U.S. 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, 1998

[ ] 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.)
1850 RESEARCH PARK DRIVE, DAVIS, CA	95616-4884
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(530) 792-2600
(ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED UNDER SECTION 12(b) OF THE EXCHANGE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH EACH CLASS IS REGISTERED
COMMON STOCK, $.01 PAR VALUE	THE PACIFIC EXCHANGE INCORPORATED
COMMON STOCK PURCHASE WARRANTS	THE PACIFIC EXCHANGE INCORPORATED

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE ACT:

NOT APPLICABLE
(TITLE OF CLASS)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of 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. [ ]

Revenues for the issuer's most recent fiscal year were $6,240,842.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price of the common stock on March 24, 2000 was $63,330,180.

ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PAST FIVE YEARS

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE REGISTRANTS

As of March 24, 2000, the issuer had 16,888,048 shares of common stock, $.01 par value, outstanding.

Transitional Small Business Disclosure Format: Yes [ ] No [X]

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its 2000 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-KSB in response to Items 9, 10, 11 and 12 of Part III.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

Integrated Surgical Systems, Inc. (the "Company") develops, assembles, markets and services image-directed, computer-controlled robotic products for orthopaedic and neurosurgical applications. The Company was incorporated under the laws of the State of Delaware on October 1, 1990.

ORTHOPAEDIC BUSINESS

The Company's principal orthopaedic product is the ROBODOC(R) Surgical Assistant System, consisting of a computer-controlled surgical robot and the Company's ORTHODOC(R) Presurgical Planner. The ROBODOC System has been used for primary total hip replacement surgery on over 6,600 patients in Europe and the United States. The Company believes its "active" robotic system is the only available system that can accurately perform key segments of surgical procedures semi-autonomously with precise tolerances generally not attainable by traditional manual surgical techniques. The ROBODOC System also allows the surgeon to prepare a preoperative plan specifically designed for the characteristics of the individual patient's anatomy. The technology for the ROBODOC System was initially developed at the University of California, Davis, in collaboration with IBM.

The ORTHODOC is a computer workstation that uses the Company's proprietary software for preoperative surgical planning. The ORTHODOC is a part of the ROBODOC Surgical Assistant System. The ORTHODOC converts CT scan data of a patient's femur into three-dimensional images, and through a graphical user interface, allows the surgeon to examine the bone more thoroughly and to select the optimal implant for the patient using a built-in library of available implants. A tape of the planned surgical procedure, developed by the ORTHODOC, guides the surgical robot arm of the ROBODOC System to accurately mill a cavity in the bone, thus allowing the surgeon to properly orient and align the implant. Prior to the development of the DigiMatch(TM) Single Surgery System, two titanium locator pins were placed in the patient's femur in an outpatient procedure before the primary surgery. These locator pins were used during the primary procedure to orient the ROBODOC System to the ORTHODOC preoperative plan. With the development of the DigiMatch technology, this pre-operative outpatient procedure has been eliminated. The orientation of the patient is now accomplished using a proprietary, pinless registration system. Non-clinical scientific data published by scientists from the Company and IBM demonstrate that as a result of the precise milling of a cavity, the ROBODOC System achieves over 95% bone-to-implant contact, as compared to an average of 20% bone-to-implant contact when surgery is performed manually.

Total hip arthroplasty ("THA") surgery involves the insertion of an implant into a cavity created in the patient's femur. The Company believes that precise fit and correct alignment of the implant within the femoral cavity are key factors in the long-term success of THA surgery. In conventional THA surgery, a bone cavity is cut in the shape of the implant manually with metal tools, and the surgical plan, including the selection of the size and shape of the implant, is generally formulated based upon patient data obtained from two-dimensional x-ray images of the patient's femur. Based upon clinical experience to date in Europe with the ROBODOC System, patients generally have become weight-bearing in a shorter period than generally experienced by patients who have had this surgery performed manually. In addition, clinical data obtained from trials in Europe and the United States indicates that intraoperative fractures have been dramatically reduced in the THA surgeries performed with the ROBODOC System (to the Company's knowledge, no intraoperative fractures have resulted from THA surgeries performed with the ROBODOC System to date). The Company also believes fewer hip revision surgeries (implant replacements) may be necessary for patients who have had primary THA surgery performed with the ROBODOC System, as compared to patients who have this surgery performed manually.

