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

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-12471

INTEGRATED SURGICAL SYSTEMS, INC.
(Name of small business issuer in its charter)

Delaware	68-0232575
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1433 N Market Blvd, Suite 1 Sacramento, California	95834
(Address of principal executive Offices)	(Zip Code)

(916) 285-9943
(Issuer's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock $0.01 par value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ ] No [X]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]

The issuer's gross revenue for fiscal year 2006 was $2,593,584. As of April 12, 2007, 45,784,089 shares of Common Stock were issued and outstanding.

The aggregate market value of the Common Stock held by non-affiliates of the Company on April 12, 2007 was $1,601,796. This calculation is based upon an estimate of the fair market value of the Common Stock by the Company's Board of Directors of $0.035 per share on that date.

Transitional Small Business Disclosure Format. (Check one): Yes No X

Integrated Surgical Systems, Inc.
Form 10-KSB
For the fiscal year ended December 31, 2006

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Part I

Item 1. Description of Business

Integrated Surgical Systems, Inc. (Company) was incorporated in Delaware in 1990 to design, manufacture, sell and service image-directed, computer-controlled robotic software and hardware products for use in orthopedic surgical procedures. The Company's products are sold through international distributors to hospitals and clinics in European Union member countries and Australia, Canada, India, Israel, Japan, Korea, New Zealand, Switzerland and South Africa.

Orthopedic Applications

The Company's principal orthopedic product, the ROBODOC(R) Surgical Assistant System ("ROBODOC"), integrates the ORTHODOC(R) Presurgical Planner ("ORTHODOC") with a computer-controlled robot for use in joint replacement surgeries. The surgeon uses ORTHODOC, a computer workstation with the Company's proprietary software, for preoperative surgical planning. ORTHODOC converts a computerized tomography ("CT") scan data of the patient's joint into three-dimensional bone images. The surgeon selects a prosthesis from the ORTHODOC prosthesis software library, and manipulates the three-dimensional prosthesis models against the bone image. The ORTHODOC then allows the surgeon to preoperatively visualize the possible results of the surgical outcome. The Company offers software for several lines of prostheses in its software library. Implant manufacturers contract with the Company for the development of prosthesis software. After the surgeon selects the optimal bone cuts and a prosthesis, ORTHODOC creates a surgical plan, which is then up-loaded to the surgical robot. The surgical plan guides the robot as it mills the bone in the operating room. Both hip and knee replacement surgeries involve removing a portion of the bone at the joint, referred to as "milling," to properly replace it with a prosthesis. For hip replacement surgery, a cavity is milled by the robot into which the selected prosthesis is inserted. In the case of knee replacement surgery, ROBODOC mills both the upper and lower leg bone ends for precise and accurate prosthesis placement according to the plan.

Neurosurgical Applications

The Company closed its wholly-owned subsidiary in France in the third quarter of 2003 and exited the neurosurgery segment of the market to focus on its core business of orthopedic surgery. The Company intends to re-enter the neurosurgery market again after securing FDA clearance for its ROBODOC System.

Specialized Product Development

The Company develops specialized presurgical planning software for several major implant manufacturing companies. These implant manufacturers contract with the Company for the development of software for particular lines of new prostheses to be used with the ROBODOC System.

Utilizing its many years of experience in presurgical planning in the 3D mode, the Company has entered the presurgical planning software market for orthopedics on an OEM basis. The Company offers presurgical planning software for use in stand-alone systems, as well as an integral part of PACS (Picture, Archiving and Communication Systems) commercialized worldwide by all major imaging corporations.

Marketing, Sales and Distribution

As further discussed in "Government Regulations," ROBODOC cannot be marketed in the United States until it has been cleared by the U.S. Food and Drug Administration (the "FDA"). Accordingly, substantially all of the Company's sales are made to customers located in foreign countries. The Company markets the ROBODOC System to orthopedic and trauma surgeons and hospitals in Europe through direct sales and through distributors in Japan, Korea and India.

The Company promotes the ROBODOC System through presentations at trade shows, advertisements in professional journals and technical and clinical publications, and direct mail campaigns. Presentations to potential customers focus on the clinical benefits to the patient and the potential financial and marketing benefits to hospitals and surgeons.

Manufacturing

The Company's manufacturing process primarily consists of the assembly of purchased components, integration of proprietary software, product testing and packaging. The Company's manufacturing facility is located in Sacramento, California. The surgical components of the ROBODOC consist of readily available commercial parts, a customized robot arm, a robot base and a control cabinet. Upon receipt, these and other components are tested and assembled into a complete system. The final assembled product is tested once again before shipment to a customer.

One of the key components of the ROBDOC System, a customized Robotic arm, has been manufactured by a Japanese manufacturer, Sankyo Seiki, pursuant to Company specifications. The specifications for this component are the proprietary property of the Company and cannot be used by anyone else to build or supply robot arms. The manufacturer has discontinued their medical robot business, and will not manufacture new robot arms for the Company. This situation does not create immediate risk as the Company has supplies in inventory to meet anticipated demand through December 31, 2007. The Company is redesigning the robot arm and is securing a new vendor for alternative vendor manufacture. Any significant delay in securing a new vendor for this component could have a material adverse effect on the financial condition, results of operations, or cash flow of the Company.

ORTHODOC consists of a pre-surgical planning computer workstation and associated data peripherals incorporating the Company's proprietary software.

Surgical supplies, including sterile drapes and cutters, are manufactured to the Company's specification by outside vendors. These vendors are inspected periodically by the Company and samples are evaluated to ensure that these specifications are consistently met. The Company and the Company's authorized distributors purchase these items in quantity and distribute them to customers as needed.

The Company's production facilities are subject to periodic inspection by the FDA for compliance with Good Manufacturing Practices. The Company is also subject to European manufacturing standards for European sales, and is routinely audited to ensure compliance to the EC Medical Device Directives. All products are shipped bearing the CE Mark, certifying that they meet the European Union's marketing requirement.

Research and Development

Since inception, the Company's engineering activities have focused on the development of innovative image-directed, computer-controlled robotic software and hardware products for use in orthopedic surgical procedures. The Company incurred research and development expenses of approximately $444,000 during the year ended December 31, 2006, and $318,000 in the year ended December 31, 2005.

Competition

The principal competition for ROBODOC comes from manual surgery performed by orthopedic surgeons using surgical power tools, navigated instrumentation and manual devices. These tools and devices are manufactured and/or distributed by major orthopedic companies, including Stryker Corporation, Zimmer, Inc., DePuy, Inc. (a subsidiary of Johnson & Johnson), Smith and Nephew, and Biomet, Inc.

Navigational instrumentation systems, offered by the major manufacturers of orthopedic devices, are an intermediate step between unaided free hand and robotic surgery. Navigational systems use a tracking device affixed to the end of traditional cutting tools to assist the surgeon in visualizing tool positions for bone preparation and implant placement.

Warranty and Service

The Company offers a one-year warranty for parts and labor on all ROBODOC Systems commencing upon the completion of training and installation, except when the sales contract requires formal customer acceptance. In most cases, the Company's customers purchase service contracts, which include extended warranty coverage (parts and labor), unspecified product maintenance updates, customer support services and various consumables required during surgical procedures. Customers not covered by warranties or service contracts are billed on a time and materials basis for service, and on a per unit basis for consumable products.

The Company's technical staff trains medical professionals in its use of the product and provides field service. Additional technical support is provided by the Company's engineering department.

Patents and Proprietary Rights

The Company relies on a combination of patent, trade secret, copyright and trademark laws and contractual restrictions to establish and protect the Company's proprietary rights in its products and to maintain a competitive position in the market place. ROBODOC and ORTHODOC are registered trademarks of the Company. The Company has been issued nine U.S. patents, has four U.S. patents pending, and has filed additional patent applications covering various aspects of the technology in Europe and in the United States. U.S. issued patents include:

- Computer aided system for revision total hip replacement surgery;
- Computer system and method for finish cutting bone cavities;
- Computer system and method for positioning a surgical robot;
- Computer system and method for cavity generation for surgical planning and initial placement of a bone prosthesis;
- Bone motion tracking for ROBODOC Surgical Systems;
- Method for determining location and orientation of a bone for CAS procedures using intraoperative attached markers;
- Methods and apparatus for registered CT-Scan Data to multiple images;
- System and method for fusing 3D shape data on distorted images without correcting for distortion; and
- Computer system and method for performing image directed robotic orthopaedic procedures without a fiducial reference system.

Significant portions of ORTHODOC and ROBODOC software are protected by copyrights. IBM has granted the Company a perpetual royalty-free license for the underlying software code utilized in ROBODOC. In addition, IBM has agreed not to assert infringement claims against the Company with respect to an IBM patent relating to robotic medical technology, to the extent that this technology is used in its products. The Company has registered the marks ROBODOC and ORTHODOC.

The Company cannot guarantee that it will have the necessary working capital to enforce and/or defend its patents, copyrights or trademarks if challenged.

Government Regulations

The medical devices the Company manufactures and markets are subject to extensive regulation by the U.S. Food & Drug Administration ("FDA") and other federal and foreign governmental authorities.

The ROBODOC System is approved for use in Europe and carries the European Union's CE Mark. The ORTHODOC is cleared by the FDA for marketing in the United States of America. While ROBODOC has not yet been approved for use by the Japanese regulatory agency, the Ministry of Health, Labor and Welfare ("MHLW"), Japanese hospitals and surgeons are able to purchase and use the systems, under certain terms and conditions, while approval is pending. The Company completed clinical trials in Japan and submitted a petition for approval in 2002. There can be no assurance that the determination will be favorable, or that any determination will not include unfavorable limitations or restrictions.

The second U.S. clinical trial designed to secure FDA clearance to market the ROBODOC System in the U.S. began in December 2000. This trial is designed to address specific questions raised by the FDA based on its review of the results from the first clinical trial conducted in 1994 through 1996. This trial for 188 subjects is being conducted using the 3rd generation (latest version) ROBODOC System. Upon completion of the trials, the Company will submit a 510(k) petition to the FDA for clearance to market the ROBODOC System in the United States. At December 31, 2006, a total of 109 patients have been enrolled in this study.

The Company did not sponsor any clinical trial sites from June 2005 through June 2006, as it did not maintain product liability insurance coverage during that period. Upon obtaining product liability insurance in September 2006, the Company reestablished clinical trial sites at Sutter General Hospital in Sacramento, California, Buffalo General Hospital in Buffalo, New York, and Jewish Hospital in Cincinnati, Ohio, and is in discussion with additional domestic and international sites to add to the studies.

Products manufactured or distributed pursuant to FDA clearances or approvals are subject to pervasive and continuing regulation by the FDA, including quality system requirements, documentation and reporting of adverse experiences with the use of the device. Device manufacturers are required to register their facilities and list their devices with the FDA and with certain state agencies and are subject to periodic compliance inspections by the FDA and others.

