COMPUTER MOTION INC
Form S-3/A
May 29, 2003

Table of Contents

As filed with the Securities and Exchange Commission on May 29, 2003
Registration No. 333-103769

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Pre-Effective Amendment No. 1 to the FORM S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

COMPUTER MOTION, INC.
(Exact name of Registrant as specified in charter)

DELAWARE	**77-0458805**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

130-B Cremona Drive,
Goleta, California 93117
(805) 968-9600
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

ROBERT W. DUGGAN
CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER
COMPUTER MOTION, INC.
130-B CREMONA DRIVE, GOLETA, CALIFORNIA 93117
(805) 968-9600
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:
DAVID E. LAFITTE, ESQ.
STRADLING YOCCA CARLSON & RAUTH
302 OLIVE STREET
SANTA BARBARA, CALIFORNIA 93101
(805) 564-0065

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

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

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. If the delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

Table of Contents

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE (2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE(3)
Common Stock ($.001 par value)	520,000	$ 3.845	$1,999,400	$ 161.75

(1) The shares of common stock that may be offered pursuant to this Registration Statement consist of the resale of 520,000 shares issuable upon exercise of warrants held by certain stockholders. In the event of a stock split, stock dividend, or similar transaction involving the Registrant s common stock, in order to prevent dilution, the number of shares registered shall automatically be increased to cover the additional shares in accordance with Rule 416(a) under the Securities Act.

(2) The offering price is estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c), and is based upon the average of the high and low prices reported on the Nasdaq National Market on May 22, 2003, which average was $3.845 per share.

(3) Includes $57.03 previously paid by the Registrant.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

Table of Contents

Computer Motion, Inc.

520,000 shares of Common Stock

This Prospectus relates to the offer and sale from time to time by the stockholders named in this Prospectus of up to 520,000 shares of our common stock issuable upon exercise of warrants. We will not receive any proceeds from the sale of the shares, but we could receive proceeds from the exercise of the warrants before those sales.

The selling stockholders may sell the shares from time to time in transactions in the Nasdaq National Market, in negotiated transactions, or otherwise, or by a combination of these methods, at fixed prices that may be changed at market prices prevailing at the time of the sale, at prices related to such market prices or at negotiated prices. The selling stockholders may effect these transactions by selling shares to or through broker-dealers, who may receive compensation in the form of discounts or commissions from the selling stockholders or from the purchasers of the shares for whom the broker-dealer may act as an agent or to whom they may sell as a principal, or both. We will not receive any part of the proceeds from the sale of these shares. We could receive up to $504,400 in proceeds from the exercise of the warrants by the selling stockholders, which proceeds would be used for general corporate purposes. As of the date of this Prospectus, the warrants have not been exercised. The selling stockholders and such broker-dealers may be deemed to be underwriters within the meaning of the Securities Act of 1933, as amended, in connection with such sales. We have agreed to bear all of the expenses in connection with the registration and sale of the shares (other than selling commissions and the fees and expenses of counsel or other advisors to the selling stockholders).

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Our common stock is listed on the Nasdaq National Market under the symbol RBOT. On May 28, 2003, the last reported sale price of our common stock was $4.46 per share.

Investing in our securities involves certain risks.

See Risk Factors beginning on page 5.

The date of this Prospectus is May 29, 2003

TABLE OF CONTENTS

Table of Contents

TABLE OF CONTENTS

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

The information contained in or incorporated by reference in this prospectus discusses our plans and strategies for our business or state other forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements can be identified by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, or anticipates, or other variations thereof (including t the negative), or by discussions of strategies, plans or intentions. These forward-looking statements reflect the current views of our management; however, various risks, uncertainties and contingencies could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, these statements.

Table of Contents

ABOUT COMPUTER MOTION, INC.

The terms Computer Motion, the Company, we, our and us refer to Computer Motion, Inc. and its subsidiaries, unless the context sugges otherwise.

We are a high-tech medical device company developing surgical practices with the goal of ushering in a new era of patient and physician friendly surgery. This new era is expected to significantly reduce patient trauma, recovery time and dramatically reduce the learning curve of surgeons adapting these new less invasive techniques. Our products automate operating room tasks and simplify various aspects of surgical procedures, reducing operating cost and time. Our products, including surgeon training and education services, play a significant role in transitioning the surgical community from open procedures to less invasive procedures increasingly demanded by patients. As the leader in computer-enhanced surgical systems for minimally invasive procedures, we hold 24 issued United States patents, 7 foreign patents and have 75 domestic and foreign patent applications pending. Our products have been successfully used across a broad range of surgical disciplines including cardiac, urology, pediatrics, bariatrics and general surgery.

We develop and market robotic and computerized surgical systems that are upgradeable and based on an open system platform, which allows for networking of the entire operating room. These systems enhance a surgeon s performance and centralize and simplify a surgeon s control of the operating room. Our products provide surgeons with the natural functionality necessary to perform complex, minimally invasive surgery (MIS) procedures, as well as enable surgeons to control critical devices in the operating room through simple verbal commands. We believe our products will broaden the scope and increase the effectiveness of MIS, improve patient outcomes, and create a safer, more efficient and cost-effective operating room.

Our suite of products includes the ZEUS® Surgical System, AESOP® Robotic Endoscope Positioner, HERMES® Control Center and SOCRATES Telecollaboration System, all of which have received Food & Drug Administration (FDA) clearance for various indications. In addition, our products have been approved for Class III (General Surgery) and Class IV (Cardiac) licenses in Canada, and have received the CE mark for sale in Europe.

The ZEUS Surgical System is designed to fundamentally improve a surgeon s ability to perform complex MIS procedures. We expect to enable new MIS procedures involving a range of surgical disciplines, including fully endoscopic coronary artery bypass grafts or E-CABG grafts on a beating heart. ZEUS augments surgeon performance by providing 3-D visualization of the operating area, filtering out hand tremor and scaling human motion This creates new opportunities for surgical services to be exported inexpensively via remote surgery, as well as education to be expanded with real-time mentoring where the expert doesn t need to leave his or her home office. A recent addition to ZEUS is the new MicroWrist surgeon interface, which has a natural feel similar to an open procedure to improve dexterity and reduce the learning curve in using the system.