In the past, a majority of THA implants have been held in place with acrylic cement, which fills the spaces between the implant and the bone, thereby anchoring the implant to the femoral cavity ("cemented implants"). During the 1980s, implants that did not require cement ("cementless implants") were developed with materials designed to stimulate bone ingrowth. The selection of a cemented or cementless implant

generally is based upon a patient's bone condition and structure, age and activity level. Typically, cemented implants are used for older, less active patients. Furthermore, most implants require replacement within five to 20 years of the first operation. The software package developed by the Company in collaboration with IBM and Johns Hopkins University eliminates the distortion of the x-ray images of the patient's femur used in planning hip revision surgery caused by the metal in the existing implant. A surgeon using this proprietary hip revision software will have a clearer view of the remaining bone in planning hip revision surgery and therefore will be better able to plan the surgery to have the ROBODOC remove fragmented cement without removing any of the remaining thin thigh bone.

The Company has developed and commenced marketing to its customers in Europe the DigiMatch Single Surgery System, that, in most cases, eliminates the need for an initial surgery to place registration pins in a patient's femur before using the ROBODOC System in total hip replacement surgery. More than 1,500 patient surgeries have been successfully performed in Europe with the DigiMatch Single Surgery System.

The Company plans to amend its investigational device exemption under the Food, Drug and Cosmetic Act, which allowed it to conduct clinical trials for the ROBODOC System in the United States, to permit it to perform a relatively small clinical study showing a correlation between the ROBODOC System using the DigiMatch System technology and the three pin system that was used in its initial clinical evaluations. The Company has deferred the filing of its pre-market approval application to market the ROBODOC System in the United States so that it may incorporate the DigiMatch Single Surgery System, and possibly other technical developments, as part of its pre-market approval application. The Company believes, based upon discussions with representatives of the FDA, that the incorporation of the DigiMatch Single Surgery System will enhance its prospects for obtaining FDA approval. However, there can be no assurance as to when or if the FDA will approve the Company's pre-market approval application to market the ROBODOC System or that such approval, if obtained, will not include unfavorable limitations or restrictions.

The Company has developed a software package for total knee replacement ("TKR") surgery using the ROBODOC System. This application module enables the ROBODOC System to select the optimal implant for the patient and make accurate cuts in the bone, thus allowing the surgeon to properly orient and align the implant. This application module is intended to provide patients with a precise and accurate fit for implants that are properly sized and placed, regardless of bone quality. The Company believes that TKR surgery performed with the ROBODOC System will significantly improve implant longevity and the prognosis for restored biomechanics. The Company anticipates that its TKA surgical applications will be made available to customers in the second quarter of 2000.

NEUROSURGICAL BUSINESS

The Company entered the neurosurgical business through the acquisition of Innovative Medical Machines International, S.A. ("IMMI") on September 5, 1997. The Company's principal neurosurgical product is the NeuroMate System, consisting of an image-guided, computer-controlled robotic arm, head stabilizer and monitor. The Company also offers a workstation with presurgical planning software through arrangements with original equipment manufacturers.

The NeuroMate System has been used to perform over 2,000 neurosurgical procedures in France and Japan. The Company believes that the NeuroMate System, which uses IMMI's proprietary robotic arm and control systems designed specifically for use in the operating room, is the only image-guided, computer-controlled robot currently in use to precisely position and hold critical tools used in the performance of neurosurgical procedures.

Stereotactic neurosurgery is a minimally invasive approach to operating on the brain. Because the brain is largely unexposed, it requires the surgeon to work without direct visualization of the brain itself. This is overcome by a thorough understanding of brain anatomy and by using a spatial coordinate system that allows the surgeon to "navigate" within the brain without directly visualizing it. Essentially, the coordinate space of the patient's brain is correlated to the patient's own CT, magnetic resonance (MR) or other images by using anatomical landmarks that are shared by the patient and the images. This is known as "registration" of the patient's coordinate space to the coordinate space of the images. Once this is accomplished, the patient's CT

scan can be used to guide the surgeon to specific sites within the brain through small holes the surgeon has made in the cranium (i.e., not necessitating a craniotomy).

POTENTIAL ORTHOPAEDIC AND NEUROSURGICAL APPLICATIONS

The Company intends to offer separate software packages supporting each new robotic application, when developed by the Company. Some of these developments may be given to the Company's customers without charge. Customers may be required to pay for other developments, such as alternative prosthesis software. Consequently, the Company's customers would be able to use the Systems as platforms to perform a variety of surgical procedures without incurring significant additional hardware costs. The Company plans to develop software packages for the following orthopaedic surgical and neurosurgical procedures.