Labeling and promotion activities are subject to scrutiny by the FDA and, in certain instances, by the Federal Trade Commission. The Company is also subject to a variety of state laws and regulations in those states or localities where the products are or will be marketed. As is the case with other manufacturers, the Company is subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances.

Although the Company has not received clearance to market the ROBODOC System in the U.S., the Company is permitted to export the system provided certain requirements are met. Products approved for use by European Union member countries and Australia, Canada, India, Israel, Japan, Korea, New Zealand, Switzerland and South Africa, do not require FDA export approval. FDA export approval, when it is required, is granted when certain requirements are met including documentation demonstrating that the product is approved for import into the country to which it is to be exported and, in some instances, safety data from animal or human studies.

The introduction of products in foreign markets has subjected the Company, and will continue to subject the Company, to foreign regulatory clearances that vary from country to country. Many countries also impose product standards, packaging requirements, labeling requirements and import restrictions on medical devices. In addition, each country has its own tariff regulations, duties and tax requirements.

ROBODOC satisfies international electromedical standard IEC 601-1 and the protection requirements of the Electromagnetic Compatibility Directive (89/336/EEC). The Company has also received ISO 9001 registration, EN 46001 certification, and ED Directive 93/42/EEC Annex II, Article 3 approval. Meeting

these standards and requirements, and receiving these certifications and approvals, allows the Company to apply the CE Mark to its products. ROBODOC meets the relevant provisions of the Medical Device Directive for Class IIb Medical Devices.

Product Liability

Prior to June 2004, the Company maintained product liability insurance in the amount of $10 million per occurrence and $10 million in the aggregate. This coverage was cancelled by the insurance carrier in June 2004, due to the Company's financial inability to pay the requisite insurance premiums. In September 2006, the Company secured a new product liability insurance policy in the amount of $2 million per occurrence and $2 million in aggregate.

The Company has experienced no liability claims to date.

The Company is subject to legal proceedings and claims that arise in the normal course of business as is discussed in Item 3 "Legal Proceedings" in this report.

Major Customers

The Company's products are sold through international distributors to hospitals and clinics in European Union member countries and Australia, Canada, India, Israel, Japan, Korea, New Zealand, Switzerland and South Africa. The Company's international distributors are KTEC in Japan, ROCOM Frontier in Korea and Paramount Impex in India. The Company also develops specialized pre-surgical planning software for several major customers, including DePuy International Limited, Fujifilm Medical Systems USA, Inc, Stryker and Zimmer Inc.

A significant portion of the Company's sales are to a limited number of customers. One major customer of the Company accounted for 97% of the Company's revenue during the year ended December 31, 2006, and another major customer accounted for 79% for the year ended December 31, 2005. At December 31, 2006, one customer accounted for 100% of accounts receivable, and at December 31, 2005, three customers accounted for 45%, 24% and 22% of accounts receivable.

Employees

On December 31, 2006, the Company had 10 employees. No such employees were covered by collective bargaining agreements.

Item 2. Description of Property

On December 1, 2006, the Company moved to a leased 11,200 square foot site at 1433 N. Market Blvd., Suite 1, Sacramento, California, 95834 with a four year lease.

Item 3. Legal Proceedings

The Company is subject to legal proceedings and claims that arise in the normal course of business. The Company cannot assure that it would prevail in such matters nor can it assure that any remedy could be reached on mutually agreeable terms, if at all.

On October 20, 2005, the Company was served with a summons and complaint commenced in San Diego County (California) Superior Court (the "Court"), entitled La Jolla Cove Investors Inc., et al. vs. Integrated Surgical Systems, Inc. et al. The plaintiffs alleged that the Company was in breach of contract and intentional misrepresentation in relation to the June 9, 2004 convertible debenture agreement. On December 9, 2005, the Company made payment to La Jolla Cove Investors of $8,000 for La Jolla to halt action on the suit while a settlement agreement was worked out.

On January 27, 2006, the Company and La Jolla Cove Investors, Inc. signed a promissory note settlement agreement. Upon making the final payment listed below, the Company was released of any and all claims stated in, or in any way related to claims asserted in the lawsuit.

December 9, 2005	$ 8,000
January 27, 2006	50,000
February 24, 2006	25,000
March 29, 2006	25,000
April 19, 2006	42,000
	$150,000

Item 4. Submission of Matters to a Vote of Security Holders

None

Part II.

Item 5. Market for Common Equity and Related Stockholder Matters

Market Information for Common Stock

On May 24, 2004, the OTC Bulletin Board discontinued the quotation of the Company's stock on its system due to its failure to file its annual report on a timely basis. The Company's stock then began to be quoted, and continues to be quoted on the pink sheets, under the trading symbol "RDOC." The following table sets forth the high and low sales prices, as reported on the by the NASDAQ on-line web site www.NASDAQ. com, for shares of the Company's common stock for the periods indicated. Such prices reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	Common Stock (RDOC)	
Fiscal Year Ended December 31, 2006	High	Low
First Quarter	$0.010	$0.002
Second Quarter	$0.009	$0.003
Third Quarter	$0.020	$0.002
Fourth Quarter	$0.075	$0.007
Fiscal Year Ended December 31, 2005		
First Quarter	$0.040	$0.021
Second Quarter	$0.005	$0.005
Third Quarter	$0.005	$0.004
Fourth Quarter	$0.002	$0.002

Holders

As of March 31, 2007 there were 275 holders of record of the common stock.

Dividends

The Company has never paid dividends on its common stock and its present policy is to retain anticipated future earnings for use in its business.

Recent Sale of Unregistered Securities

During the twelve-month period ended December 31, 2006, the Company did not issue any unregistered securities.

Equity Compensation Plans

The following table provides information as of the fiscal year ended December 31, 2006 with respect to the Company's compensation plans (including individual compensation arrangements).

EQUITY COMPENSATION PLAN INFORMATION TABLE

	(a)	(b)	(c)
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	197,908	$1.92	1,672,038 (1)
Equity compensation plans not approved by security holders	2,200,000 (2)	$0.04	-0-
Total	2,397,908	$0.20	1,672,038

(1) Includes the Company's 1998 Stock Option Plan and its 2000 Stock Award Plan.

(2) Consists of: (i) 100,000 warrants issued for consulting services which expire in May 2007 and have an exercise price of $0.06 per share; (ii) 300,000 warrants for consulting which expire in July 2014 and have an exercise price of $0.0625 per share and 1,800,000 shares to officers of the Corporation and have and exercise price of $0.04 per share which will expire in November 2011.

Item 6. Management's Discussion and Analysis or Plan of Operation

The following discussion and analysis relates to the operations of Integrated Surgical Systems, Inc. and should be read in conjunction with its financial statements, including the notes thereto, appearing elsewhere in this report.

Overview

Integrated Surgical Systems, Inc. was incorporated in Delaware in 1990 to design, manufacture, sell and service image-directed, computer-controlled robotic software and hardware products for use in orthopedic surgical procedures. Although The Company have not received clearance to market the ROBODOC(R) System (ROBODOC) in the U.S., the Company is permitted to export the system provided certain requirements are met. Products approved for use by European Union member countries and Australia, Canada, India, Israel, Japan, Korea, New Zealand, Switzerland and South Africa, do not require FDA export approval. The Company sells its robotic systems to international distributors, who in turn resell the product in their territories. The Company's international distributors are KTEC in Japan, ROCOM Frontier in Korea and Paramount Impex in India.

On June 10, 2005 The Company filed an 8-K with the SEC disclosing that it had ceased operations, two of the three outside directors had resigned, all employees were terminated and the Company's officers were evaluating all options available, including securing additional capital, the sale of assets and the seeking of protection under the Federal Securities Laws. On July 11, 2005, the third outside director resigned leaving Ramesh C. Trivedi as the only director.

In November 2005, the Company received an advance for a ROBODOC System from its Korean distributor and this system was shipped in January 2006. In February 2006, the Company received an advance for another ROBODOC System from our Korean distributor and this system was shipped in March 2006.

On August 8, 2006, the Company filed Form 8-K with the SEC disclosing that it had entered into a $4 million asset purchase agreement to sell substantially all of our assets to Novatrix Biomedical, Inc. in consideration of $4 million as well as a loan agreement with Novatrix pursuant to which Novatrix would loan us an aggregate of $6 million in two tranches of $2.7 million upon the execution of the agreement, and an additional $3.3 million in two tranches upon certain milestones with Novatrix. As required by the loan agreement, the Company has reached a settlement with over 80% of its outstanding creditors in exchange for 17.6 cents for each dollar owed. The loan agreement further provides that in the event that approval by the Company's stockholders of the asset sale does not occur by June 30, 2007, the Company will be required to grant an exclusive license in the Asian markets of our ROBODOC Surgical System software to Novatrix in exchange for a one-time royalty payment of $100,000.

In conjunction with this current Form 10-KSB, the Company has also filed all prior quarterly and annual reports for the years ended 2005 and 2006 with the SEC.

Product revenue consists of sales of the Company's principal orthopedic product, the ROBODOC(R) Surgical Assistant System ("ROBODOC"), which integrates the ORTHODOC(R) Presurgical Planner ("ORTHODOC") with a computer-controlled robot for use in joint replacement surgeries. The Company develops specialized operating software for several implant manufacturing companies. These implant manufacturers contract with the Company for the development of software for particular lines of new prosthesis to be used with the ROBODOC System.

The Company currently has warranty reserves of $57,000 on products shipped in Q1 2006.

Results of Operations (2006 vs. 2005)

For the year ended December 31, 2006, net revenue of $2,594,000 and cost of revenue of $555,000 resulted with gross margin of $2,038,000 and operating expenses of $441,000 and other expenses, net of $9,000 resulted in net income $1,588,000 or $0.04 per basic share and $0.02 per dilutive share.

Net revenue

Net revenue of $2,594,000 for the year ended December 31, 2006 was down 24% when compared to $3,430,000 for the year ended December 31, 2005. Although there were two ROBODOC Systems sales in 2006 for $2,070,000, it was not enough to overcome the loss of the 2005 development revenue of $2,994,000. Revenue from service contracts, parts and consumables increased slightly to $524,000 from $436,000.