ZEUS s three compact, portable arms hold and position reusable microsurgical instruments and an endoscope. Each arm is individually mounted on the operating room table using the standard table rails. Because the arms are attached to the table, the table can be adjusted during a surgical

Table of Contents

procedure without removing the instruments. The surgeon sits near the operating room table at an open, comfortable and portable console. The open design of the console provides the surgeon with an unobstructed view of the patient and allows clear communication with the operating room staff. At the console, the surgeon controls the instrument handles and views the operative site on a video monitor. ZEUS senses the surgeon s hand movements through the new MicroWrist surgeon interface. It then scales the surgeon s hand movements into precise, tremor-free micro movements at the operative site.

ZEUS is FDA cleared for sale in general laparoscopic surgery. This clearance allows clinical use of the ZEUS system for a broad set of general surgery applications such as laparoscopic cholecystectomy and laparoscopic nissen fundoplication. We are also seeking additional FDA clearances for thoracic surgery, laparoscopic radical prostatectomy and cardiac procedures, with clinical trials ongoing.

AESOP, the first of our revolutionary line of robotic surgical devices, enables endoscopic visualization with stability and clarity. It was FDA cleared in 1993. AESOP is an integral part of the ZEUS system. AESOP is a voice-controlled robotic arm (one of the three arms in ZEUS) that positions and holds an endoscope with steadiness and precision during MIS procedures. It mimics the human arm in form, function and expanded range of motion. AESOP s voice-activation system, created specifically for the operating room, recognizes only the surgeon s authorized commands. Powered by the HERMES Control Center, AESOP can also be networked with a wide variety of other voice-controlled surgical and operating room devices. We believe that AESOP is the world s first FDA-cleared robot and first voice controlled interface for a surgical device. We have sold over 800 AESOP units worldwide, which we believe have been used to perform over 175,000 procedures.

The HERMES Control Center is designed to integrate all the devices in the operating room and provide the surgeon and the operating room staff with a consistent and unified interface to control all devices. The primary input for the surgeon using the Hermes Control Center is through the use of simple speech commands. The HERMES system was designed as an open architecture platform simplifying the process for medical device manufacturers to create HERMES-ready devices. The HERMES Control Center is a platform to provide surgeons and operating room staff with quicker access to information and increased control over their environment. Today s offices include computers that are networked to printers, fax machines, modems, scanners and other enabling tools. Similarly, HERMES allows the operating room to be networked with OR-specific equipment, such as tables, lights, cameras and surgical equipment. These HERMES-Ready devices can be controlled by surgeon voice commands or by way of a hand-held touch-screen pendant.

The 27 FDA-cleared devices controlled by the HERMES system include endoscopic cameras, overhead cameras, light sources, insufflators, arthroscopic shavers, fluid pumps, VCRs, printers, video frame grabbers, digital image capture devices, OR lights, surgical tables, electrosurgical units, telephones and the Company s port expander, and the AESOP and ZEUS systems. The HERMES compatible, or HERMES -Ready interfaces for these devices were created in collaboration with various HERMES alliance partners, including Stryker Endoscopy, Berchtold, Steris, Valley Lab (TYCO), and Smith & Nephew Endoscopy.

SOCRATES links surgeons in the operating room with colleagues anywhere in the world. It is the first and only device in a newly created FDA category of Robotic Telemedicine Devices. It promotes peer-to-peer and mentor-trainee collaboration and makes it possible for specially trained surgeons to become interactively telepresent wherever and whenever needed. SOCRATES creates

Table of Contents

surgical telepresence through the remote surgeon s graphical annotation of the operating field and shared control of the endoscope, as well as through two-way video and audio communication. We believe that by facilitating truly interactive dialogue between geographically separated colleagues, SOCRATES provides the foundation for a new era of surgical teamwork and training.

Additional information about the Company and our products is available through our Web site at www.computermotion.com. The information on our Web site is not incorporated by reference into this Prospectus. Our executive offices are located at 130-B Cremona Drive, Goleta, California 93117; telephone (805) 968-9600.

RECENT DEVELOPMENTS

On March 7, 2003, the Company entered into an Agreement and Plan of Merger with Intuitive Surgical, Inc. At the effective time of the merger, Intuitive Merger Corporation, formerly Iron Acquisition corporation, a newly formed subsidiary of Intuitive Surgical, Inc., will be merged with and into Computer Motion, Inc., with Computer Motion, Inc. surviving the merger and continuing as a wholly owned subsidiary of Intuitive Surgical, Inc.

Upon completion of the merger, each share of Computer Motion common stock will be converted into the right to receive a fraction of a share of Intuitive Surgical common stock. The fraction of a share of Intuitive Surgical common stock to be issued with respect to each share of Computer Motion common stock will be determined by a formula described in the merger agreement. Based on the capitalization of Intuitive Surgical and Computer Motion and the market price of Computer Motion common stock as of May 15, 2003 and assuming that the merger is completed on June 30, 2003, we estimate that the exchange ratio will be approximately 0.52. The exchange ratio will be adjusted proportionately in the event that a proposed reverse split of Intuitive Surgical s common stock is approved by Intuitive Surgical s stockholders and implemented by Intuitive Surgical s board of directors.

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

In connection with the proposed merger, Computer Motion and Intuitive Surgical have entered into a Loan and Security Agreement, under which Intuitive Surgical has agreed to provide a short-term secured bridge loan facility of up to $7.3 million. The loan will terminate and all outstanding amounts will become due and payable 120 days following termination of the merger agreement (the Maturity Date). Interest on the loan will accrue at a rate of 8% per annum and will be payable on the Maturity Date. As of the date of this Prospectus, there is no outstanding balance on the bridge loan facility.

Additionally, pursuant to the merger agreement, Computer Motion and Intuitive Surgical filed stipulations on March 10, 2003 to immediately stay all pending litigation proceedings between them until August 31, 2003, subject to the stay being lifted if the merger agreement is terminated, or subject to the cases being dismissed upon consummation of the transaction contemplated by the merger agreement.

On March 6, 2003, the Company entered into a Stock Exchange Agreement (the Exchange Agreement) with all of the holders of outstanding shares of Series C-1 convertible preferred stock and Series C-2 convertible preferred stock pursuant to which such holders agreed to exchange their Series C-1 convertible preferred stock and Series C-2 convertible preferred stock for a like number of shares of the Series D-1 convertible preferred stock and Series D-2 convertible preferred stock. The shares of the Series D convertible preferred stock will convert into shares of common stock immediately prior to the consummation of the merger described above. Pursuant to the terms of the Exchange Agreement, in the event the Company does not consummate the merger by September 30, 2003, the Company will file its Certificate of Designations Setting Forth the Preferences, Rights and Limitations of the Series E convertible preferred stock with the Secretary of State of Delaware, and, holders of

outstanding shares of Series D-1 convertible preferred stock and Series D-2 convertible preferred stock will have the right to exchange such Series D convertible preferred stock for a like number of Series E convertible preferred stock. As an inducement to the holders of shares of Series C convertible preferred stock to enter into the Exchange Agreement, the Company has agreed to lower the exercise price of all outstanding Series C-1 warrants and Series C-2 warrants to $1.50 per share, provided that such holders exercise such warrants prior to 10 days following the mailing of a proxy statement relating to the Company s meeting of stockholders to approve the merger.