- POTENTIAL ORTHOPAEDIC APPLICATIONS

Acetabulum Replacement. The Company plans to complement the THA femoral replacement application with acetabular cup planning and bone preparation for hip socket replacement surgery. Currently, surgeons estimate the size of the cup-shaped cavity in hip socket surgery using x-rays, which are subject to distortion. Working in a narrow space with a limited view, the surgeon ultimately selects the final cup size through trial and error. Due to the limitations of available surgical tools, the surgeon is obliged to use a hemispheric reamer and cup, although the human acetabulum (hip socket) is an irregular shape. The Company believes that the application module for this application, when developed, would enable the computer-controlled robot to prepare an accurate bed for the implant, based on its specifications, and could prepare an irregularly shaped socket for a custom or anatomically-shaped acetabular component. The three-dimensional capability of the ORTHODOC would better enable it to determine and display the irregular shape of the acetabulum and instruct the robot to prepare the proper socket. This procedure potentially could solve the problem of leg-length discrepancies which often originate at the acetabulum.

Osteotomies. Osteotomies are precise cuts in bone intended to reshape or realign abnormal or deformed structures. The Company's engineers have generated a detailed work plan to adapt the ROBODOC System for use in performing long-bone osteotomies on femurs and tibias (i.e., shin bones). The proposed application module for this application, when developed, is intended to enable the surgeon using the views of the bone created by the ORTHODOC from CT scan data, to make trial cuts, remove bone and manipulate the remaining fragments, and experiment with the appropriate placement of plates and screws. The surgeon's final plan would be saved on a tape that would instruct the robot where to make saw cuts. The computer-controlled robot would then orient itself in space by using topographical features of the operative bone. A fixator would secure the bone to the robot. The computer-controlled robot would then pre-place screw holes to facilitate the final realignment and make the actual cuts.

- POTENTIAL NEUROSURGICAL APPLICATIONS

Spine surgery. Surgical interventions in the spine generally involve tumor biopsy/resection; vascular repair; implants of plates, rods, screws, or other implantable devices or substances; and bone fusions of various types. The Company believes that its image-directed, computer-controlled robotic technology is applicable in most of these interventions and will significantly enhance precision and accuracy in many of them. Spine surgery is a large segment of both neurosurgery and orthopaedic surgery, as the nature of the abnormality may involve the nervous system or the vertebral column, or both. A significant part of this application involves the insertion of vertebral pedicle screws, discussed below.

Vertebral Pedicle Screws. Pedicle screws are used to fuse vertebrae in need of repair due to trauma or herniated disc disease. The procedure involves the placement of screws straight down the center of an irregular section of a fragile bone only twice the diameter of the screw itself. Precise placement of a screw affects the outcome of the surgery. Misplacement of a screw can result in failure of the repair, trauma to the adjacent spinal cord, or rupture of nearby blood sinuses which can hemorrhage severely. The Company believes that when the development of the proposed application module for this surgical procedure is completed, the NeuroMate System will be capable of performing this surgical procedure more safely and effectively than surgery performed manually since the computer-controlled robot is better able to precisely orient its tool in a manner compatible with what is required for screw placement.

MARKETING, SALES AND DISTRIBUTION

The ROBODOC System cannot be marketed in the United States until clearance or approval is obtained from the FDA. The Company has received 510(k) clearance from the FDA to sell the ORTHODOC in the United States. The NeuroMate System also has received 510(k) clearance from the FDA for marketing in the United States and from the Japanese Ministry of Health for marketing in Japan. Presentations to potential customers focus on the clinical benefits obtained by patients, and the potential financial and marketing benefits obtained by hospitals and surgeons.

The Company's products are marketed and sold in Europe, the Middle East and Africa through Spark 1(st) Vision GmbH & Co. KG, a German company. The distributor is obligated to purchase a minimum of 24 ROBODOC systems during 2000 and 32 ROBODOC systems during 2001. The distributor is required to pay the Company advance payments of $200,000 per month for the first six months of 2000, $300,000 per month for the remainder of 2000, and $400,000 per month for 2001, to be applied as a credit against the products purchased. However, the distributor has no minimum purchase or advance payment obligation after 2001, even though it will retain exclusive rights to distribute the Company's products in Europe, the Middle East and Africa through 2003. The distributor's only obligation to the Company after 2001 is to pay for products that it purchases. The Company will continue to receive service contract revenues and bear the cost of maintenance, training and customer support. The distribution agreement will eliminate marketing; sales and administrative expenses associated with the Company's European activities and provide the Company with a more predictable source of revenues based upon the minimum purchase commitments of the distributor.

As of March 30, 2000 the Company had only received the advance payments from the distributor for January, and had not received any orders from the German distributor for the Company's products.

To date, the Company's products have been marketed primarily in Germany, Switzerland and Austria. Over 2,450 THA surgeries have been performed with the ROBODOC Systems at a clinic in Frankfurt, Germany since August 1994. As result of a significant increase in the number of THA surgeries performed at the clinic with the ROBODOC System, the clinic purchased a third ROBODOC System in 1999. The Company has been marketing the ORTHODOC to hospitals, orthopaedic surgeons and implant manufacturers in the United States since early 1998.

