to physician payments and other transfers of value and physician ownership and investment interests;

- federal false claims laws, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payers that are false or fraudulent;

- federal criminal laws that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters; and

- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payer, including commercial insurers.

If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, the curtailment or restructuring of our operations, the exclusion from participation in federal and state healthcare programs and imprisonment, any of which could adversely affect our ability to operate our business and our financial results.

We may be exposed to liability claims associated with the use of hazardous materials and chemicals.

Our research and development activities may involve the controlled use of hazardous materials and chemicals. Although we believe that our safety procedures for using, storing, handling and disposing of these materials comply with federal, state and local laws and regulations, we cannot completely eliminate the risk of accidental injury or contamination from these materials. In the event of such an accident, we could be held liable for any resulting damages and any liability could materially adversely affect our business, financial condition and results of operations. In addition, the federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of hazardous or radioactive materials and waste products may require us to incur substantial compliance costs that could materially adversely affect our business, financial condition and results of operations.

Risks Related to Employee Matters and Managing Growth

We may not successfully manage our growth.

Our success will depend upon the expansion of our operations and the effective management of our growth, which will place a significant strain on our management and on our administrative, operational and financial resources. To manage this growth, we may be required to expand our facilities, augment our operational, financial and management systems and hire and train additional qualified personnel. If we are unable to manage this growth effectively, our business would be harmed.

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We may enter into or seek to enter into business combinations and acquisitions which may be difficult to integrate, disrupt our business, divert management attention or dilute stockholder value.

We may enter into business combinations and acquisitions. We have limited experience in making acquisitions, which are typically accompanied by a number of risks, including:

- the difficulty of integrating the operations and personnel of the acquired companies;
- the potential disruption of our ongoing business and distraction of management;
- the potential for unknown liabilities and expenses;
- the failure to achieve the expected benefits of the combination or acquisition;
- the maintenance of acceptable standards, controls, procedures and policies; and
- the impairment of relationships with employees as a result of any integration of new management and other personnel.

If we are not successful in completing acquisitions that we may pursue in the future, we would be required to reevaluate our business strategy and we may have incurred substantial expenses and devoted significant management time and resources in seeking to complete the acquisitions. In addition, we could use substantial portions of our available cash as all or a portion of the purchase price, or we could issue additional securities as consideration for these acquisitions, which could cause our stockholders to suffer significant dilution.

We rely on key executive officers and scientific and medical advisors, and their knowledge of our business and technical expertise would be difficult to replace.

We are highly dependent on our chief executive officer and our principal scientific, regulatory and medical advisors. We do not have key person life insurance policies for any of our officers. The loss of the technical knowledge and management and industry expertise of any of our key personnel could result in delays in product development, loss of customers and sales and diversion of management resources, which could adversely affect our operating results.

If we are unable to hire additional qualified personnel, our ability to grow our business may be harmed.

We will need to hire additional qualified personnel with expertise in preclinical testing, clinical research and testing, government regulation, formulation and manufacturing and sales and marketing. We compete for qualified individuals with numerous biopharmaceutical companies, universities and other research institutions. Competition for such individuals is intense, and we cannot be certain that our search for such personnel will be successful. Attracting and retaining qualified personnel will be critical to our success.

Risks Relating to Our Securities

Our stock price may be volatile, and the value of an investment in our common stock may decline.

The trading price of our common stock may be subject to wide fluctuations in response to various factors, some of which are beyond our control, including:

- results of clinical trials of our product candidates or those of our competitors;
- our operating performance and the operating performance of similar companies;
- the success of competitive products;
- the overall performance of the equity markets;
- the number of shares of our common stock publicly owned and available for trading;
- threatened or actual litigation;
- changes in laws or regulations relating to our products, including changes in the structure of healthcare payment systems;
- any major change in our board of directors or management;
- publication of research reports about us or our industry or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- large volumes of sales of our shares of common stock by existing stockholders;
- general political, economic and market conditions; and
- the other factors described in this Risk factors section.

In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the companies whose shares trade in the stock market. These fluctuations may be even more pronounced in the trading market for our stock shortly following the initial public offering. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company s

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securities. Such litigation, if instituted against us, could result in very substantial costs, divert our management s attention and resources and harm our business, operating results and financial condition.

Because we do not anticipate paying any cash dividends on our common stock in the foreseeable future, capital appreciation, if any, will be your sole source of gain.

We have never declared or paid cash dividends on our common stock. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. In addition, the terms of our credit facility preclude us from paying cash dividends. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

We have incurred and will continue to incur increased costs as a result of operating as a public company, and our management is required to devote substantial time to new compliance initiatives.

As a public company listed on the NASDAQ Global Market, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company and prior to the listing of our common stock on the NASDAQ Global Market. In addition, the Sarbanes-Oxley Act of 2002 and rules subsequently implemented by the Securities and Exchange Commission, or the SEC, and NASDAQ have imposed various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs and are making some activities more time-consuming and costly.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, we are required to furnish a report by our management on our internal control over financial reporting, and in the future will be required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm at such time as we no longer qualify as a smaller reporting company. Despite our efforts, there is a risk that our independent registered public accounting firm will not be able to conclude within the prescribed timeframe that our internal control over financial reporting is effective as required by Section 404. This could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. Material weaknesses in our internal control over financial reporting could also reduce our ability to obtain financing or could increase the cost of any financing we obtain. Material weaknesses in our internal control over financial reporting could also result in a restatement of our financial statements, the imposition of sanctions, including the inability of registered broker dealers to make a market in our common stock, or investigation by regulatory authorities. Any such action or other negative results caused by our inability to meet our reporting requirements or comply with legal and regulatory requirements or by disclosure of an accounting, reporting or control issue could adversely affect the trading price of our securities and our business.