The decrease in revenue of $836,000 in 2006 from 2005 is presented in the following table:

	2006		2005		Increase (Decrease)	
	Units Sold	Revenues	Units Sold	Revenues	Units Sold	Revenues
ROBODOC Systems	2	$ 2,070,000	-	$ -	2	$ 2,070,000
ROBODOC Modules	-	-	-	-	-	-
Total Systems and Modules	2	-	-	-	2	-
Service contracts, parts and consumables		524,000		436,000		88,000
Development revenues		-		2,994,000		(2,994,000)
Total Revenues		$2,594,000		$3,430,000		$ (836,000)

Cost of revenue

Cost of revenue of $555,000 in 2006 decreased 16% when compared to $657,000 in 2005, however, the costs increased as a percent of revenue to 21% in 2006 when compared to 19% of revenue in 2005. This increase in cost as a percentage of revenues is directly related to the change in the mix of revenue, from lower cost development revenues to higher cost system revenues. In 2006, 80% of revenues were from higher cost system revenues and there were no software development revenues when compared to 2005 where there were no system revenues and 87% of revenues were from lower cost development revenues. Service contracts, parts and consumable revenues of $524,000 increased 20% when compared to $436,000 in 2005 were primarily driven by support requirements for the ROBODOC Systems sold in the first quarter of 2006.

Gross margin

Gross margin of $2,038,000 in 2006 decreased 27% when compared to $2,773,000 in 2005 and was 79% of revenue compared to 81% of revenue in 2005. This decrease in gross margin as a percentage of revenues is directly related to the change in the mix of revenue, to higher cost system revenues from lower cost development revenues. In 2006, 80% of revenues were from lower gross margin system revenues and there were no software development revenues when compared to 2005 where there were no system revenues and 87% of revenues were from higher gross margin development revenues.

Operating expenses

Operating expenses of $441,000 in 2006 decreased by 42% when compared to $758,000 in 2005 and were 17% of revenue in 2006 compared to 22% of revenue in 2005. Operating expenses in 2006 are comprised of selling, general and administrative expenses of $1,490,000, research and development of $444,000 offset by the forgiveness of debt of $1,493,000.

Selling, general and administrative expenses of $1,490,000 increased 86% in 2006 when compared to $803,000 in 2005 and were 57% of revenue in 2006 compared to 23% of revenue in the 2005. Selling, general and administrative expense in 2006 included $600,000 to the Company's distributor as commission expense. Without this commission, selling, general and administrative expense would only have been $890,000, or 34% of revenue during 2006. During 2005, the Company ceased operations and all its employees were terminated. During the third quarter of 2005 and in 2006 the Company had started to add staff and restart portions of the operations on a limited basis.

Research and development expenses of $444,000 increased 40% from $318,000 in 2005 as a result of restarting operations in 2006.

As required by a loan agreement, the Company reached a settlement with over least 80% of its outstanding creditors at June 30, 2006 in exchange for 17.6 cents for each dollar owed. During Q3 of 2006 the Company reached agreements with 98% of its creditors and settled $1,669,000 of outstanding debt.

Other income and expense - net

The Company recorded net other expense of $9,000 and $10,000 in 2006 and 2005, respectively, as interest expense. In 2006 other expense was primarily $104,000 in interest expense from the Company's note outstanding partially offset by $95,000 of miscellaneous income from the elimination of prior year accrued liabilities no longer anticipated.

Liquidity

The reports of the Company's Independent Registered Public Accounting Firm on the 2006 and 2005 financial statements included explanatory paragraphs stating that there is substantial doubt with respect to the Company's ability to continue as a going concern. On June 2, 2005, the Company terminated all of its employees and ceased operations. The former officers of the Company were evaluating all options available, including securing additional capital, the sale of assets and the seeking of protection under the federal bankruptcy laws.

In November 2005, the Company received a cash advance to build a ROBODOC System and relocated to a smaller facility in Sacramento, California to build this system with a limited workforce. In February 2006 the Company received final payment on one ROBODOC System and a deposit for the delivery of a second ROBODOC System, which was delivered in March 2006 with the final payment being received in April 2006. In July 2006 the Company received the first of two tranches of the loan agreement with Novatrix.

At December 31, 2006, the "quick ratio" (cash and accounts receivable divided by current liabilities), a conservative liquidity measure designed to predict the Company's ability to pay bills, was 1.02. It has been difficult for the Company to meet financial obligations, including payroll, as they come due, and the Company expects this situation to continue through 2007.

At December 31, 2006 the cash balance of the Company increased to $1,327,000 from $159,000 primarily as the result of cash provided by financing operations of $2,558,000 which were partially reduced by cash used in operating activities of $1,386,000.

Net cash used in operating activities was $1,386,000 for the year ended December 31, 2006. This resulted from net income of $1,588,000, adjusted for a non-cash transaction of $1,460,000 for the forgiveness of debt relating to the aforementioned settlement with over 80% of the Company's outstanding creditors in exchange for 17.6 cents for each dollar owed. The primary changes in funds used in operating assets and liabilities were decreases in accrued payroll and related expenses of $794,000, unearned income of $337,000, accounts payable, accrued liabilities and other accrued liabilities of $242,000 and an increase in other current assets of $168,000.

The decrease in accounts payable, accrued liabilities and other accrued liabilities was primarily due to the settlement that was reached with our outstanding creditors as required by our agreement with Novatrix. The decrease in accrued payroll and other related expenses was primarily from payments made for past due payrolls and related accrued benefits. The decrease in unearned income primarily is from the recognition of revenue on development projects and the recognition of income on servicing contracts.

The increase in cash from financing activities of $2,558,000 resulted from the advance received from Novatrix which was partially off-set by the final payment on the Company's settlement of a debt owed to an accredited investor. The Company expects to derive most of the cash required to support operations through sales of ROBODOC Systems, continued conversion of the inventory balance into cash, collection of accounts receivable and through additional financing. It is critical for the Company to obtain cash from these sources. There can be no assurance given that the Company can continue to convert inventory, collect receivables or raise additional funds on acceptable terms or at all.

The Company has the following contractual obligations and commercial commitments at December 31, 2006:

	Total	Less Than 1 year	1-3 Years	Greater Than 3 years
Facility operating leases	$376,875	$82,500	$188,100	$106,275

The Company will require substantial funds for operating activities, further product development, continuing clinical trials, regulatory approvals, litigation expenses and marketing of its products. The Company's future capital

requirements will depend upon the progress of its research and development programs; the time and costs involved in securing regulatory approvals; the cost of filing, defending and enforcing intellectual property rights; and competing technology and market developments. Future expenditures for product development and clinical trials are discretionary and, accordingly, can be adjusted, as can certain selling, general and administrative expenses, based on the availability of cash.

Capital Resources

On March 31, 2007, there were 45.8 million shares of the Company's common stock outstanding, and is listed on the pink sheets at $0.03 a share, giving the Company a market capitalization of $1.4 million. In the first quarter of 2001, the Company's common stock and warrants were delisted by the Nasdaq because the stock did not maintain the market's minimum bid price of $1.00 per share. On May 24, 2004, the OTC Bulletin Board ceased quoting the Company's stock due to the failure of the Company to file its annual report on Form 10-KSB on a timely basis. Securities traded at less than $5.00 and not traded on a national securities exchange or quoted on the Nasdaq are called "penny stocks". The Securities and Exchange Commission rules require brokers to provide specified information to purchasers of penny stocks, and these disclosure requirements and the requirement that brokers must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction in advance may have the effect of reducing trading activity in the common stock and making it more difficult for investors to sell the shares of the Company's stock.

To obtain funding for the Company's ongoing operations, the Company entered into a securities purchase agreement (the "Agreement") with an accredited investor on June 15, 2004 with respect to the sale by the Company for aggregate consideration of $150,000 of (i) a convertible debenture in the principal amount of $150,000 and (ii) warrants to purchase 1,500,000 shares of Company common stock. The Agreement contemplates the sale of additional convertible debentures and warrants upon the occurrence of specific events. The Company is obligated to register under the Securities Act for resale by the investor the common stock underlying the debenture and warrants issued pursuant to the Agreement.

In connection with the sale of the original $150,000 convertible debenture and 1.5 million warrants the investor provided the Company with funds as follows:

- $100,000 was disbursed to the Company on June 15, 2004;
- $50,000 was disbursed to the Company on October 19, 2004.

The convertible debenture bore interest at 6 3/4%, matures two years from the date of issuance, and is convertible into, at the investor's option, into the number of shares of Company common stock equal to the principal amount of the debenture being converted multiplied by 11, less the product of the conversion factor multiplied by ten times the dollar principal amount of the debenture being converted. The conversion factor for the convertible debenture is the lesser of (i) $0.25 or (ii) eighty percent of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. Accordingly, there is no limit on the number of shares into which the debenture may be converted. In addition, the investor is obligated to proportionately exercise, concurrently with the submission of a conversion notice by the selling stockholder, the warrants. The warrants are at an exercise price of $1.00 per share.

The investor had contractually agreed to restrict its ability to convert or exercise its warrants and receive shares of Company common stock such that the number of shares of common stock held by it and its affiliates after such conversion and exercise does not exceed 4.9% of the then issued and outstanding shares of Company common stock.

The issuance of more than 51.5 million shares of common stock upon conversion of the convertible debenture and exercise of the warrants issued pursuant to the Agreement would require the Company to issue shares of common stock in excess of the Company's currently authorized shares of its common stock. The Company intended to seek stockholder approval to amend the Company's certificate of incorporation to increase the Company's authorized common stock from 100,000,000 to 300,000,000 shares. Such solicitation would be made pursuant to a proxy statement conforming to the rules and regulations of the Securities and Exchange Commission.

The issuance of the convertible debenture and warrants to the investor was contingent upon stockholder approval of the increase in the Company's authorized common stock. If such approval had not been received, the Agreement would terminate and the Company will be obligated to repay the proceeds received to date and other funds disbursed by the investor to professionals in payment of services rendered on behalf of the Company. As a result, the Company recorded such proceeds in other current liabilities. In the event of a default on the original $100,000 the Company will be assessed a penalty of 150% of the original amount plus $15,000 for each month that payment is not received.

On February 9, 2005, the Company amended the June 9, 2004 convertible debenture agreement to extend the effective registration statement date from November 6, 2004 to April 30, 2005 and reduced the conversion factor percentage from eighty percent (80%) of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion to seventy-five percent (75%) of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion.

On April 29, 2005, the Company amended the June 9, 2004 convertible debenture agreement to extend the registration statement effective date from April 30, 2005 to June 30, 2005.

The Company received notice that it was in default on August 31, 2005 and as of December 31, 2005 had recorded $94,288 in penalties and interest.

On December 9, 2005, the Company made a payment of $8,000 to the accredited investor as earnest money to halt legal action while a settlement could be worked out.

On January 27, 2006, the Company reached a settlement agreement in the form of a promissory note and the Agreement, debenture and warrants were cancelled in exchange for payments made as follows:

December 9, 2005	$ 8,000
January 27, 2006	50,000
February 24, 2006	25,000
March 29, 2006	25,000
April 19, 2006	42,000

At December 31, 2006 the Company had 168 shares of convertible preferred stock outstanding. Each share of preferred stock has a stated value of $1,000 and is convertible into common stock at a conversion price equal to 80% of the lowest sale price of the common stock over the five trading days preceding the date of conversion. Because there is no minimum conversion price, there is no limit on the number of shares of common stock that holders of preferred stock may acquire upon conversion.