The NeuroMate System is marketed in Japan through a Japanese distributor and in the United States through a direct sales force.

The Company promotes its products through presentations at trade shows and advertisements in professional journals and technical and clinical publications, as well as through direct mail campaigns.

MANUFACTURING

The Company's production process consists primarily of final assembly of purchased components, testing of the products and packaging, and is conducted at its facilities in Davis, California and Lyon, France. The Company purchases substantially all the components for its systems from outside vendors, then assembles these parts and installs its proprietary software.

The ROBODOC System consists of the robot, base and the control cabinet, which are connected through four interface cables, and the ORTHODOC. The NeuroMate System consists of a robot arm, electronics control and base. Sankyo Seiki of Japan supplies the robot for the ROBODOC System customized to the Company's specifications and Audemars-Piguet supplies the customized robot for the NeuroMate System. Upon delivery of a robot, the Company performs a series of tests to verify proper functioning. The customization and supply process for the robots currently requires approximately four months lead time. While the robots can be obtained from other suppliers with appropriate modifications and engineering effort, there can be no assurance that delays resulting from the required modifications or engineering effort to adopt alternative components would not adversely affect the Company. Ancillary items required to perform robotic surgeries, including devices for fixing the hip and attaching it to the robot, numerous probes, cutter bearing sleeves and tool guides, are assembled and tested separately.

Consumables, including sterile drapes, bone screws and cutters, are also manufactured by outside vendors according to the Company's specification and are inspected upon receipt to ensure that these specifications are consistently met. The Company purchases these items in quantity and distributes them on a per order basis. The Company also coordinates the packaging and sterilization of certain items. The Company's policy is to procure its consumables from vendors that it approves after ensuring that the goods comply with the Company's sterilization requirements.

The ORTHODOC consists of a pentium-based computer workstation and associated peripherals, and includes the Company's proprietary software. The Company purchases and then tests the computer as a complete package. A computer board is added to interface to CT/x-ray scanner input modules and, if required, the ROBODOC System's tape output drive. The hard drive is reformatted to accept the operating system, and appropriate ORTHODOC software is installed. The unit is configured for 110 or 220 AC volt operation.

The Company's production facilities are subject to periodic inspection by the FDA for compliance with Good Manufacturing Practices ("GMP"). In addition, the Company's products will be required to satisfy European manufacturing standards for sale in Europe. The Company believes that it is in compliance with GMP and it has obtained ISO-9001 certification, which is required for sales of its products in Europe.

RESEARCH AND DEVELOPMENT

Since its inception, the Company's research and development activities have focused on the development of innovative image-directed computer-controlled robotic products for surgical applications and operating software for these products. The Company incurred research and development expenses of approximately $5,581,000 and $6,603,000 in connection with the development of the ROBODOC System, the ORTHODOC and the NeuroMate System for the years ended December 31, 1999 and December 31, 1998, respectively.

The Company offers its customers hardware and software packages for primary and revision hip surgery and functional neurosurgery. Revision hip surgery, which was developed in collaboration with IBM and Johns Hopkins University was funded in part by a grant from the National Institute for Standards and Technology (Advanced Technology Program) of the United States Department of Commerce ("NIST"). Hip revision surgery generally is difficult, time consuming and complex. The metal in the existing implant distorts x-ray images used for planning the surgery, obstructing the remaining bone and, if a cemented implant is to be replaced, the location of the cement mantle. The removal of the cement mantle without removing any of the remaining thin bone structure is a major challenge for the surgeon. The Company believes that its patented hip revision application module improves surgical planning for hip revision surgery and enables the robot to remove cement more precisely than if the hip revision procedure were performed manually.

Under the terms of the NIST grant, the Company, IBM and Johns Hopkins University are entitled to reimbursement for 49% of the expenses incurred in connection with the project for a period of three years. The maximum amount of expenses subject to reimbursement under the grant is approximately $4,000,000, so that not more than $1,960,000 in expenses may be reimbursed in the aggregate to the Company, IBM and Johns Hopkins University under the grant. The Company had incurred research and development expenses of approximately $2,471,000 in connection with the NIST project through December 31, 1998. As of December 31, 1998, the Company had received approximately $831,000 under the terms of the grant. All expenses related to the grant were submitted and paid through March of 1999 thereby closing the grant.