On February 13, 2003, we entered into a Loan and Security Agreement with Agility Capital, LLC, for a short-term secured bridge loan in the aggregate principal amount of $2,300,000. The proceeds of the bridge loan were used to provide funds for the issuance of a letter of credit to support the issuance of a bond as required by the District Court of Delaware in response to litigation currently pending. Subsequently, the bridge loan is evidenced by our Secured Promissory Note that bears interest at a rate of 9% per annum, is secured by all of our assets and is payable in full on November 12, 2003. In connection with the bridge loan, we issued to Agility Capital warrants to purchase up to an aggregate of 520,000 shares of our common stock at a purchase price of $0.97 per share. Since the issuance of the warrants to Agility Capital, LLC, Agility Capital has distributed most of the warrants to its members on a pro rata basis. See Selling Stockholders. The resale of the shares being offered under this Prospectus, which shares are issuable upon exercise of the warrants issued in connection with the bridge loan, has been registered pursuant to a registration statement on Form S-3 which we filed with the Securities and Exchange Commission relating to the common stock offered under this Prospectus.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. A number of these risks are listed below. These risks could affect actual future results and could cause them to differ materially from any forward-looking statements we have made.

WE HAVE A HISTORY OF LOSSES AND EXPECT TO INCUR LOSSES IN THE FUTURE SO WE MAY NEVER ACHIEVE PROFITABILITY.

We have incurred significant losses since our formation. For the three years ended December 31, 2002, 2001, and 2000, we have incurred net losses of $21,151,000, $16,413,000 and $16,349,000, respectively. In addition, we have incurred net losses from operations since inception and as of March 31, 2003 have an accumulated deficit of $125,923,000. We expect to incur additional losses as we continue to spend for research and development efforts, clinical trials, manufacturing capacity and sales force expansion. As a result, we will need to generate significant revenues to achieve and maintain profitability. We cannot assure our stockholders that we will ever achieve significant commercial revenues, particularly from sales of our ZEUS product line, which is still under development and awaiting FDA clearance for certain significant applications and procedures, or that we will become profitable. It is possible that we may encounter substantial delays or incur unexpected expenses related to the clinical trials, market introduction and acceptance of the ZEUS platform, or any other future products. If the time required to generate significant revenues and achieve profitability is longer than anticipated, we may not be able to continue operations.

Table of Contents

FAILURE TO COMPLETE THE MERGER WITH INTUITIVE SURGICAL COULD HAVE AN ADVERSE IMPACT ON THE COMPANY AND ITS STOCK PRICE

Since entering into the merger agreement on March 7, 2003, we have made planning and operations decisions on the basis that the merger will be completed. These planning and operations decisions may have been different had we not entered into the merger agreement. For example, if we had not entered into the merger agreement, we may have pursued a debt or equity financing transaction in order to assure access to sufficient working capital as an independent company, rather than rely on the availability of Intuitive Surgical s cash assuming the merger will be completed. Moreover, the merger agreement contains restrictions on our ability to incur debt or issue equity securities while the merger is pending. If the merger is not completed, not only will we not have the benefit of Intuitive Surgical s cash or have obtained other financing, but we also will have incurred a significant amount of non-operating expenses associated with the merger that we otherwise would not have incurred. Consequently, if the merger is not completed, our financial condition likely will be worse than it would have been had it never entered into the merger agreement. If we and Intuitive Surgical fail to complete the merger, we will face the difficulties of competing with limited cash resources and will need to attempt to raise additional debt or equity capital. Such financing may be available only on terms materially adverse to us, and may not be available at all. Additionally, if the merger is not completed, our stock would no longer be influenced by the exchange ratio established by the merger agreement, which could negatively impact our current market valuation and stock price.

WE HAVE NOT OBTAINED THE CONSENT OF ARTHUR ANDERSEN LLP TO BE NAMED IN THIS PROSPECTUS AS HAVING AUDITED THE COMPANY S FINANCIAL STATEMENTS. THIS WILL LIMIT YOUR ABILITY TO ASSERT CLAIMS AGAINST ARTHUR ANDERSEN LLP.

After reasonable efforts, we have been unable to obtain the consent of Arthur Andersen LLP to the incorporation into the registration statement of their report with respect to our consolidated financial statements for the years ended December 31, 2001 and December 31, 2000 which appear in our Annual Report on Form 10-K/A for the year ended December 31, 2002. Under these circumstances, Rule 437(a) under the Securities Act of 1933 permits the registration statement to be filed without a written consent from Arthur Andersen. The absence of such consent may limit your recovery on certain claims. In particular, and without limitation, you will not be able to assert claims against Arthur Andersen under Section 11 of the Securities Act of 1933 for any untrue statement of a material fact contained in the consolidated financial statements of the Company for the years ended December 31, 2001 and December 31, 2000 or any omission to state a material fact required to be stated therein which appear in our Annual Report on Form 10-K/A for the year ended December 31, 2002.

THE CONVICTION OF ARTHUR ANDERSEN LLP ON OBSTRUCTION OF JUSTICE CHARGES MAY ADVERSELY AFFECT ARTHUR ANDERSEN S ABILITY TO SATISFY CLAIMS ARISING FROM THE PROVISION OF AUDITING SERVICES TO US AND MAY IMPEDE OUR ACCESS TO CAPITAL MARKETS.