The holders of the preferred stock could also engage in short sales of the common stock after delivering a conversion notice to the Company, which could contribute to a decline in the market price of the Company's common stock and give them the opportunity to profit from that decrease by covering their short position with the converted shares acquired at a 20% discount to the prevailing market price. This activity, or the possibility of such activity, could exacerbate any decline or impede any increase in the market price of the Company's common stock.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of the financial condition and results of operations are based upon the Company's audited financial statements included elsewhere in this Form 10-KSB and have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such audited financial statements requires the Company to make estimates and judgments that affect the reported amounts of the Company's assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates the

estimates, including those related to bad debts, inventories, impairment of assets, warranties, contingencies and litigation. The Company bases these estimates on historical experience and on other assumptions believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company has discussed its critical accounting policies with the board of directors of the Company. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect the Company's more significant judgments and estimates used in the preparation of the financial statements:

The Company recognizes revenue from sales of its products upon the completion of equipment installation and training at the end-user's site, except when the sales contract requires formal customer acceptance. Equipment sales with contractual customer acceptance provisions are recognized as revenue upon written notification of customer acceptance, which generally occurs after the completion of installation and training. Furthermore, due to business customs in Japan and the interpretation of Japanese law, all equipment sales to Japan are recognized after customer acceptance, which generally occurs after the completion of installation and training. Revenue related to maintenance and service contracts is recognized ratably over the duration of the contracts. Development projects are accounted for under the provisions of Statement of Position ("SOP") 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts," using the completed contract and percentage of completion method of accounting.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make required payments. If the financial condition of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Where the Company's products are not covered by separate service agreements, the Company reserves against the estimated cost of product warranties at the time revenue is recognized. The warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from these estimates, revisions to the estimated warranty liability would be required.

The Company writes down the inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those the Company projected, additional inventory write-downs may be required.

New Accounting Pronouncements

The Financial Accounting Standards Board has issued FIN 48, Accounting for Uncertainty in Income Taxes, effective for the year commencing after December 15, 2006. The Company has not yet determined what the effect will be, if any, on their financial statements.

The Financial Accounting Standards Board has issued FASB N0. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" which provides an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements, effective for 2008 financial statements. The Financial Accounting Standards Board has issued.

Management does not believe that any other recently issued, not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

Risk Factors and Cautionary Statement Regarding Forward-Looking Information

The Company cautions that this Form 10-KSB contains "forward-looking statements," within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. The Company's plans, strategies, objectives, expectations and intentions are subject to change at any time at the discretion of management and the board of directors. The plans and results of operations will be affected by the Company's ability to manage any growth and working capital and the ability to finance future operations, none of which is assured. In addition, the risk factors that follow may affect the actual results and may cause actual results to differ materially from those expressed in or implied by any forward-looking statement. These risk factors are not an exhaustive list. Additional factors are discussed elsewhere in this Form 10-KSB and also from time to time in the Company's filings with the Securities and Exchange Commission. The Company undertakes no obligation to update such factors in the future.

The reports of the Company's Independent Registered Public Accounting Firm on the 2006 and 2005 financial statements included explanatory paragraphs stating that there is substantial doubt with respect to the Company's ability to continue as a going concern. The Company has a plan to address these issues which it believes will enable the Company to continue to operate through December 31, 2007. This plan includes obtaining additional equity or debt financing, increasing sales of the products in existing markets, increasing sales of system upgrades, and reducing operating expenses as necessary. Although the Company believes that the plan will be realized, there is no assurance that these events will occur. In the event that the Company is unsuccessful, it is possible that the Company will cease operations or seek bankruptcy protection. The financial statements do not include any adjustments to reflect the uncertainties related to the recoverability and classification of assets or the amounts and classification of liabilities that may result from an inability on the Company's part to continue as a going concern.

The Company's future financial performance will depend almost entirely on sales of the ROBODOC System. The Company expects to derive most of its near-term revenue from sales of the ROBODOC System. Having sold only two ROBODOC systems in 2006 and no ROBODOC Systems in 2005, the Company must develop an effective sales and marketing organization and expend sufficient funds to inform potential customers of the distinctive characteristics and advantages of using the system instead of traditional surgical tools and procedures.

Because the ROBODOC System employs innovative technology rather than an improvement of existing technology, and because it represents a substantial capital expenditure, the Company expects to encounter resistance to change, which it must overcome if the system is to achieve significant market acceptance.

Furthermore, the Company's ability to market the ROBODOC System in the U.S. is dependent upon clearance by the FDA. The Company can give no assurance that it will receive FDA clearance, or that the ROBODOC System will achieve the market acceptance in the U.S. and foreign markets to generate sufficient revenue to secure profitability.

The Company is dependent on foreign sales. Most of the sales have been to customers in Europe and Asia. Until such time, if ever, as the Company receives clearance from the FDA to market the ROBODOC System in the U.S., it will continue to be subject to the risks of foreign sales. These risks include economic or political instability, shipping delays, fluctuations in foreign currency exchange rates, changes in regulatory requirements, customs duties and export quotas and other trade restrictions. Any of these risks could have a material adverse effect on the Company's business.

The Company's quarterly revenue and results of operations may fluctuate and may not be indicative of expected revenue and results of operations for the full year. The level of revenue and results of operations fluctuate with the number of ROBODOC Systems sold, if any, and development project revenue recognition. The number and timing of the systems sold may cause revenue and earnings to vary significantly on a quarterly basis and a quarter's results may not be indicative of revenue and earnings for the full year.

The Company may not be able to secure the regulatory approvals needed to expand the sales of the products to new foreign markets. The introduction of the products in foreign markets has subjected and will continue to subject the Company to foreign regulatory approvals. These approvals may be unpredictable and uncertain and may impose substantial additional costs and burdens. Many countries also impose product standards, packaging requirements, labeling requirements and import restrictions on medical devices. The Company can give no assurance that any of the products will receive further approvals.

The Company needs, but has not yet secured, clearance from the FDA under 510(k) petition to market the ROBODOC System in the U.S. In December 2000, the Company began its second U.S. clinical trial designed to demonstrate that the ROBODOC System is safe and effective for its intended use as an alternative to other surgical power tools and manual devices used in hip replacement surgery. The trial calls for the completion of hip replacement surgeries in a total of up to 188 subjects performed at up to four clinical trial sites. The Company has established three sites, Sutter General Hospital in Sacramento, California, Buffalo General Hospital in Buffalo, New York, and Jewish Hospital in Cincinnati, Ohio.

The Company can provide no assurance that, at the completion of the clinical trials, the FDA will grant clearance to market the system in the U.S. and that such clearance will not include unfavorable limitations or restrictions. In addition, FDA clearance gives no assurance of market acceptance or that the Company will generate gross margins to obtain profitability.

Even after receipt of any FDA clearance to market, the Company expects that the FDA may consider any new ROBODOC surgical applications to be new indications for use, which may require FDA clearance prior to marketing. The FDA may require additional trials before allowing the Company to incorporate new imaging modalities (such as ultrasound, MRI, etc.) or other different technologies in the ROBODOC System. Similarly the FDA may require additional clinical data to support new indications and may require new clinical data for clearance of enhanced technological characteristics.

The Company may not be able to comply with quality system and other FDA reporting and inspection requirements. Although the Company believes it is in full compliance with the regulatory requirements in the markets in which it participates, there can be no assurance that the Company will be able to continue to comply with these requirements. Assuming that the Company secures the necessary FDA clearances for the products, in order to maintain these clearances the Company must, among other things, register its establishment and list the devices with the FDA and with certain state agencies. The Company must maintain extensive records, report any adverse experiences on the use of the products and submit to periodic inspections by the FDA and state agencies. The Food, Drug and Cosmetic Act also requires devices to be manufactured in accordance with the quality system regulation, which sets forth good manufacturing practices requirements with respect to manufacturing and quality assurance activities.

Noncompliance with FDA requirements can result in fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, failure of the government to grant pre-market clearance or pre-market approval for devices, withdrawal of marketing clearances or approvals, and criminal prosecution. The FDA also has the authority to request repair, replacement or refund of the cost of any device the Company manufactures or distributes.

The manufacture and sale of medical products exposes the Company to the risk of significant damages from product liability claims. The Company maintains product liability insurance against product liability claims in the amount of $2 million per occurrence and $2 million in the aggregate. Although the Company has not experienced any product liability claims to date, a successful claim in excess of the Company's insurance coverage could have a materially adverse effect on the business, financial condition, cash flows and results of operations of the Company.

The Company has produced a limited number of commercial ROBODOC Systems and may not be able to manufacture the systems at a cost or in such quantity as will be necessary for profitable operation. Manufacturers often encounter difficulties in scaling up for manufacturing new products, including problems involving product yields, quality control and assurance, component and service

availability, adequacy of control policies and procedures, lack of qualified personnel, compliance with FDA regulations, and the need for further FDA approval of new manufacturing processes and facilities. The Company can give no assurance that production yields, costs or quality will not be adversely affected as the Company seeks to increase production, and any such adverse effect could have a material adverse effect on the business, financial condition, cash flows and results of operations.

The Company is dependent on the suppliers of robots. Although the Company has multiple sources for most of the components, parts and assemblies used in the systems, one of the key components of the ROBDOC System has been manufactured by a Japanese manufacturer, Sankyo Seiki, per ISS specification. The specifications, for this component, are the proprietary property of the Company and can not be used by anyone else to build or supply robot arms. The manufacturer has discontinued their medical robot business, and will not manufacture new robot arms for the Company. This situation does not create immediate risk as the Company has supplies in inventory to meet anticipated demand through December 31, 2007 and, the Company is redesigning the robot arm and is securing a new vendor for alternative vendor manufacture. Any significant delay in securing a new vendor for this component could have a material adverse effect on the financial condition, results of operations, or cash flow of the Company.

The Company depends heavily on the principal members of its management team and engineers. The Company's growth and future success will depend in large part on the continued contributions of key technical and senior management personnel. Dr. Ramesh Trivedi, the Company's President and Chief Executive Officer, Charles Novak, the Company's Vice President of Finance and Administration, David Adams, the Company's Chief Financial Officer and Leland Witherspoon, the Company's Vice President of Research and Development, are not retained by employment agreements and are terminable by the Company or by such officer at any time. The loss of the services of Dr. Trivedi, Mr. Novak, Mr. Adams, Mr. Witherspoon or other senior management or key technical personnel could have a material adverse effect on the business, financial condition, cash flows and results of the Company's operations.

The Company's success may depend, in part, on its ability to defend its intellectual property. The Company has secured patent and other proprietary right protection for the technologies and relies on trade secrets, proprietary know-how and continuing technological innovation to develop the products. Any defense of the intellectual property could be costly and require significant time and the attention of the management and technical personnel.