The Company offers a number of lines of prostheses in its software library of hip implants on its ORTHODOC. It is expanding the library to include multiple implant lines, revision stems, and custom-made prostheses. In 1999, the Company received orders from Howmedica (a division of Stryker Corporation), DePuy Inc. (a subsidiary of Johnson & Johnson), Aesculap, AG & Co. KG, Zimmer Inc. (a subsidiary of Bristol-Myers Squibb Company) and PLUS Endoprothetik A.G. to add their respective hip prostheses to its existing software library. When completed, the ROBODOC System will support 14 lines of popular prostheses from seven of the largest orthopaedic companies in the world. The Company will further expand the library of implants used at clinical sites to include multiple implant lines, revision stems, and custom-made prostheses.

The Company has also commenced work with respect to the application of the base technology for total knee replacement and acetabular cup replacement.

IMMI is the recipient of an interest-free loan from ANVAR (a national agency in France established to aid research and development projects) in the amount of approximately $153,400. This loan provided funding for the development of the NeuroMate System for spine surgery. This project is currently in its first phase of development in connection with a University hospital in Lille, France. Under certain conditions (e.g., if at the completion of the project it is not deemed a "success") there will be no requirement to repay the loan.

IMMI also is the recipient of a grant from ANVAR in the amount of approximately $222,000, of which IMMI had received $174,000 as of December 31, 1998. This grant funds 50% of the cost to build and install NeuroMate Systems at two clinics in France as well as the costs to perform a clinical study at these sites over a period of fifteen months commencing March 1997.

COMPETITION

The principal competition for the ROBODOC System is manual surgery performed by orthopaedic surgeons, using surgical power tools and manual devices. The providers of these instruments are the major orthopaedic companies, which include Howmedica, Inc. (a division of Stryker Corporation), located in New York; Zimmer, Inc. (a subsidiary of Bristol-Myers Squibb), located in Indiana; Johnson & Johnson Orthopaedics, Inc. (a subsidiary of DePuy Inc.), located in New Jersey; DePuy, Inc., located in Indiana; Biomet, Inc. located in Indiana; and Osteonics, Inc. (a subsidiary of the Stryker Corporation), located in New Jersey. The principal competitor, Orto MAQUET, a manufacturer of operating tables located in Germany, has entered the market with a device intended to compete with ROBODOC. Orto MAQUET's system uses only pin-based registration which requires a preliminary surgical procedure to place pins prior to performing hip replacement surgery.

The principal competition for NeuroMate is from manufacturers of frame-based and frameless stereotactic systems, some of which are commonly called "navigators". Approximately twenty navigator models have been introduced, including those by Radionics, Sofamor Danek, and Ohio Medical Surgical Products, all located in the U.S.; Elekta, located in Sweden; and, Fischer Leibingher and Brain Lab, both located in Germany. In addition, there are companies in the medical products industry capable of developing and marketing computer-controlled robotic systems for surgical applications, many of whom have significantly greater financial, technical, manufacturing, marketing and distribution resources than those of the Company, and have established reputations in the medical device industry. However, the Company believes that it enjoys a significant competitive advantage over such companies in view of the time required to develop an image-directed, computer controlled robotic system and to obtain the necessary regulatory approvals, including the sponsorship of clinical trials. There can be no assurance that future competition will not have a material adverse effect on the Company's business.

The Company's ROBODOC System represents a significant technological advancement with respect to the manner in which THR surgery is performed. The Company's image-directed, computer-controlled, robotic technology is intended to complement surgeons in performing THA and other orthopaedic surgeries. Although there are companies which market technologically advanced surgical tools used by surgeons in performing orthopaedic surgeries, including passive robot systems that direct the surgeon in planning and performing surgical procedures (e.g., aiming and holding devices), the Company believes that the ROBODOC System is the most technologically advanced active robotic system that performs a key segment of THA surgery (i.e., milling a bone cavity) under the supervision of a surgeon.

The Company believes the NeuroMate System is the only robotic system presently used for neurosurgery which provides superior accuracy and flexibility as compared to other techniques.

WARRANTY AND SERVICE

The Company offers a full warranty, covering parts and labor, for the first year following the purchase of its products, which warranty coverage can be extended on an annual basis by purchasing a maintenance agreement at a price negotiated on a customer by customer basis.

The Company trains its customers with its in-house technical staff and services its customers with a direct service staff located in Europe. As needed, technical support also is provided from the U.S. engineering organization.

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 proprietary rights in its products and to maintain its competitive position.

The Company has been issued four U.S. patents, including one for revision surgery procedures and pinless THA surgery procedures. The Company has filed seven patent applications covering various aspects of its technology. 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 such technology is used in the Company's products. Furthermore, significant portions of the ORTHODOC and ROBODOC System software are protected by copyrights. IBM has granted the Company a royalty-free license for the underlying software code for the ROBODOC System. In addition, the Company has registered the marks ROBODOC and ORTHODOC.