Arthur Andersen LLP audited our financial statements incorporated into the registration statement, of which this Prospectus is a part, from our form 10-K for the years ended December 31, 2001 and 2000. On March 14, 2002, an indictment was unsealed charging Arthur Andersen LLP with federal obstruction of justice arising from the government s investigation of Enron Corp. On June 15, 2002, Arthur Andersen LLP was convicted of these charges. The impact of this conviction on Arthur Andersen LLP s financial condition may adversely affect the ability of Arthur Andersen LLP to satisfy any claims arising from its provision of auditing services to us. Should we seek to access the public capital markets, SEC rules will require us to include or incorporate by reference in any prospectus three years of audited financial statements. The SEC s current rules would require the us to present audited financial statements for one or more fiscal years audited by Arthur Andersen LLP and use reasonable efforts to obtain its consent until the audited financial statements for the fiscal year ending December 31, 2004 become available. If prior to that time the SEC ceases accepting financial statements audited by Arthur Andersen LLP, it is possible that the available audited financial statements for the years ended December 31, 2001 and 2000 audited by Arthur Andersen LLP might not satisfy the SEC s requirements. In that case, we would be unable to access the public capital markets unless an independent accounting firm is able to audit the financial statements originally audited by Arthur Andersen LLP. Any delay or inability to access the public capital markets caused by these circumstances could have a material adverse effect on our business, profitability and growth prospects.

IF OUR PRODUCTS DO NOT ACHIEVE MARKET ACCEPTANCE, WE WILL NOT BE ABLE TO GENERATE THE REVENUE NECESSARY TO SUPPORT OUR BUSINESS.

We anticipate that ZEUS will comprise a substantial majority of our sales in the future and, therefore, our future success depends on the successful development, commercialization and market acceptance of this product. Even if we are successful in obtaining the necessary regulatory clearances or approvals for ZEUS, its successful commercialization will depend upon our ability to demonstrate the clinical safety and effectiveness, ease-of-use, reliability and cost-effectiveness of the product in a clinical setting. We cannot assure our investors that the FDA will allow us to conduct further clinical trials or that ZEUS will prove to be safe and effective in clinical trials under United States or international regulatory requirements. It is also possible that we may encounter problems in clinical testing that cause a delay in or prohibit commercialization of ZEUS. Moreover, the clinical trials may identify significant technical or other obstacles to overcome prior to the commercial deployment of

Table of Contents

ZEUS, resulting in significant additional product development expense and delays. Even if the safety and effectiveness of procedures using ZEUS are established, surgeons may elect not to recommend the use of this product for any number of reasons. Broad use of our products will require significant surgeon training and practice, and the time and expense required to complete such training and practice could adversely affect market acceptance. Successful commercialization of our products will also require that we satisfactorily address the needs of various decision makers in the hospitals that constitute the target market for our products and to address potential resistance to change in existing surgical methods. If we are unable to gain market acceptance of our products, we will not be able to sell enough of our products to be profitable, and we may be required to obtain additional funding to develop and bring to market alternative products.

IF WE DO NOT OBTAIN AND MAINTAIN NECESSARY DOMESTIC REGULATORY APPROVALS AND COMPLY WITH ONGOING REGULATIONS, WE WILL NOT BE ABLE TO MARKET AND SELL OUR PRODUCTS IN THE UNITED STATES.

Our products are regulated in the United States as medical devices by the FDA. The FDA strictly prohibits the marketing of FDA-cleared or approved medical devices for unapproved uses. Failure to receive or delays in receipt of FDA clearances or approvals, including any resulting need for additional clinical trials or data as a prerequisite to approval or clearance, or any FDA conditions that limit our ability to market our products for particular uses or indications, could impair our ability to effectively develop a market for our products and impair our ability to operate profitably in the future.

Our operations are also subject to the FDA s Quality System Regulation (a federal regulation governing medical devices) and ISO-9001 (a global standard for quality systems) and similar regulations in other countries, including EN-46001 Standards (the European standard for quality systems), regarding the design, manufacture, testing, labeling, record keeping and storage of devices. Ongoing compliance with FDA s Quality System Regulation requirements and other applicable regulatory requirements will be monitored through periodic inspection by federal and state agencies, including the FDA, and comparable agencies in other countries. Our manufacturing processes are subject to stringent federal, state and local regulations governing the use, generation, manufacture, storage, handling and disposal of certain materials and wastes. Failure to comply with applicable regulatory requirements can result in, among other things, suspensions or withdrawals of approvals, product seizures, injunctions, recalls of products, operating restrictions, and civil fines and criminal prosecution. Delays or failure to receive approvals or clearances for our current submissions, or loss of previously received approvals or clearances, would have a material adverse effect on the marketing and sales of our products and impair our ability to operate profitably in the future.

OUR PRODUCTS ARE SUBJECT TO VARIOUS INTERNATIONAL REGULATORY PROCESSES AND APPROVAL REQUIREMENTS. IF WE DO NOT MAINTAIN THE NECESSARY INTERNATIONAL REGULATORY APPROVALS, WE WILL NOT BE ABLE TO MARKET AND SELL OUR PRODUCTS IN FOREIGN COUNTRIES.

To be able to market and sell our products in other countries, we must obtain regulatory approvals and comply with the regulations of those countries. For instance, the European Union requires that manufacturers of medical products obtain the right to affix the CE mark to their products before selling them in member countries of the European Union. The CE mark is an international symbol of adherence to quality assurance standards and compliance with applicable European medical device directives. In order to obtain the right to affix the CE mark to products, a

Table of Contents

manufacturer must obtain certification that its processes meet certain European quality standards. We have obtained the CE mark for all of our products, which means that these products may currently be sold in all of the member countries of the European Union.

If we modify existing products or develop new products in the future, including new instruments, we will need to apply for permission to affix the CE mark to such products. In addition, we will be subject to annual regulatory audits in order to maintain the CE mark permissions we have already obtained. If we are unable to maintain permission to affix the CE mark to our products, we will no longer be able to sell our products in member countries of the European Union.

INTERNATIONAL SALES OF OUR PRODUCTS ACCOUNT FOR A SIGNIFICANT PORTION OF OUR REVENUES AND OUR GROWTH MAY BE LIMITED IF WE ARE UNABLE TO SUCCESSFULLY MANAGE OUR INTERNATIONAL ACTIVITIES.

Our business currently depends in large part on our activities in Europe and Asia, and we intend to expand our presence into additional foreign markets. Sales to markets outside of the United States accounted for approximately 30% of our sales for the three months ended September 30, 2002. We are subject to a number of challenges that relate to our international business activities. These challenges include:

the risks associated with foreign currency exchange rate fluctuations;

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

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

building an organization capable of supporting geographically dispersed operations; and

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

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

WE MAY NEVER SELL ENOUGH PRODUCTS TO BE PROFITABLE SINCE OUR CUSTOMERS MAY CHOOSE TO PURCHASE COMPETITOR S PRODUCTS OR MAY NOT ACCEPT OUR PRODUCTS.