Purchases of the Company's shares are subject to the SEC's penny stock rules. Securities traded at less than $5.00 and not traded on a national securities exchange or quoted on the Nasdaq are called penny stocks. The Securities and Exchange Commission rules require brokers to provide information to purchasers of penny stocks, and these disclosure requirements and the requirement that brokers must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction in advance may have the effect of reducing trading activity in the common stock and make it more difficult for investors to sell. On May 24, 2004, the OTC Bulletin Board ceased quoting the Company's stock due to the Company's failure to file its annual report on a timely basis. Since that time, the Company's common stock has traded on the pink sheets (symbol "RDOC"). As a result, the market liquidity for the Company's securities is severely adversely affected by limiting the ability of broker-dealers to sell the Company's securities and the ability of stockholders to sell their securities in the secondary market.

Impact of issuing additional shares. The Company is seeking additional financing that may require issuing additional common or preferred shares of the Company. Although the dilution factor cannot be determined until the amount of shares are known, there will be a dilution of some unknown magnitude. Additional financing also could result in a change of control of the Company.

Item 7. Financial Statements

The financial statements follow Item 14 of this report.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On September 20, 2006, the Company retained Most & Company, LLP ("Most & Company") as its new independent registered public accounting firm to audit the financial statements of the Company for the years ended December 31, 2004, 2005 and 2006. During the Company's two most recent fiscal years, and during the subsequent period through September 15, 2006, the Company did not consult with Most & Company on any accounting or auditing issues.

The retention of Most & Company was discussed with and approved by the Company's Board of Directors.

Item 8A. Controls and Procedures

Under the supervision and with the participation of management, including the Company's President and Chief Executive Officer and Chief Financial Officer, an evaluation was made of the effectiveness of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2006.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls subsequent to December 31, 2006.

Item 8B. Other Information

None

Part III

Item 9. Directors, Executive Officers, Promoters, Control Persons; and Corporate Governance; Compliance with Section 16(a) of the Exchange Act

The Company's executive officers were terminated on June 2, 2005 when the Company ceased operations, but they continued to explore opportunities to restart the Company without compensation through November 23, 2005. Effective December 1, 2005, the officers of the Company began receiving compensation as they restarted the Company.

As the Company restarted in August 2006, the following officers and directors were added and were actively serving the Company at December 31, 2006:

Name	Age at Dec. 31, 2006	Position with the Company	Period
Ramesh C. Trivedi	67	Officer - President/Chief Executive Officer	Continuous
Charles J. Novak	59	Officer - VP of Finance & Administration	From 11-1-2006
David H. Adams	62	Officer - Chief Financial Officer	From 9-20-2006
Leland W. Witherspoon	55	Officer - VP of Research & Development	From 8-1-2005
Ramesh C. Trivedi	67	Director / Chairman of the Board	Continuous
Michael J. Tomczak	51	Director	From 9-20-2006
Peter B. Mills	51	Director	From 9-20-2006

Biographical Information on Officers, Directors and Control Persons

Ramesh C. Trivedi has been the Company's President and Chief Executive Officer from November 1995 through June 2005. Prior to that time, Dr. Trivedi was a principal of California Biomedical Consultants, an international consulting firm, and he served as the President and Chief Executive Officer of DigiRad Corporation, a medical imaging company. Dr. Trivedi received his Ph.D. in chemical engineering from Lehigh University, and holds an MBA from Pepperdine University.

Charles J. Novak has been the Company's Chief Financial Officer from July 2002 through June 2005 and the Company's Vice President of finance and administration since November 2006. From September 2001 to December 2001, Mr. Novak was the Vice President of Finance and Administration and Chief Financial Officer for Realty Plus Online, a real estate software transaction system company. From January 2001 to September 2001, he was the Vice President of Finance and Administration and Chief Financial Officer for WebRaiser Technologies, Inc., an integration and professional services firm. From February 1999 to January 2001, Mr. Novak was the director of operations for MRI Sierra International Group, Inc., an executive search firm. From September 1995 to February 1999, he was the assistant corporate controller for USCS International, Inc., a supplier of customer management software and open billing solutions. Prior to that, Mr. Novak served in executive management positions for Describe, Inc. and HealthTek, Inc. and he served in various management positions with the Hewlett-Packard Company. Mr. Novak earned his BS in Accounting from Lewis University in Lockport, Illinois.

David H. Adams has been the Company's controller from April 2004 through June 2005. From 2003 to 2004 Mr. Adams was Chief Financial Officer of Velocity Mobile a provider of cellular phone equipment and services. From 2000 to 2003 Mr. Adams was Chief Financial Officer of Unify Corporation, a software development company with international subsidiaries. Prior to that Mr. Adams was Chief Financial Officer of Commerce Security Bank. Mr. Adams earned his BA in Accounting from Humboldt State University.

Leland W. Witherspoon has been the Company's Vice President of research & engineering from April 1997 through June 2005. From 1992 to 1997, Mr. Witherspoon was director of product research and development for Sorin Biomedicals, Inc., a developer and manufacturer of cardiopulmonary and cardiovascular hardware and software products. Prior to that time, he served in various technical and management positions for Pfizer/Shiley, Xerox Medical Systems and IBM. Mr. Witherspoon received his Bachelor of Science from Rensselaer Polytechnic Institute.

Michael J. Tomczak was appointed to serve as a Director of the Company in September 2006. Mr. Tomczak is currently an owner and President of Sequoia Business Solutions, Inc., which primarily provides consulting and bookkeeping services to small businesses. He served as Vice President, Chief Financial Officer and Secretary for the Company from 1991 until 1997. Mr. Tomczak served as Retail Technology International, Inc.'s (RTI) Chief Executive Officer and President from 2002 until its sale to Island Pacific, Inc in 2004 and was co-owner during that same time period. RTI was a developer of point-of-sale software and Island Pacific is a developer of retail management software. Mr. Tomczak was also Chairman of RTI's Board of Directors during that same period and had previously served as RTI's Chief Financial Officer from 2001. Upon the sale of RTI to Island Pacific, he became its President and Chief Operating Officer until 2005. Mr. Tomczak was a member of Island Pacific's Board of Directors from 2004 until 2005. Prior to joining the Company, Mr. Tomczak served as director of Ernst & Young's Sacramento office's Entrepreneurial Services Group. Mr. Tomczak holds a Bachelor of Business Administration degree from Western Michigan University and has been a Certified Public Accountant in both California and Michigan.

Peter B. Mills was appointed to serve as a Director of the Company in September 2006. Mr. Mills is Vice President of Sales at Speck Design, a leading product design firm with offices in Palo Alto, California and Shanghai, China. He has spent 15 years selling sophisticated industrial robotics and automation systems with Adept Technology, the leading U.S. manufacturer of industrial robots, and Hewlett-Packard Company. He has also served as the Vice President of Sales at Softchain, an enterprise supply chain software company acquired in 2001. Mr. Mills has significant experience with respect to the design and manufacturing needs of a variety of industries including medical devices, disk drives, consumer products, food packaging, printers, computers and networking, and semiconductor equipment. He has extensive international business experience in Japan, Singapore, and Korea. Mr. Mills earned an MBA from Harvard Business School and an A.B. in engineering, cum laude, from Dartmouth College.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers, directors, and persons who own more than ten percent of a registered class of the Company's equity securities within specified time periods to file certain reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and ten- percent stockholders are required by regulation to furnish the Company with copies of all Section 16(a) forms they file. Based solely on a review of copies of the reports the Company received and written representations from persons concerning the necessity to file these reports, the Company is not aware of any failure to file reports or report transactions in a timely manner during the fiscal year ended December 31, 2006.

Committees of the Board Of Directors

Prior to June 2, 2005, the Company had an audit committee and a compensation committee. From June 3, 2005 through September 19, 2006, the Company functioned with only one director and had no committees.

Terms of Office

The directors of the Company are appointed for a one-year term to hold office until the next annual meeting of shareholders of the Company and until their successors have been duly elected and qualified, unless removed from office in accordance with the Company's by-laws. The Board of Directors appoints the officers at its annual meeting immediately following the shareholders annual meeting and such officers hold office until removed from office by the Board of Directors.

Code of Ethics

A Code of Ethics that applies to the Company executive officers as well as to all employees was approved and adopted by the Board of Directors on April 8, 2004 and it is attached to the Company's 10-KSB for the fiscal year ended December 31, 2003. Copies of the Code of Ethics may be obtained free of charge by written request to Integrated Surgical Systems, Inc. attention Chief Financial Officer, 1433 N. Market Blvd, Suite 1, Sacramento, CA., 95834.

Item 10. Executive Compensation

The following table sets forth, for the fiscal years ended December 31, 2006, 2005 and 2004, the compensation awarded to, earned by or paid to the Company's Chief Executive Officer and each of the other executive officers whose total salary and bonus exceeded $100,000 for the year ended December 31, 2006 (collectively, the "Named Executive Officers").

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation	
		Salary (1)	Cash Bonus	Other (2)	Securities Underlying Options	
Ramesh C. Trivedi	2006	$241,060	$0	$11,774	-0-	
President and Chief	2005	135,753	0	10,964	-0-	
Executive Officer	2004	302,226	0	13,862	100,000	
Leland W. Witherspoon	2006	142,828	0	0	-0-	
Vice President, Research	2005	77,334	0	0	-0-	
and Engineering	2004	142,600	0	0	100,000	
Charles J. Novak	2006	99,251	0	0	-0-	
Vice President, Finance &	2005	73,154	0	0	-0-	
Administration	2004	120,000	0	0	100,000	
David H. Adams	2006	89,835	0	0	-0-	
Chief Financial Officer	2005	60,519	0	0	-0-	
	2004	0	0	0	45,000	

(1) The 2005 salary information for all officers represents a partial year as all of the Company's employees were terminated effective June 2, 2005.

(2) Represents expense allowances for Dr. Trivedi as approved by the Board of directors.

Employment Agreements

There are no current employment agreements.

Stock Options

The following table contains information concerning the grant of stock options under any of the Company stock option plans to the Named Executive Officers during the fiscal year ended:

December 31, 2006
Stock Option Grants in Last Fiscal Year
(Individual Grants)

Name	Number of Shares Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise Price per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
Ramesh C. Trivedi	1,000,000	52.16%	$0.04	11/01/2011	$25,156	$63,750
Leland W. Witherspoon	700,000	36.52%	$0.04	11/01/2011	$17,609	$44,625
David H. Adams	100,000	5.22%	$0.04	11/01/2011	$ 2,516	$ 6,375
Mike J. Tomczak	30,000	1.56%	$0.04	11/01/2011	$ 755	$ 1,192
Peter B. Mills	30,000	1.56%	$0.04	11/01/2011	$ 755	$ 1,192

The following table summarizes, for each of the Named Executive Officers, the total number of unexercised options held at December 31, 2006, and the aggregate dollar value of in-the-money, unexercised options, held at December 31, 2006. The value of the unexercised in-the-money options at December 31, 2006, is the difference between their exercise or base price and the value of the underlying common stock on December 31, 2006.