Our U.S. patents include:

- -- Computer assisted software system for planning and performing hip revision surgery;
- -- Computer assisted system and method for creating cavities in the femur that will accept a prosthesis;
- -- Computer system and method for creating a pre-operative surgical plan for hip replacement surgery ; and
- -- Method for orienting real patient anatomy to a digital image of the patient's anatomy.

GOVERNMENT REGULATION

The medical devices to be marketed and manufactured by the Company are subject to extensive regulation by the FDA and by foreign and state governments. Pursuant to the Federal Food, Drug, and Cosmetic Act of 1976, as amended, and the regulations promulgated thereunder (the "FDC Act"), the FDA regulates the clinical testing, manufacturing, labeling, distribution, and promotion of medical devices. Noncompliance with applicable requirements can result in, among other things, 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 manufactured or distributed by the Company.

Any products manufactured or distributed by the Company pursuant to the FDA clearances or approvals are subject to pervasive and continuing regulation by the FDA, including quality system requirements ("QSR"), documentation and reporting of adverse experiences with the use of the device. Device manufacturers are required to register their establishments and list their devices with the FDA and with certain state agencies and are subject to periodic compliance inspections by the FDA and certain state agencies.

Following a pre-filing meeting with representatives of the FDA in early 1998, the Company stated that it intended to file its pre-market approval application to market the ROBODOC System with the FDA as part of the PMA submission review process (which process is intended to expedite the FDA's formal pre-market approval process). The Company has deferred the filing of its pre-market approval application with the FDA so that it may incorporate the DigiMatch anatomically based registration technology and possibly other technical developments, as part of its pre-market approval application. The Company believes, based upon discussions with representatives of the FDA, that the incorporation of the DigiMatch System will enhance its

prospects for obtaining FDA approval. There can be no assurance as to when or if the FDA will grant PMA approval to the ROBODOC System or that such approval, if obtained, will not include unfavorable limitations or restrictions.

After receipt of PMA approval, if any, the Company expects that the FDA would consider new surgical applications for the ROBODOC System to be new indications for use, which generally would require FDA approval of a PMA supplement or, possibly a new PMA. The FDA is also likely to require additional approvals before the agency will permit the Company to incorporate new imaging modalities (such as ultrasound and MRI) or other different technologies in the ROBODOC System. The FDA likely will require new clinical data to support new indications and enhanced technological characteristics.

In February 1996, the Company filed a 510(k) submission for the ORTHODOC as a stand-alone device. This 510(k) was the first product submission filed by the Company with the FDA. In January 1997, the ORTHODOC received clearance from the FDA for marketing in the United States. The NeuroMate System received 510(k) clearance from the FDA for marketing in the United States in May 1997. Medical device companies may make regulatory decisions that certain non-significant modifications to a 510(k) cleared product do not require additional regulatory submissions or notifications.

Labeling and promotion activities are subject to scrutiny by the FDA and, in certain instances, by the Federal Trade Commission. Current FDA enforcement policy prohibits marketing approved medical devices for unapproved uses. The Company and its products are also subject to a variety of state laws and regulations in those states or localities where its products are or will be marketed. Any applicable state or local regulations may hinder the Company's ability to market its products in those states or localities. Manufacturers are also 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. There can be no assurance that the Company will not be required to incur significant costs to comply with such laws and regulations now or in the future or that such laws or regulations will not have a material adverse effect upon the Company's business, financial condition or results of operations.

Exports of products subject to the 510(k) notification requirements, but not yet cleared to market, are permitted without FDA export approval provided certain requirements are met. Unapproved products subject to the PMA requirements must receive prior FDA export approval unless they are approved for use by any member country of the European Union and certain other countries, including Australia, Canada, Israel, Japan, New Zealand, Switzerland and South Africa, in which case they can be exported to any country without prior FDA approval. To obtain FDA export approval, when it is required, certain requirements must be met and information must be provided to the FDA that may include 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 the Company's products in foreign markets has subjected and will continue to subject the Company to foreign regulatory clearances which may impose additional substantive costs and burdens. International sales of medical devices are subject to the regulatory requirements of each country. The regulatory review process varies from country to country. Many countries also impose product standards, packaging requirements, labeling requirements and import restrictions on devices. In addition, each country has its own tariff regulations, duties and tax requirements.

The ROBODOC System satisfies international electromedical standard IEC 601-1 and the protection requirements of the Electromagnetic Compatibility Directive (89/336/EEC), thus allowing the Company to apply the CE Mark. This conformity is evidenced by the grant of a GS-Mark by Technische Uebermachungs Verein Rheinland ("TUV"), a testing body in Germany, under current German regulations. The ROBODOC System also satisfies the relevant provisions of the Medical Device Directive for a Class II b Medical Device.