Our directors, executive officers and principal stockholders have substantial control over us and could delay or prevent a change in corporate control.

Our directors, executive officers and holders of more than five percent of our common stock, together with their affiliates, beneficially own a significant portion of our outstanding common stock. As a result, these stockholders, acting together, would have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or

substantially all of our assets. In addition, these stockholders, acting together, would have the ability to control the management and affairs of our company. Accordingly, this concentration of ownership might harm the market price of our common stock by:

- delaying, deferring or preventing a change in corporate control;
- impeding a merger, consolidation, takeover or other business combination involving us; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

Future sales of shares of our common stock by stockholders could depress the price of our common stock.

As of September 30, 2014, we had 29,747,797 shares of common stock outstanding and on October 7, 2014 we issued 3,128,524 shares of common stock in a public offering. Of these shares, only the shares sold in our initial public offering or subsequent public offering are freely tradable. The holders of substantially all of our other shares of common stock have signed lock-up agreements under which they have agreed not to sell, transfer or dispose of, directly or indirectly, any shares of our common stock or any securities into or exercisable or exchangeable for shares of our common stock without the prior written consent of Jefferies and Cowen and Company for a period ending on the later of 180 days, subject to a possible extension under certain circumstances, after June 5, 2014, or, in the case of our directors, executive officers and their affiliates, 90 days, subject to possible extension under certain

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circumstances, after October 2, 2014. After the expiration of the applicable lock-up period, these shares may be sold in the public market, subject to prior registration or qualification for an exemption from registration, including, in the case of shares held by affiliates, compliance with the volume restrictions of Rule 144. To the extent that any of these stockholders sell, or indicate an intent to sell, substantial amounts of our common stock in the public market after the contractual lock-ups and other legal restrictions on resale lapse, the trading price of our common stock could decline significantly.

In addition, the 4,249,328 shares of our common stock reserved for issuance under our equity incentive plans as of September 30, 2014, which includes 2,377,693 shares of common stock issuable upon the exercise of options outstanding as of September 30, 2014, will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the price of our common stock could decline substantially.

If securities or industry analysts cease to publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

Anti-takeover provisions contained in our restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our restated certificate of incorporation and our amended and restated bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

- a staggered board of directors;
- authorizing the board to issue, without stockholder approval, preferred stock with rights senior to those of our common stock;
- authorizing the board to amend our bylaws and to fill board vacancies until the next annual meeting of the stockholders;
- prohibiting stockholder action by written consent;
- limiting the liability of, and providing indemnification to, our directors and officers;
- eliminating the ability of our stockholders to call special meetings; and
- requiring advance notification of stockholder nominations and proposals.

Section 203 of the Delaware General Corporation Law, or DGCL, prohibits, subject to some exceptions, business combinations between a Delaware corporation and an interested stockholder, which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation s voting stock, for a three-year period following the date that the stockholder became an interested stockholder.

These and other provisions in our restated certificate of incorporation and our amended and restated bylaws under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay in the future for shares of our common stock and result in the market price of our common stock being lower than it would be without these provisions.

Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.

As of December 31, 2013, we had $263.6 million of federal and $229.4 million of state net operating loss carryforwards available to offset future taxable income. Under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an ownership change (generally defined as a greater than 50% change (by value) in its equity ownership over a three year period), the corporation s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be limited. We have not performed a detailed analysis to determine whether an ownership change under Section 382 of the Code has previously occurred. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards to offset U.S. federal taxable income may become subject to limitations, which could potentially result in increased future tax liability to us.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Use of Proceeds from the Sale of Registered Securities

On June 5, 2014, the Securities and Exchange Commission, or SEC, declared effective our Registration Statement on Form S-1 (File No. 333-194150), as amended, or Registration Statement, filed in connection with the initial public offering of our common stock. Pursuant to the Registration Statement, we registered the offer and sale of 7,475,000 shares of common stock with an aggregate offering price of approximately $59.8 million.

There has been no material change in the expected use of the net proceeds from our initial public offering as described in our final prospectus, dated June 5, 2014, filed with the SEC pursuant to Rule 424(b) relating to our Registration Statement.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits.

The following is an index of the exhibits included in this report:

Exhibit Number	Exhibit Description	Incorporated by Reference			Filing Date	Filed/ Furnished Herewith
		Form	File No.	Exhibit		
3.1	Restated Certificate of Incorporation, as amended and restated as of June 11, 2014	8-K	001-35726	3.1	6/13/14	
3.2	Amended and Restated By-Laws of Radius Health Inc.	8-K	001-35726	3.2	6/13/14	
10.1	First Amendment to Loan and Security Agreement, dated July 10, 2014, by and among Radius Health, Inc., Solar Capital Ltd., and Oxford Finance LLC	8-K	001-35726	10.3	7/11/14	
10.2	Warrant to Purchase Stock, dated July, 10, 2014, issued by Radius Health, Inc. to Oxford Finance LLC	8-K	001-35726	10.2	7/11/14	
10.3	Warrant to Purchase Stock, dated July, 10, 2014, issued by Radius Health, Inc. to Solar Capital Ltd.	8-K	001-35726	10.1	7/11/14	
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)/14d-14(a)					*
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)/14d-14(a)					*
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
101.INS	XBRL Instance Document					*
101.SCH	XBRL Taxonomy Extension Schema Document					*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					*

* Filed herewith.

** Furnished herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RADIUS HEALTH, INC.

By: /s/ Robert E. Ward
Robert E. Ward
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 10, 2014

By: /s/ B. Nicholas Harvey
B. Nicholas Harvey
Chief Financial Officer
(Principal Accounting and Financial Officer)

Date: November 10, 2014