The minimally invasive surgery market has been, and will likely continue to be, highly competitive. Many competitors in this market, including our primary competitor, Intuitive Surgical, Inc., have significantly greater financial resources and experience than we do. In addition, some of our competitors, including Intuitive Surgical, have been, and may continue to be, able to market their products sooner than us if they are able to achieve regulatory approval before we do. Many medical conditions that can be treated using our products can also be treated by pharmaceuticals or other medical devices and procedures. Many of these alternative treatments are widely accepted in the medical community and have a long history of use. In addition, technological advances with other

Table of Contents

procedures could make such therapies more effective or less expensive than using our products and could render our products obsolete or unmarketable. As a result, we cannot be certain that physicians will use our products to replace or supplement established treatments or that our products will be competitive with current or future technologies.

IF SURGEONS OR INSTITUTIONS ARE UNABLE TO OBTAIN REIMBURSEMENT FROM THIRD-PARTY PAYORS FOR PROCEDURES USING OUR PRODUCTS, OR IF REIMBURSEMENT IS INSUFFICIENT TO COVER THE COSTS OF PURCHASING OUR PRODUCTS, WE MAY BE UNABLE TO GENERATE SUFFICIENT SALES TO SUPPORT OUR BUSINESS.

In the United States, our products are primarily acquired by medical institutions that bill various third-party payors, such as Medicare, Medicaid and other government programs, and private insurance plans for the healthcare services they provide their patients. Third-party payors are increasingly scrutinizing whether to cover new products and, if so, the level of reimbursement. There can be no assurance that third-party reimbursement and coverage for our products will be available or adequate, that current reimbursement amounts will not be decreased in the future, or that future legislation, regulation or reimbursement policies of third-party payors will not otherwise affect the demand for our products or our ability to sell our products on a profitable basis, particularly if our products are more expensive than competing surgical or other procedures. If third-party payor coverage or reimbursement is unavailable or inadequate, those who purchase our products would lose their ability to pay for our products, and our ability to make future sales and collect on outstanding accounts would be significantly impaired, which would limit our ability to operate profitably.

IF WE ARE UNABLE TO PROTECT THE INTELLECTUAL PROPERTY CONTAINED IN OUR PRODUCTS FROM USE BY THIRD PARTIES, OUR ABILITY TO COMPETE IN THE MARKET WILL BE HARMED.

Our success depends, in part, on our ability to obtain and maintain patent protection for our products by filing United States and foreign patent applications related to our technology, inventions and improvements. However, there can be no assurance that third parties will not seek to assert that our devices and systems infringe their patents or seek to expand their patent claims to cover aspects of our technology. As a result, there can be no assurance that we will not become subject to future patent infringement claims or litigation in a court of law, interference proceedings, or opposition to a patent granted in a foreign jurisdiction. The defense and prosecution of such intellectual property claims are costly, time-consuming, divert the attention of management and technical personnel and could result in substantial cost and uncertainty regarding our future viability. Future litigation or regulatory proceedings, which could result in substantial cost and uncertainty, may also be necessary to enforce our patent or other intellectual property rights or to determine the scope and validity of other parties proprietary rights. Any public announcements related to such litigation or regulatory proceedings that we initiates, or that are initiated or threatened against us by our competitors, could adversely affect the price of the our common stock.

We also rely upon trade secrets, technical know-how and continuing technological innovation to develop and maintain our competitive position, and we typically require our employees, consultants and advisors to execute confidentiality and assignment of inventions agreements in connection with their employment, consulting or advisory relationships. There can be no assurance, however, that these agreements will not be breached or that we will have adequate remedies for any breach. Failure to protect our intellectual property would limit our ability to produce and/or market

Table of Contents

our products in the future and would likely have an adverse affect on the revenues generated by the sale of such products.

WE ARE INVOLVED IN INTELLECTUAL PROPERTY LITIGATION WHICH MAY HURT OUR COMPETITIVE POSITION, MAY BE COSTLY TO US AND MAY PREVENT US FROM SELLING OUR PRODUCTS.

On May 10, 2000, we filed a lawsuit in United States District Court alleging that Intuitive Surgical s da Vinci surgical robot system infringes on our United States Patent Nos. 5,524,180, 5,878,193, 5,762,458, 6,001,108, 5,815,640, 5,907,664 and 5,855,583. Subsequently, our complaint was amended to add allegations that Intuitive s da Vinci surgical robot infringed three additional patents; United States Patent Nos. 6,244,809, 6,102,850 and 6,063,095. These patents concern methods and devices for conducting various aspects of robotic surgery. Intuitive has served an Answer and Counterclaim alleging non-infringement of each patent-in-suit, patent invalidity and unenforceability. Discovery is still underway. The parties have filed cross motions for summary judgment on the issue of patent infringement relating to the 664, 809, and 850 patents. The Court recently granted Intuitive s motion for summary judgement of non-infringement relating to the 850 patent. The Court also recently granted our motion for partial summary judgement of infringement relating to the 809 patent. The Court has not ruled on any of the remaining motions at the present time. Pursuant to the merger agreement with Intuitive, Computer Motion and Intuitive filed on March 10, 2003, stipulations to stay this litigation until August 31, 2003, subject to the stay being lifted if the merger agreement is terminated, or subject to this case being dismissed upon consummation of the transaction contemplated by the merger agreement.

On or about December 7 and 8, 2000, the United States Patent and Trademark Office (USPTO) granted three of Intuitive s petitions for a declaration of an interference relating to our 5,878,193, 5,907,664 and 5,855,583 patents. On March 30, 2002, the three judge panel of the Board of Patent Interferences issued decision orders on the parties preliminary motions. The Board granted our motion on Interference No. 104,643 and issued an order for Intuitive to show cause why judgment should not be entered against Intuitive on this interference. The Board denied our motion on the interference No. 104,644 and entered judgment against the Company. The Board denied our motions on the Interference No. 104,645, deferred decision on two of Intuitive s motions, and granted-in-part and denied-in-part and deferred-in-part on one of Intuitive s motions. The Board s decision on Interference No. 104,645 invalidated some of the parties claims, affirmed some of Intuitive s claims and provided for further proceedings related to two of our claims and is therefore not final. On July 25, 2002, we filed a civil action seeking review of the two adverse decisions in the United States District Court for the Central District of California. Pursuant to the merger agreement with Intuitive, Computer Motion and Intuitive filed on March 10, 2003, stipulations to stay this litigation until August 31, 2003, subject to the stay being lifted if the merger agreement is terminated, or subject to this case being dismissed upon consummation of the transaction contemplated by the merger agreement.