The NeuroMate System satisfies the relevant provisions of the Medical Device Directive for a Class IIb Medical Device, thus allowing the Company to apply the CE Mark. In June 1997, the NeuroMate System received clearance from the Japanese Ministry of Health for marketing in Japan.

PRODUCT LIABILITY

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 $5 million per occurrence and $5 million in the aggregate. There can be no assurance, however, that the coverage limits of the Company's insurance policies will be adequate, that the Company will continue to be able to procure and maintain such insurance coverage, or that such insurance can be maintained at acceptable costs. Although the Company has not experienced any product liability claims to date, a successful claim brought against the Company in excess of its insurance coverage could have a materially adverse effect on the Company's business, financial condition, and results of operations.

EMPLOYEES

As of March 3, 2000, the Company had 81 full time employees, including 41 in research and development, 7 in manufacturing, 9 in regulatory affairs and quality assurance, 14 in sales and marketing and 10 in administration. Except for the employees of IMMI, none of the Company's employees is covered by a collective bargaining agreement. The Company believes its relationship with its employees is satisfactory.

ITEM 2. DESCRIPTION OF PROPERTY.

The Company's executive offices and principal production facilities, comprising a total of approximately 30,500 square feet of space, are located in Davis, California. The Company occupies the facilities in Davis pursuant to a lease that expires in September 2004. The lease provides for rent of $30,000 per month (plus real estate taxes and assessments, utilities and maintenance), through May 31, 1999, subject to adjustment in subsequent years for cumulative increases in the cost of living index, not to exceed 4% per year.

The Company leases its European facility under a non-cancelable operating lease. The lease is for a term of eight years and expires in 2006. The lease provides for rent of $7,197 per month.

ITEM 3. LEGAL PROCEEDINGS.

The Company has from time to time been notified of various claims incidental to its business that are not the subject of pending litigation. While the results of claims cannot be predicted with certainty, the Company believes that the final outcome of all such matters will not have a materially adverse effect on its consolidated financial position, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

A special meeting of stockholders was held on November 17th, 1999 to approve the issue and sale to ILTAG International Licensing Holding S.A.L. ("ILTAG"), Bernd Herrmann and Urs Wettstein of an aggregate of 2,922,396 shares of Common Stock and warrants to purchase an additional number of shares of Common Stock that would give them 40% of the fully diluted Common Stock, for a purchase price of $4 million pursuant to a Stock and Warrant Purchase Agreement dated as of October 1, 1999. The Company issued three year warrants to purchase an additional 11,700,000 shares of Common Stock at an exercise price of $1.02656 per share to fulfill the terms of the agreement. At the special meeting 4,254,806 shares were voted for the sale, 52,510 shares were voted against the sale and 479,734 shares abstained.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

(a) The Company's Common Stock and redeemable Common Stock Purchase Warrants ("Warrants") are traded on the Nasdaq SmallCap Market under the symbols "RDOC" and "RDOCW", respectively. The Company's Common Stock and Warrants also are listed on the Pacific Exchange under the symbols "ROB" and "ROBWS", respectively.* Since November 21, 1997, the Common Stock also has been traded on EASDAQ under the symbol "RDOC."

Set forth below are the high and low closing sale prices for the Common Stock and Warrants on the Nasdaq SmallCap Market for each quarter since January 1, 1998.

	COMMON STOCK ("RDOC")		WARRANTS ("RDOCW")	
QUARTER ENDED 1999	HIGH	LOW	HIGH	LOW
March 31, 1999	$3.938	$1.031	$1.031	$0.406
June 30, 1999	$2.969	$1.031	$1.500	$0.250
September 30, 1999	$4.125	$2.500	$2.344	$1.000
December 31, 1999	$2.750	$1.438	$1.125	$0.375
QUARTER ENDED 1998				
March 31, 1998	$5.875	$3.938	$1.813	$1.125
June 30, 1998	$7.313	$4.875	$2.750	$1.250
September 30, 1998	$5.000	$3.000	$1.563	$0.688
December 31, 1998	$4.563	$2.563	$1.250	$0.438

(b) As of March 17, 1999, there were 119 holders of record of the Common Stock and 10 holders of record of the Warrants. The Company believes that as of March 17, 1999 there were approximately 1,500 and 400 beneficial owners of Common Stock and Warrants, respectively.