Aggregated Option Exercises in the Last Fiscal Year and Fiscal Year End Option Values

	Shares Acquired Upon Exercise Of Options During Fiscal 2006		Number of Securities Underlying Unexercised Options At December 31, 2006		Value of Unexercised In-The-Money Options at December 31, 2006	
Name	Number	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Ramesh C. Trivedi	none	none	166,667	833,333	$0.00	$0.00
Leland W. Witherspoon	none	none	116,667	583,333	$0.00	$0.00
David H. Adams	none	none	16,667	83,333	$0.00	$0.00
Mike J. Tomczak	none	none	5,000	25,000	$0.00	$0.00
Peter B. Mills	none	none	5,000	25,000	$0.00	$0.00

Director Compensation

The Company compensates its non-employee directors $1,875 per quarter for serving on the Company's board of directors and periodically grants options to purchase shares of the Company's common stock.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information concerning the beneficial ownership of the Company's common stock as of March 31, 2007 by (i) each person known by the Company to be the owner of more than 5% of the outstanding common stock, (ii) each director, (iii) each executive officer named in the Summary Compensation Table above and (iv) all directors and officers as a group.

Name (3)	Amount and Nature of Beneficial Ownership (1)	Percentage of Common Stock Beneficially Owned (2)
Ramesh C. Trivedi	590,334 (4)	1.29
Leland W. Witherspoon	419,818 (5)	*
Charles J. Novak	83,333 (6)	*
David H. Adams	58,334 (7)	*
Michael J. Tomczak	17,500 (8)	*
Peter B. Mills	17,500 (9)	*
All directors and officers as a group (6 persons)	1,186,819	2.53

- ------------------
* Less than one percent.

(1) Unless otherwise indicated, each person has sole investment and voting power with respect to the shares indicated, subject to community property laws, where applicable. Includes any securities that such person has the right to acquire within 60 days pursuant to options, warrants, conversion privileges or other rights.
(2) Based on 45,784,089 shares of common stock outstanding as of April 9, 2007.
(3) Address is c/o Integrated Surgical Systems, Inc., 1433 N. Market Blvd., Suite 1, Sacramento, California 95834.
(4) Includes 583,334 shares that Dr. Trivedi may acquire upon exercise of stock options exercisable within 60 days at an exercise price of $0.04 per share.
(5) Includes 408,333 shares that Mr. Witherspoon may acquire upon exercise of stock options exercisable within 60 days at an exercise price of $0.04 per share.
(6) Includes 83,333 shares that Mr. Novak may acquire upon exercise of stock options exercisable within 60 days at an exercise price of $0.04 per share.
(7) Includes 58,334 shares that Mr. Adams may acquire upon exercise of stock options exercisable within 60 days at an exercise price of $0.04 per share.
(8) Includes 17,500 shares that Mr. Tomczak may acquire upon exercise of stock options exercisable within 60 days at an exercise price of $0.04 per share.
(9) Includes 17,500 shares that Mr. Mills may acquire upon exercise of stock options exercisable within 60 days at an exercise price of $0.04 per share.

Securities Authorized for Issuance Under Equity Incentive Plans

The Company has provided in the "Equity Compensation Plans" section of Item 5 of this Annual Report on Form 10-KSB certain information with respect to securities authorized for issuance under The Company's equity plans.

Item 12. Certain Relationships and Related Transactions

See also "Item 5 - Market for Common Equity and Related Stockholder Matters - Recent Sale of Unregistered Securities" and "Item 10 - Executive Compensation - Employment Agreements."

Item 13. Exhibits

Exhibit	Description
3.1	Composite of Restated Certificate of Incorporation of the Registrant, as amended. (1)
3.2	By-laws of the Registrant, as amended. (1)
3.4	Certificate of Designations for Series G Convertible Preferred Stock. (3)
4.1	Form of warrant issued to the underwriters for the Registrant's initial public offering in November 1996. (2)
4.2	Form of Warrant Agreement relating to the Registrant's Redeemable Common Stock Purchase Warrants. (2)
4.3	Specimen Common Stock Certificate. (2)
4.4	Specimen Warrant Certificate (included as Exhibit A to Exhibit 4.2 herein). (2)
4.5	1998 Stock Option Plan. (5)
4.6	Employee Stock Purchase Plan. (5)
4.7	Common Stock Purchase Warrant issued by the Registrant to International Business Machines Corporation ("IBM"), dated February 6, 1991, as amended (included as Exhibit J to Exhibit 10.5 herein). (2)
4.8	Stockholders' Agreement between the Founders of the Registrant and IBM, dated February 6, 1991 as amended. (2)
4.9	Common Stock Purchase Warrant issued by the Registrant to IBM, dated December 21, 1995 (included as Exhibit I to Exhibit 10.5 herein). (2)

4.12	Registration Rights Agreement among the Registrant, IBM, John N, Kapoor Trust ("Kapoor"), EJ Financial Investments V, L.P. ("EJ Financial"), Keystone, Sutter Health and Sutter Health VP, dated as of December 21, 1995 (included as Exhibit G to Exhibit 10.5 herein). (2)
4.23	Form of warrant issued to purchasers of Series G Convertible Preferred Stock. (3)
4.31	Form of Registration Rights Agreement for Series G Convertible Preferred Stock financing. (3)
4.37	2000 Stock Award Plan
4.38	2000 Long Term Performance Plan.
10.1	Loan and Warrant Purchase Agreement between the Registrant and IBM, dated as of February 6, 1991. (2)
10.2	License Agreement between the Registrant and IBM, dated February 4, 1991. (2)
10.6	Investors Agreement among the Registrant, IBM, Wendy Shelton-Paul Trust, William Bargar, Brent Mittelstadt, Peter Kazanzides, Kapoor, Sutter Health, Sutter Health VP, and EJ Financial, dated as of December 21, 1995. (2)
10.7	Employment Agreement between the Registrant and Ramesh Trivedi, dated December 8, 1995. (2)
10.8	License Agreement between the Registrant and IBM, dated February 4, 1991. (2)
10.17	Preferred Stock Purchase Agreement for Series G Convertible Preferred Stock. (3)
14.1	Code of ethics (6)
31.1	Certification Pursuant to Exchange Act Rule 13a-14(a) of Ramesh Trivedi *
31.2	Certification Pursuant to Exchange Act Rule 13a-14(a) of David Adams*
32.1	Certification Pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002 of Ramesh Trivedi*
32.2	Certification Pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002 of David Adams*

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* Filed Herewith

(1) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002.

(2) Incorporated by reference to the Registrant's Registration Statement on Form SB-2 (Registration No. 333-48040) declared effective on October 31, 2000.

(3) Incorporated by reference to the Registrant's Registration Statement on Form S-3 (Registration No. 333-40710), declared effective on July 28, 2000.

(4) Incorporated by reference to the Registrant's Registration Statement on Form SB-2 (Registration No. 333-9207), declared effective on November 20, 1996.

(5) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1997.

(6) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003.

Item 14. Principal Accountant Fees and Services

Audit Fees

All audit related fees are approved by the Board of Directors. The Board of Directors has considered whether the provisions of such services, including non-audit services, by the Company's Independent Registered Public Accounting Firm is compatible with maintaining their independence and has concluded that it is.

The following table sets forth the Company's aggregate fees billed by its Independent Registered Public Accounting Firm for each of the last two fiscal years for the categories of services indicated.

Category	2006	2005
Audit Fees (1)	$ 65,000	$ 65,000
Audited Related Fees	0	0
Tax fees (2)	15,000	0
All Other Fees	0	0
	$ 80,000	$ 65,000

(1) Consists of the Company estimates of the aggregate fees billed by its Independent Registered Public Accounting Firm for professional services rendered in connection with the audit of the Company's annual financial statements on Form 10-KSB and the review of the Company's quarterly financial statements on Form 10-QSB and services that are normally provided by the Independent Registered Public Accounting Firm in connection with the statutory and regulatory filings or engagements.

(2) Consists of professional services rendered for tax compliance, tax advice, and tax planning.

Signatures

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Integrated Surgical Systems, Inc.

By: /s/ RAMESH C. TRIVEDI

Ramesh C. Trivedi, President
(Principal Executive Officer)

By: /s/ DAVID H. ADAMS

David H. Adams
(Principal Financial and Accounting Officer)

Dated: April 13, 2007

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant on April , 2007 in the capacities indicated.

Signature	Title
/s/ RAMESH C. TRIVEDI - ---------- Ramesh C. Trivedi	Chief Executive Officer, President and a Director (Principal Executive Officer)
/s/ DAVID H. ADAMS - ---------- David H. Adams	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ MICHAEL J. TOMCZAK - ---------- Michael Tomczak	Director
/s/ PETER B. MILLS - ---------- Peter B. Mills	Director

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Integrated Surgical Systems, Inc.

We have audited the accompanying balance sheet of Integrated Surgical Systems, Inc. as of December 31, 2006 and the related statements of operations, convertible preferred stock and stockholders' deficit and cash flows for the two years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Integrated Surgical Systems, Inc. as of December 31, 2006, and the results of its operations and its cash flows for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 3, the Company has incurred recurring operating losses, has working capital of $587,392 and an accumulated deficit of $64,694,975 as of December 31, 2006. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

/s/ Most & Company LLP

Most & Company, LLP

New York, New York
February 9, 2007

Integrated Surgical Systems, Inc.

Balance Sheet
December 31, 2006

Assets	
Current assets:	
Cash	$ 1,327,268
Accounts receivable	16,666
Inventory	308,651
Other current assets	249,623
Total current assets	1,902,208
Net property and equipment	8,945
Other assets	21,238
Total assets	$ 1,932,391
Liabilities and stockholders' deficit	
Current liabilities:	
Accounts payable	$ 86,926
Accrued payroll and related expense	22,508
Accrued liabilities	165,324
Unearned income	1,038,583
Other current liabilities	1,475
Total current liabilities	1,314,816
Note payable	2,700,000
Convertible preferred stock, $0.01 par value, 1,000,000 shares authorized; 168 shares issued and outstanding ($168,496 aggregate liquidation value)	168,496
Total liabilities	4,183,312
Stockholders' deficit:	
Common stock, $0.01 par value, 100,000,000 shares authorized; 45,784,089 shares issued and outstanding	457,841
Additional paid-in capital	61,986,213
Accumulated deficit	(64,694,975)
Total stockholders' deficit	(2,250,921)
	$ 1,932,391

See accompanying notes to financial statements.

Integrated Surgical Systems, Inc.