On February 21, 2001, Brookhill-Wilk filed suit against us alleging that our ZEUS surgical system infringed upon Brookhill-Wilk s United States Patent Nos. 5,217,003 and 5,368,015. Brookhill-Wilk s complaint sought damages, attorneys fees and increased damages alleging willful patent infringement. On March 21, 2001, we served our Answer and Counterclaim alleging non-infringement of each patent-in-suit, patent invalidity and unenforceability. On November 8, 2001, the United States District Court for the Southern District of New York in the co-pending Brookhill-Wilk v. Intuitive Surgical, Inc., Civil Action No. 00-CV-6599 (NRB), issued an order interpreting the claims of Brookhill-Wilk s Patent No. 5,217,003 in a way that we believed excluded current applications of its ZEUS surgical system. In light of this decision, on November 13, 2001, the parties to Brookhill Wilk v. Computer Motion, Inc. agreed to dismiss the case without prejudice. On March 25, 2002, Judge Alvin K. Hellerstein dismissed the case without prejudice.

On March 30, 2001, Intuitive and IBM Corporation filed suit alleging that our AESOP, ZEUS and HERMES products infringe United States Patent No. 6,201,984 which was issued on

Table of Contents

March 13, 2001. The complaint seeks damages, a permanent injunction, costs and attorneys fees. Each of the asserted claims are limited to a surgical system employing voice recognition for control of a surgical robot and literally read on our current AESOP product and ZEUS and HERMES products to the extent they are used with AESOP. A jury trial has been held on the issues of patent invalidity due to lack of enablement and failure to disclose the best mode in addition to damages. Our defense of unenforceability due to prosecution laches was tried before the District Court Judge. The jury returned a verdict finding IBM s United States Patent No. 6,201,984 valid, and finding Intuitive was damaged in an amount of $4.4 million. At December 31, 2002, we recorded a $4.4 million litigation provision for this related jury verdict that was recorded within the litigation provision within the accompanying consolidated statements of operations and comprehensive income (loss). In addition, the litigation provision included in the accompanying consolidated statements of operations and comprehensive income (loss) includes legal expenses incurred during the three years ended December 31, 2002. Prior to the jury s verdict, the court ruled that we had not willfully infringed the patent. On December 10, 2002, the Court rendered an adverse decision on our prosecution laches defense and on December 11, 2002, issued a judgement in Intuitive s and IBM s favor based upon the earlier jury verdict and the Court s December 10, 2002 ruling. The case has entered the post-trial phase during which we will be seeking judicial review of the jury s verdict and other equitable relief. Pursuant to the merger agreement, Computer Motion and Intuitive filed on March 10, 2003, stipulations to stay this litigation until August 31, 2003, subject to the stay being lifted if the merger agreement is terminated, or subject to this case being dismissed upon consummation of the transaction contemplated by the merger agreement.

We believe that all of our major product lines could be affected by this litigation. The patents subject to this litigation are an integral part of the technology incorporated in our AESOP, ZEUS and HERMES product lines which together accounted for approximately 76% of our revenues for the year ended December 31, 2002. If the stay is lifted and we lose the suit brought by Intuitive and IBM or lose any patent infringement suit refiled by Brookhill-Wilk, we may be prevented from selling our products as currently configured without first obtaining a license to the disputed technology from the successful party or modifying the product. Obtaining a license could be expensive, or could require that we license to the successful party some of our own proprietary technology, either of which result could seriously harm our business. In the event that a successful party is unwilling to grant us a license, we will be required to stop selling our products that are found to infringe the successful party s patents unless we can redesign them so they do not infringe these patents, which we may be unable to do. Whether or not we are successful in these lawsuits, the litigation could consume substantial amounts of our financial and managerial resources. Further, because of the substantial amount of discovery often involved in connection with this type of litigation, there is a risk that some of our confidential information could be compromised by disclosure during the discovery process.

BECAUSE OUR INDUSTRY IS SUBJECT TO RAPID TECHNOLOGICAL CHANGE AND NEW PRODUCT DEVELOPMENT, OUR FUTURE SUCCESS WILL DEPEND ON OUR ABILITY TO EXPAND THE APPLICATIONS OF OUR PRODUCTS.

Our success will depend to a significant extent upon our ability to enhance and expand the utility of our products so that they gain market acceptance. Failure to develop or introduce new products or product enhancements on a timely basis and that achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations. In the past, some of our competitors have been able to develop desirable product features (such as articulation of certain instruments and three dimensional visualization of their products) earlier than we have. Our inability to rapidly develop these features may have led to lower sales of some of our products. In addition, technological advances with other therapies could make such therapies less expensive or more effective than using our products and could render our technology obsolete or unmarketable. There can be no assurance that physicians will use our products to replace or supplement established treatments or that our products will be competitive with current or future technologies.

Table of Contents

WE MAY NOT BE ABLE TO EXPAND OUR MARKETING DISTRIBUTION ACTIVITIES IN ORDER TO MARKET OUR PRODUCTS COMPETITIVELY.

We expect to significantly increase the number of our sales personnel to more fully cover our target markets, particularly as we expand our product offerings. It is possible that we will be unable to compete effectively in attracting, motivating and retaining qualified sales personnel. Additionally, we currently intend to market and sell our products outside the United States and Europe, principally through distributors. In order to accomplish this, we will be required to expand our distributor network. We may not be able to identify suitable distributors or negotiate acceptable distribution agreements and any such distribution agreements may not result in significant sales. If we are unable to identify, attract, motivate and retain qualified sales personnel, suitable distributors or negotiate acceptable distribution agreements, we may not be successful in expanding the market for our products outside of the United States and Europe.

CONCENTRATION OF OWNERSHIP AMONG OUR EXISTING EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS MAY PREVENT NEW INVESTORS FROM INFLUENCING SIGNIFICANT CORPORATE DECISIONS.

Our current directors, executive officers and principal stockholders beneficially own approximately 24.84% of our outstanding common stock. These stockholders, acting together, have the ability to significantly influence the election of our directors and the outcomes of other stockholder actions and, as a result, direct the operation of our business, including delaying or preventing a proposed acquisition of the Company.

IF WE LOSE KEY PERSONNEL OR ARE UNABLE TO ATTRACT AND RETAIN ADDITIONAL PERSONNEL, OUR ABILITY TO COMPETE IS LIKELY TO BE HARMED.