Statements of Operations

	Years ended December 31,	
	2006	2005
Net revenue	$ 2,593,584	$ 3,429,802
Cost of revenue	555,202	657,234
	2,038,382	2,772,568
Operating expenses:		
Selling, general and administrative	1,490,360	802,916
Research and development	443,757	317,647
Gain on forgiveness of debt	(1,492,739)	(362,881)
	441,378	757,682
Operating income	1,597,004	2,014,886
Other income (expense), net:		
Other income (expense), net	95,014	--
Amortization of discount	--	(86,141)
Derivative liability	--	86,141
Interest expense - net	(104,218)	(10,190)
Net income available to common stockholders	$ 1,587,800	$ 2,004,696
Basic net income per common share	$ 0.04	$ 0.04
Diluted net income per common share	$ 0.02	$ 0.03
Shares used in computing basic net income per common share	45,321,247	45,084,089
Shares used in computing diluted net income per common share	63,796,686	63,313,274

See accompanying notes to financial statements.

Integrated Surgical Systems, Inc.

Statements of Convertible Preferred Stock and Stockholders' Deficit

	Convertible Preferred Stock				Common Stock				
	Shares	Amount	Additional Paid-in Capital	Total	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
Balance at December 31, 2004	168	$ 2	$ 168,494	$ 168,496	45,084,089	$ 450,841	$ 61,924,486	$(68,287,471)	$ (5,912,144)
Net income	--	--	--	--	--	--	--	2,004,696	2,004,696
Balance at December 31, 2005	168	$ 2	$ 168,494	$ 168,496	45,084,089	$ 450,841	$ 61,924,486	$(66,282,775)	$ (3,907,448)
Stock compensation, non-employee	--	--	--	--	700,000	7,000	--	--	7,000
Employee stock option	--	--	--	--	--	--	61,727	--	61,727
Net income	--	--	--	--	--	--	--	1,587,800	1,587,800
Balance at December 31, 2006	168	$ 2	$ 168,494	$ 168,496	45,784,089	$ 457,841	$ 61,986,213	$(64,694,975)	$ (2,250,921)

See accompanying notes to financial statements.

Integrated Surgical Systems, Inc.

Statements of Cash Flows

	Years ended December 31,	
	2006	2005
Cash flows from operating activities:		
Net income	$ 1,587,800	$ 2,004,696
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sale of assets	(5,000)	--
Depreciation	--	5,414
Inventory reserve	--	100,000
Forgiveness of debt	(1,460,439)	(362,881)
Amortization of deferred compensation	10,189	--
Stock compensation, non-employees	7,000	--
Changes in operating assets and liabilities:		
Accounts receivable	21,289	20,614
Inventory	(6,176)	243,735
Other current assets	(167,857)	(19,563)
Accounts payable	(218,323)	(45,372)
Accrued payroll and related expenses	(793,921)	(490,300)
Accrued liabilities	59,550	(155,035)
Unearned income	(336,930)	(2,542,314)
Other current liabilities	(82,757)	83,392
Net cash used in operating activities	(1,385,575)	(1,157,614)
Cash flows from investing activities:		
Purchase of property and equipment	(8,946)	--
Proceeds from disposal of property and equipment	5,000	--
Net cash used in investing activities	(3,946)	--
Cash flows from financing activities:		
Proceeds from note payable	2,700,000	--
Payments on note payable	(142,000)	(8,000)
Net cash provided by (used in) financing activities	2,558,000	(8,000)
Net increase (decrease) increase in cash	1,168,479	(1,165,614)
Cash at beginning of year	158,789	1,324,403
Cash at end of year	$ 1,327,268	$ 158,789

See accompanying notes to financial statements.

Note 1. Organization and Operations

Integrated Surgical Systems, Inc. (Company) was incorporated in Delaware in 1990 to design, manufacture, sell and service image-directed, computer-controlled robotic software and hardware products for use in orthopedic surgical procedures. The Company's products are sold through international distributors to hospitals and clinics in European Union member countries and Australia, Canada, India, Israel, Japan, Korea, New Zealand, Switzerland and South Africa. Subsequent to March 31, 2005, the Company ceased operations, all of its outside directors resigned and all employees were terminated. In November 2005, the Company received an advance on a sale and commenced operations with limited employees (Note 5.).

Note 2. Significant Accounting Policies

Basis of presentation

The financial statements include all the accounts of the Company.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial instruments

The Company considers the carrying amounts of financial instruments, including cash, accounts receivable, accounts payable, accrued payroll and related expenses and accrued expenses to approximate their fair values because of their relatively short maturities.

Accounts receivable

Accounts receivable consisted of amounts due from customers. The Company estimates doubtful receivables, if necessary, based upon the Company's prior collection experience, customer creditworthiness and current economic trends.

Inventories

The Company values inventories at the lower of average cost, first-in, first-out, or market. Allowances for losses are estimated for obsolete or unmarketable inventories to reflect the difference between the carrying value of inventory and the estimated market value, based upon assumptions about future demand, market conditions and sales forecasts.

Revenue Recognition

Revenue is recognized when evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured.

Revenue for product sales is generally recognized upon completion of training and installation of the equipment at the end-user's site, except when the sales contract requires formal customer acceptance. Equipment sales with contractual customer acceptance provisions are recognized as revenue upon written notification of customer acceptance, which generally occurs after the completion of training and installation. Revenue related to maintenance and service contracts is recognized ratably over the duration of the contracts.

When elements of a sale, such as products, services, etc. are combined in a single arrangement, or in related arrangements with the same customer, the Company allocates revenue to each element based on its relative fair value, provided that such element meets the criteria for treatment as a separate unit of accounting. The price charged when the element is sold separately generally determines fair value. In the absence of fair value for an undelivered element, the arrangement is accounted for as a single unit of accounting, resulting in a delay of revenue recognition for the delivered elements until the undelivered elements are fulfilled.

The Company develops specialized operating software for several implant manufacturing companies. These implant manufacturers' contract with the Company for the development of particular lines of new prosthesis software to be used with the ROBODOC System. These contracts are accounted for using either the completed contract or percentage-of-completion method. Product development revenues for contracts recorded using the completed contract method is recognized when development is complete under the terms of the contract, and the customer has accepted the product. The direct cost, primarily labor, of product development contracts are deferred until the development revenue is recognized. Losses on contracts are accrued in the period that such losses are determined under the percentage of completion method. Under the percentage-of-completion method, revenue is recognized as work is performed, based on the relationship between actual costs incurred and total estimated costs at completion. Revenues are adjusted prospectively for revisions in estimated total contract costs when identified. Losses, if any, are recognized in full when identified.

Shipping and Handling Costs

Costs related to shipping and handling are included in costs of revenues.

Research and Development

Research and development costs are expensed as incurred. Grants received from third parties for research and development activities are recorded as reductions of research and development expense over the term of the agreement as the related activities are conducted.

Warranty/Service Contracts

The Company offers a one-year warranty for parts and labor on all ROBODOC Systems commencing upon the completion of training and installation or customer acceptance. Generally, the Company's customers purchase a service contract, which includes warranty coverage (parts and labor), unspecified product maintenance updates, customer support services and various consumables required during surgical procedures. Revenue from service contracts is initially deferred and then recognized ratably over the term of the agreements. Annually, service contracts can be renewed at the customers' option. The warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from these estimates, revisions to the estimated warranty liability would be required. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Warranty liabilities are included in unearned income.

Derivative Liabilities

Derivative liabilities consisted of: (a) the embedded conversion feature bifurcated from the June 9, 2004 convertible note payable and (b) the warrants in connection with the convertible notes payable. The value of the derivative liabilities are recorded first as a discount on the convertible notes payable and the excess is charged to operations. The discount is being amortized over the term of the note. The derivative liabilities are adjusted quarterly to reflect changes in fair value.

The Company uses the Black-Scholes option price model to value the embedded conversion and the detachable warrants that are recorded as a derivative liability. In valuing the embedded conversion feature and the detachable warrants, at the time they were issued and quarterly thereafter, the Company used the market price of our common stock on the date of valuation, an expected dividend yield of zero, the remaining period or maturity date of the convertible debt feature or detachable warrants and the expected volatility of our common stock.

Stock-Based Compensation

Compensation costs for stock, warrants and options issued to employees and non-employees are based on the fair value method. The value of warrants and options are calculated using a Black-Scholes Model, using the market price of our common stock on the date of valuation, an expected dividend yield of zero, the remaining period or maturity date of the warrants or options and the expected volatility of our common stock.

Stock-based costs with future service periods are deferred as shareholders' equity and amortized on the straight-line method over its service period.

Income taxes

Deferred income taxes have been provided for temporary differences between financial statement and income tax reporting under the liability method, using expected tax rates and laws that are expected to be in effect when the differences are expected to reverse. A valuation allowance is provided when realization is not considered more likely than not.

Income per share

Basic income per share is computed by dividing net income by the weighted average number of shares of basic common stock outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of shares of basic common stock outstanding during the period plus dilutive common stock equivalents, using the treasury stock method.

As of December 31, 2006 and 2005, dilutive common stock equivalents were convertible preferred stock of 18,475,439 and 105,310,000, respectively.

New Accounting Pronouncements

The Financial Accounting Standards Board has issued FIN 48, Accounting for Uncertainty in Income Taxes, effective for the year commencing after December 15, 2006. The Company has not yet determined what the effect will be, if any, on their financial statements.

The Financial Accounting Standards Board has issued FASB N0. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" which provides an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements, effective for 2008 financial statements. The Financial Accounting Standards Board has issued.

Management does not believe that any other recently issued, not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

Note 3. Going Concern and Managements Plan

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of December 31, 2006, the Company has an accumulated deficit of $64,694,975 working capital of $587,392, negative operating cash flow of $1,385,575 and future losses are anticipated.

The Company's management is planning to seek additional sources of debt or equity or financing, generating cash flows through product, system upgrade and technology sales and the continued limitation of discretionary expenditures.

The Company's plan of operations, even if successful, may not result in cash flow sufficient to finance and expand its business. These factors raise substantial doubt about the Company's ability to continue as a going concern. Realization of assets is dependent upon continued operations of the Company, which in turn is dependent upon management's plans to meet its financing requirements and the success of its future operations. These financial statements do not include any adjustments related to the recoverability and classification of asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Note 4. Inventory

Inventory consisted of the following at December 31, 2006:

Raw materials and supplies	$474,144
Work-in-process	33,964
Finished goods	106,010
Less Allowance for obsolescence and overstock	(305,468)
	$308,651

Note 5. Note Payable and Sale of Asset

Note Payable

On August 4, 2006, the Company entered into a loan agreement (Loan Agreement) to borrow an aggregate of $6,000,000, as follows: $2,700,000 on August 4, 2006, an aggregate of $1,000,000 in February and March 2007 and $2,300,000 no later than August 1, 2007. Principal shall be payable on demand, subject to the terms of this Loan Agreement, including termination of the Loan Agreement. Interest shall be payable monthly at prime plus 1%, per annum. Loans under the Loan Agreement are collateralized by substantially all the assets of the Company.