Our future business and operating results depend in significant part on our key management, scientific, technical and sales personnel, many of whom would be difficult to replace, and our future success will depend partially upon our ability to retain these persons and recruit additional qualified management, technical, marketing, sales, regulatory, clinical and manufacturing personnel. Competition for such personnel is intense and we may have difficulty attracting or retaining such personnel. In addition, we do not have employment agreements with most of our key personnel and we also do not maintain life insurance on any of our employees, which may make it more difficult to retain key personnel in the future.

OUR FUTURE OPERATING RESULTS MAY FALL BELOW SECURITIES ANALYSTS OR INVESTORS EXPECTATIONS, WHICH COULD CAUSE OUR STOCK PRICE TO DECLINE AND DIMINISH THE VALUE OF OUR INVESTORS HOLDINGS.

Our results of operations may vary significantly from quarter to quarter depending upon numerous factors, including but not limited to, the following:

- delays associated with the FDA and other regulatory clearance and approval processes;
- healthcare reimbursement policies;
- timing and results of clinical trials;
- demand for our products;
- changes in our pricing policies or those of our competitors;

Table of Contents

the number, timing and significance of our competitors product enhancements and new products;

product quality issues; and

component availability and supplier delivery performance.

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

WE MAY INCUR SUBSTANTIAL COSTS DEFENDING SECURITIES CLASS ACTION LITIGATION DUE TO OUR STOCK PRICE VOLATILITY.

The market price of our common stock is likely to be volatile and may be affected by a number factors, including but not limited to, the following:

actual or anticipated decisions by the FDA with respect to approvals or clearances of our competitors products;

actual or anticipated fluctuations in our operating results;

announcements of technological innovations;

new commercial products announced or introduced by us or our competitors;

changes in third-party reimbursement policies;

developments concerning our proprietary rights or those of our competitors;

conditions and trends in the medical device industry;

governmental regulation;

changes in financial estimates by securities analysts; and

general stock market conditions.

Securities class action litigation has often been brought against companies when the market price of their securities declines. We could be especially prone to such risk because technology companies have experienced greater than average stock price volatility in recent years. If we are subject to securities litigation, we would incur substantial costs and would divert management s attention defending any such claims.

Table of Contents

OUR RELIANCE ON SOLE OR SINGLE SOURCE SUPPLIERS COULD HARM OUR ABILITY TO MEET DEMAND FOR OUR PRODUCTS IN A TIMELY MANNER OR WITHIN OUR PROJECTED BUDGET.

We rely on independent contract manufacturers, some of which are single source suppliers, for the manufacture of the principal components of our products. In some instances, we rely on companies that are sole suppliers of key components of our products. If one of these sole suppliers goes out of business, we could face significant production delays until an alternate supplier is found, or until the product could be redesigned and revalidated to accommodate a new supplier s replacement component. In addition, we generally submit purchase orders based upon our suppliers current price lists. Since we generally do not have written contracts for future purchase orders with our suppliers, these suppliers may increase the cost of the parts we purchase from them in the future.

Our manufacturing experience to date has been focused primarily on assembling components produced by third-party manufacturers. In scaling up manufacturing of new products, we may encounter difficulties involving quality control and assurance, component availability, adequacy of control policies and procedures, lack of qualified personnel and compliance with the FDA s Quality System Regulations requirements. We may elect to internally manufacture components currently provided by third parties or to implement new production processes. We cannot assure our stockholders that manufacturing yields or costs will not be adversely affected by a transition to in-house production or to new production processes if such efforts are undertaken. If necessary, this expansion will require the commitment of capital resources for facilities, tooling and equipment and for leasehold improvements. Further, any delay or inability on our part to expand manufacturing capacity or to obtain the commitment of such resources could result in our inability to meet demand for our products, which could harm our ability to generate revenues, lead to customer dissatisfaction and damage our reputation.

THE USE OF OUR PRODUCTS COULD RESULT IN PRODUCT LIABILITY CLAIMS THAT COULD BE EXPENSIVE AND COULD HARM OUR BUSINESS.

As a medical device manufacturer, we face an inherent business risk of financial exposure to product liability claims in the event that the use of our products results in personal injury or death. We also face the possibility that defects in the design or manufacture of our products might necessitate a product recall. It is possible that we will experience losses due to product liability claims or recalls in the future. We currently maintain product liability insurance with coverage limits of $5,000,000, but future claims may exceed these coverage limits. We may also require increased product liability coverage as additional potential products are successfully commercialized. Such insurance is expensive, difficult to obtain and may not be available in the future on acceptable terms, or at all. While we have not had any material product liability claims to date, the defense of any future product liability claim, regardless of its merit or eventual outcome, would divert management s attention and result in significant legal costs. In addition, a product liability claim or any product recalls could also harm our reputation or result in a decline in revenues.

OUR CONTINUED GROWTH WILL SIGNIFICANTLY STRAIN OUR RESOURCES AND, IF WE FAIL TO MANAGE OUR GROWTH, OUR ABILITY TO MARKET, SELL AND DEVELOP OUR PRODUCTS MAY BE HARMED.

Our growth will continue to place significant demands on our management and resources. In order to compete effectively against current and future competitors, prepare products for clinical trials and develop future products, we believe we must continue to expand our operations, particularly in the areas of research and development and sales and marketing. It is likely that we will be required to implement additional operating and financial controls, hire and train additional personnel, install additional reporting and management information systems and expand our physical operations. Our future success will depend, in part, on our ability to manage future growth and we cannot assure our investors that we will be successful.

Table of Contents

FUTURE SALES OF OUR COMMON STOCK COULD DEPRESS THE MARKET PRICE FOR OUR COMMON STOCK.

Future sales of our common stock could depress the market price of our common stock. On December 13, 2002, we filed a Registration Statement on Form S-3 (File No. 333-101830) covering the resale of 16,931,365 shares of our common stock issuable upon conversion of shares of our Series C convertible preferred stock, issuable as payment of dividends on our Series C convertible preferred stock, issuable as payment of a change in control premium on our Series C convertible preferred stock and issuable upon exercise of certain warrants held by our stockholders. This registration statement was declared effective by the Securities and Exchange Commission on December 23, 2002. On February 28, 2002, we filed a Registration Statement on Form S-3 (File No. 333-83552) covering the resale of 5,075,771 shares of our common stock by certain selling stockholders. In addition, on or prior to February 13, 2002, we issued 2,911,039 shares of common stock upon conversion of all the shares of our Series B convertible preferred stock. We filed a registration statement on Form S-3 (File No. 333-58962) covering the shares of common stock issued to holders upon the conversion of the Series B convertible preferred stock and issuable upon exercise of certain warrants issued to the former holder of our Series B convertible preferred stock. This registration statement was declared effective by the SEC on September 24, 2001. In the future, we may issue additional options, warrants or other derivative securities convertible into our common stock. The public sale of our common stock by the selling stockholders who control large blocks of our common stock could depress the market price of our common stock.

FAILURE TO SATISFY NASDAQ NATIONAL MARKET LISTING REQUIREMENTS MAY RESULT IN OUR BEING DELISTED FROM THE NASDAQ NATIONAL MARKET AND OUR BECOMING SUBJECT TO RESTRICTIONS ON PENNY STOCK.

Our common stock is currently listed on the Nasdaq National Market under the symbol RBOT. For continued inclusion on the Nasdaq National Market, we must maintain, among other requirements, either (i) $10.0 million in stockholders equity, a minimum bid price of $1.00 per share, and a market value of its public float of at least $5.0 million or (ii) market value of listed securities of at least $50.0 million, a market value of our public float of at least $15.0 million and a minimum bid price of $1.00 per share. On December 31, 2002, our stockholder s equity was $5.7 million, leaving us non-compliant with the minimum stockholders equity standard on the Nasdaq National Market; however, as of May 27, 2003, the market value of our listed securities exceeded $50.0 million and, therefore, we currently meet standard 2 of the continued listing requirements. In the event that we fail to satisfy the minimum stockholders equity standard or other listing standards on a continuous basis, our common stock may be removed from listing on the Nasdaq National Market. If our common stock is delisted from the Nasdaq National Market and we are not able to list the shares on the Nasdaq Small Cap Market or another exchange, trading of our common stock, if any, would be conducted in the over-the-counter market in the so-called pink sheets or, if available, the NASD s Electronic Bulletin Board. As a result, stockholders could find it more difficult to dispose of, or to obtain accurate quotations as to the value of, our common stock, and the trading price per share could decline.

If our common stock is not listed on the Nasdaq National Market or any exchange, it is also subject to the regulations regarding trading in penny stocks, which are those securities trading for less than $5.00 per share. The following is a list of the restrictions on the sale of penny stocks:

Table of Contents

Prior to the sale of penny stock by a broker-dealer to a new purchaser, the broker-dealer must determine whether the purchaser is suitable to invest in penny stocks. To make that determination, a broker-dealer must obtain, from a prospective investor, information regarding the purchaser s financial condition and investment experience and objectives. Subsequently, the broker-dealer must deliver to the purchaser a written statement setting forth the basis of the suitability finding. A broker-dealer must obtain from the purchaser a written agreement to purchase the securities. This agreement must be obtained for every purchase until the purchaser becomes an established customer.

The Exchange Act requires that prior to effecting any transaction in any penny stock, a broker-dealer must provide the purchaser with a risk disclosure document that contains, among other things, a description of the penny stock market and how it functions and the risks associated with such investment. These disclosure rules are applicable to both purchases and sales by investors.

A dealer that sells penny stock must send to the purchaser, within ten days after the end of each calendar month, a written account statement including prescribed information relating to the security. As a result of a failure to maintain the trading of our common stock on the Nasdaq National Market and the rules regarding penny stock transactions, the investors ability to sell to a third-party may be limited. We can make no guarantee that our current market-makers will continue to make a market in our securities, or that any market for our securities will be available in the future.

USE OF PROCEEDS

The proceeds from the sales of the selling stockholders shares will belong to the selling stockholders. We will not receive any proceeds from such sales of the shares, but could receive proceeds up to $504,400 from the exercise of the warrants before those sales.

SELLING STOCKHOLDERS

We issued warrants to purchase up to an aggregate of 520,000 shares of our common stock at a purchase price of $.97 per share to the selling stockholders in connection with the February 2003 bridge financing. Pursuant to the registration statement of which this Prospectus is a part, we are registering the resale of 520,000 shares of our common stock issuable upon exercise of the warrants.

The table below sets forth the following information as of May 27, 2003: (1) the names of the selling stockholders; (2) the number of shares of common stock beneficially owned by the selling stockholder; (3) the number of shares the selling stockholders may offer to sell; and (4) the number of shares of common stock beneficially owned by the selling stockholders upon completion of this offering, assuming all of the offered shares are sold. Percentages are based upon shares of Common Stock outstanding as of May 27, 2003. Other than as set forth in the footnotes to the table below, the selling stockholders have not, or during the past three years has had any position, office or other material relationship with us or any of our predecessors or affiliates.

Investor Name	Shares Owned Before Offering (1) Number	Shares Being Offered (1) Number	Shares Owned After Offering (2) Number	Percent
John Sperling Family Trust	52,500	52,500	0	*
Peter Sperling	5,250	5,250	0	*
Sly Investors, LLP	52,500	52,500	0	*
Mark Scher	2,625	2,625	0	*
Joe Scher	2,625	2,625	0	*
David Johnson	49,613	49,613	0	*
Anacapa Investors, LLC Anacapa Fund I	26,250	26,250	0	*
RCP AC, LLC	26,250	26,250	0	*
Rodney K. Brown	1,312	1,312	0	*
Cathy Carter Duncan 1990 Trust	3,938	3,938	0	*
Carter Duncan Corporation	5,250	5,250	0	*
Charles H. Jarvis 1983 Revocable Trust	5,250	5,250	0	*
Fly Family Residence Trust	1,313	1,313	0	*
J. Thomas Fly Living Trust	1,312	1,312	0	*
Hatch & Parent Profit Sharing Trust	7,875	7,875	0	*
Corry Family Trust	13,125	13,125	0	*
Montecito Bancorp	13,125	13,125	0	*
Michael Towbes	13,125	13,125	0	*

FARM Capital Services	10,500	10,500	0	*
Schall Family Living Trust	10,500	10,500	0	*
Edward G. Harrison, Jr.	10,500	10,500	0	*
Sand Hill Capital IV Partners	5,250	5,250	0	*
Vern Thoreson	2,625	2,625	0	*
Macy Kort Partners	2,625	2,625	0	*
Health Media International	2,625	2,625	0	*
The Long Run Inc.	2,625	2,625	0	*
Robert L. Skinner	38,787	38,787	0	