The Loan agreement provides that upon the earlier of stockholder approval of the Asset Agreement or a material default by the lender, all obligations to repay any loans under the Loan Agreement shall terminate and the lender shall have no rights to any secured interests.

Sale of Assets

On August 14, 2006, the Company has entered into an agreement (Asset Agreement) to sell substantially all of its tangible and intangible assets in exchange for: (1) $2,000,000 at closing; (2) $2,000,000 upon the earlier of the Company obtaining clearance from the United State Federal Food and Drug Administration for the Robodoc Surgical Assist System or March 31, 2008 and (3) providing additional working capital of $3,300,000 under the terms of the Loan Agreement.

Closing is dependent upon stockholder approval, but not later than June 30, 2007. In the event this Agreement is terminated, the Company will license to the purchaser the exclusive right to manufacture, market and sell the Company's principal products in Asia, for a term of ten years in exchange for $100,000 and the principal amount of the borrowings under the Loan Agreement. In addition, if termination is the result of material breach by the Company, the Company shall pay a fee to the lender of $240,000.

Note 6 Convertible Note Payable

In January 2006, debenture and warrants were cancelled in exchange for the following payments, including the $8,000 payment made in December 2005:

December 9, 2005	$ 8,000
January 27, 2006	50,000
February 24, 2006	25,000
March 29, 2006	25,000
April 19, 2006	42,000
	$150,000

As the notes were paid-off and the conversion feature and warrants were cancelled, no derivative liability was recognized at December, 31, 2005.

Note 7. Convertible Preferred Stock

The Company's Certificates of Incorporation authorize 1,000,000 shares of undesignated, serial preferred stock. Preferred stock may be issued from time to time in one or more series. The Board of Directors is authorized to determine the rights, preferences, privileges, and restrictions granted to and imposed upon any wholly unissued series of preferred stock and designation of any such series without any further vote or action by the Company's stockholders.

The Company's convertible preferred stock is not classified as equity due to its liquidation rights upon a change in control which, is not solely within the Company's control. Given the liquidation rights of the Company's convertible preferred stock, these securities have been accounted for as if they were redeemable preferred stock. As such, the redemption value of the convertible preferred stock has been its liquidation preference of $168,496, and the carrying value of the convertible preferred stock is adjusted to its redemption amount at each balance sheet date through corresponding debits and credits to accumulated deficit and convertible preferred stock respectively, up to the liquidation preference.

The Series G convertible preferred stock has a stated value of $1,000, per Share, and is convertible into common stock at conversion prices equal to 80% or 85% of the lowest sale price of the common stock on its listed market over the five trading days preceding the date of conversion ("Beneficial Conversion Feature") subject to a maximum conversion price. The number of shares of common stock that may be acquired upon conversion is determined by dividing the stated value of the number of shares of convertible preferred stock to be converted by the conversion price.

The value assigned to the Beneficial Conversion feature of preferred stock was based upon the difference between the maximum conversion price and the quoted market price of the common stock on the date the convertible preferred stock was sold (the "Discount"). The Discount was accreted using the straight-line method over the conversion period. The Series G convertible preferred stock does not entitle holders to dividends or voting rights, unless required by law or with respect to certain matters relating to a particular series of convertible preferred stock.

For the years ended December 31, 2006 and 2005, no shares of Series G convertible preferred stock were converted into shares of common stock. At December 31, 2006, the outstanding series G shares could have converted into a minimum of 7,020,667 shares of common stock based upon its maximum conversion price of $.024.

Note 8. Common Stock

During 2006, the Company issued 700,000 shares of common stock to non-employees in exchange for services valued at $7,000 and options to purchase 1,917,000 shares of common stock to employees valued at $61,727. The options are exercisable at $0.04 per share through October 31, 2011.

As of December 31, 2006, the Company had reserved 11,625,054 shares of common stock for future issuance pursuant to Series G Convertible Preferred Stock, warrants and options outstanding, as follows:

Options under plans	1,997,908
Warrants	2,606,479
Series G preferred	7,020,667
	11,625,054

Note 9. Stock Option Plans

The Company has two stock option plans to attract, motivate and retain selected officers, employees, directors and consultants under which incentive or non-incentive options may be granted, generally for a term of ten years from the date of grant. Exercise prices of incentive stock options may not be less than 100% and exercise price of non-statutory stock options may not be less than 85% of the fair market value of the common stock on the date of the grant.

For persons owning 10% or greater of the voting power of all classes of the Company's stock, the exercise price of the incentive or the non-qualified stock options may not be less than 110% of the fair market value of the common stock on the date of the grant.

Both plans are administered by the Company's board of directors.

The 1998 Stock Option Plan (1998 Plan) was established to grant up to 850,000 non-qualified options through May 12, 2008 to employees and other individuals providing services to the Company. Options under the 1998 Plan vest variably from one year to four years from the date grant and must be exercised within 30 days of employee termination. As of December 31, 2006, the 1998 plan had 691,569 options available for future grant.

The 2000 Stock Award Plan (2000 Plan) was established to grant up to 1,000,000 incentive options through December 11, 2010 to employees and other individuals providing services to the Company. Options under the 2000 Plan vest variably from one year to four years from the date grant and must be exercised within three months of employee termination. As of December 31, 2006, the 2000 plan had 980,469 options available for future grant.

For the years ended December 31, 2006 and 2005, option activity under both plans was as follows:

	2006		2005	
	Number of Shares	Weighted-Average Exercise Price per Share	Number of Shares	Weighted-Average Exercise Price per Share
Outstanding at beginning of year	141,319	$3.61	2,203,192	$0.82
Granted	1,917,000	$0.04	-	$0.00
Forfeited/expired	-	$0.00	2,061,873	$0.63
Cancelled	60,411	$2.54	-	-
Exercised	-	$0.00	0	0
Outstanding at end of year	1,997,908	$0.22	141,319	$3.61
Exercisable at end of year	239,116	$1.57	141,319	$3.61
Available for future grants	1,672,038		1,799,038	

As of December 31, 2006, a summary of options outstanding under the plans was as follows:

Range of Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Number Outstanding at 12/31/06	Weighted-Average Exercise Price	Number Exercisable at 12/31/06	Weighted-Average Exercise Price
0.00-1.99	9.8	1,918,408	$0.04	317,825	$0.04
2.00-3.99	2.3	50,500	3.43	50,500	3.43
4.00-8.50	.6	29,000	6.97	29,000	6.97
	9.5	1,997,908	$0.23	397,325	$1.57

Note 9. Income Taxes

As of December 31, 2006, the Company had net operating loss (NOL) carryforwards of approximately $49,600,000 to reduce future Federal taxable income through 2026. The Company has had ownership changes, as defined by the Internal Revenue Service, which may defer or limit the use of the NOL's.

As of December 31, 2006, realization of the Company's net deferred tax asset of approximately $19,131,000 was not considered more likely than not and, accordingly, a valuation allowance of $19,131,000 has been provided. For the year ended December 31, 2006, the valuation allowance decreased by $636,000.

As of December 31, 2006, the Company had a Federal research and development credit carryover of approximately $1,240,000.

As of December 31, 2006, deferred tax assets consisted of the following:

	2006
Net operating loss	$19,857,000
Research and development credit	1,391,000)
Inventory	122,000
Compensation	13,000
Deferred income	379,000
	21,762,000
Less valuation allowance	21,762,000)
	None

For the years ended December 31, 2006 and 2005, deferred income tax expense (benefit) was as follows:

	2006	2005
Net operating loss	($218,000)	($ 708,000)
Research and development credit	-	23,000
Compensation	(271,000)	(6,000)
Inventory	(136,000)	(10,000)
Deferred income	(11,000)	(78,000)
	(637,000)	(779,000)
Less valuation allowance	637,000	779,000
	None	None

For the years ended December 31, 2006 and 2005, the provision for income taxes on the statement of operations differs from the amount computed by applying the statutory Federal income tax rate to income before the provision for income taxes, as follows:

	2006	2005
Federal expense (benefit) expected at statutory rate	$540,000	$682,000
State income taxes	96,000	120,000
Use of prior period NOL	-	-
Other	-	-
Change in valuation allowance	(636,000)	(779,000)
	None	None

Note 11. Contingencies

The Company is subject to claims that arise in the normal course of business and can not predict their ultimate outcome, if any.

During the period June 2004 and September 2006, the Company was self-insured for product liability insurance. In September 2006, the Company obtained product liability insurance of $2,000,000. The Company is not aware of any current product liability claims.

Note 12. Concentrations

The Company maintains cash in financial institutions in excess of insured limits. In assessing its risk, the Company's policy is to maintain cash only with reputable financial institutions.

During the year ended December 31, 2006, one customers accounted for 97% of the Company's revenue and in the year ended December 31, 2005, another customer accounted for 79% of the Company's net revenues.

The Company purchases a key component, a proprietary robotic arm, from one vender, but believes alternative vendors are available.

Note 13. Related Party Transactions

At December 31, 2006, the Company had amounts due to officers as follows:

	2005	2004
Deferred salaries	$657,605	$ 709,981
Expenses	21,110	302,921
	$678,715	$1,012,902

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ramesh C. Trivedi, Chief Executive Officer of Integrated Surgical Systems, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-KSB of the small business issuer for the year ended December 31, 2006 of Integrated Surgical Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this Annual Report;

4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this Annual Report is being prepared;

   b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this Annual Report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual Report based on such evaluation; and

   c) disclosed in this Annual Report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions);

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: April 13 , 2007

By: /s/ RAMESH C. TRIVEDI

Ramesh C. Trivedi
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David H. Adams, Chief Financial Officer of Integrated Surgical Systems, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-KSB for the year ended December 31, 2006 of Integrated Surgical Systems, Inc.;

2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this Annual Report;

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d- 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this Annual Report is being prepared;

   b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this Annual Report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual Report based on such evaluation; and

   c) disclosed in this Annual Report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions);

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: April 13, 2007

By: /s/ DAVID H. ADAMS

David H. Adams
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Ramesh C. Trivedi, Chief Executive Officer of Integrated Surgical Systems, Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report on Form 10-KSB of the Company for the year ended December 31, 2006, which this certification accompanies (the "Periodic Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated April 13, 2007

/s/ Ramesh C. Trivedi

Ramesh C. Trivedi
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, David H. Adams, Chief Financial Officer of Integrated Surgical Systems, Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report on Form 10-KSB of the Company for the year ended December 31, 2006, which this certification accompanies (the "Periodic Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 13, 2007

/s/ David H. Adams

David H. Adams
Chief Financial Officer