(c) On December 14, 1999, the Registrant sold an aggregate of 2,922,396 shares of Common Stock and warrants to purchase an additional 11,700,000 shares of Common Stock to ILTAG, Bernd Herrmann and Urs Wettstein for a total purchase price of $4,000,000. The sale was exempt from the registration requirements of the Securities Act under Section 4(2) of the Securities Act and Rule 506 of Regulation D. Each of the purchasers is an accredited investor.

* No trading activity has been reported by the Pacific Exchange.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

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

RESULTS OF OPERATIONS

Net Sales. Net Sales for the year ended December 31, 1999 increased by approximately $100,000 or 1.5% to $6,241,000 compared to $6,146,000 for year ended December 31, 1998. This increase in net sales is due to increase in the sales of Neuromate systems, service contracts and implant software libraries.

Cost of Sales. Cost of sales for 1999 was $3,564,000 or 57% of net sales as compared to $3,413,000 or 56% of net sales for the prior year.

Selling, General and Administrative. Selling, general and administrative expenses for 1999 were $6,589,000 compared to $6,348,000 for 1998. Selling, general and administrative expenses increased by 2% as a percentage of sales.

Research and Development. Expenses for research and development during 1999 decreased by 15% to $5,581,000 from $6,603,000 during 1998. During 1999, the Company concentrated on its' core products and technologies in order to strengthen its' position in the marketplace. This concentration led to the decrease in R&D expenditures in non-core areas and therefore, the lower level of expenditures in 1999.

During 1999, the Company amortized $839,000 of identified intangible assets acquired in the ISS-SA transaction in 1997. This charge was equal to the amount recorded in 1998.

Interest Income and Expense. For 1999, interest income amounted to $198,000 compared to $241,000 in 1998. The difference is the result of generally lower average cash balances during the year. During the 1999 year, the Company also made borrowings against a revolving line of credit, and had other interest expenses which, in total, generated interest expense in the amount of $198,000.

Foreign Currency Gain (Loss). Losses incurred in connection with foreign currency transactions amounted to $183,000 in 1999 as a result of exchange rates that strengthened the U.S. Dollar relative to European currencies. In 1998, transaction gains were approximately $129,000.

Other Income and Expense. Other expense for 1999 amounted to $491,000 compared to other expense of $270,000 for the same period in 1998. As of December 31, 1999, the Company owned approximately 27% of the outstanding shares of Marbella High Care B.V. ("MBHC") and accounts for its investment under the equity method. The Company recorded expenses relating to its investment and advances in MBHC of $480,000 and $317,000 for years ended December 31, 1999 and 1998, respectively. These charges are included in other income (expense).

Preferred Stock Accretion. During 1999, the Company entered into private placement agreements whereby the Company's Series B, C, D & E Convertible Preferred Stock issues were placed with private investors. The terms of the preferred stock include a Beneficial Conversion Feature. The values assigned to the Beneficial Conversion Feature, as determined using the quoted market prices of the Company's common stock on the dates the Series B, C, D & E Preferred Stock were sold, amounted to $176,000, $144,000, $353,000 and $529,000 respectively, which represented a discount to the values of the Series B, C, D & E Preferred Stocks (the "Discount"). The Discounts are being accreted using the vesting terms through January 27, 2000. Approximately $1,423,000 of the Discounts were accreted in 1999 including $240,000 attributable to the Series A Preferred issued in 1998.

Net Loss. The net loss applicable to common stockholders for 1999 increased by 8.8% from $10,644,000 in 1998 to $11,578,000 in 1999. The increase in the loss is due primarily to an increase in the foreign currency transaction loss versus a gain in 1998, the write-off of the Company's investment in MBHC, and amounts attributable to the preferred stock accretion in connection with the private placements in 1999.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, the Company's expenses have exceeded net sales. Operations have been funded primarily from the issuance of debt and the sale of equity securities aggregating approximately $46.5 million. In addition, the Company was the beneficiary of proceeds from a $3 million key-man life insurance policy in 1993 upon the death of one of its executives.

The Company used cash from operating activities of approximately $8,375,000 and $8,673,000 in 1999 and 1998, respectively. Net cash used for operations in each of these periods resulted primarily from the net loss. Cash used for operations in 1998 reflected an increase in accounts receivable and inventories. Cash used for operations in 1999 reflected a decrease in accounts receivable, an increase in inventories and a decrease in value added taxes payable and other current liabilities.

Investing activities provided $1,771,000 of cash in 1999. The sale of short term investments, purchased in 1998 provided $2,039,000 of cash in 1999. The Company used cash in investing activities of approximately $4,258,000 in 1998. The Company's other investing activities have consisted primarily of expenditures for property and equipment that totaled approximately $410,000 and $1,746,000 in 1999 and 1998, respectively.

Cash provided from financing activities from inception through 1999 is comprised principally of the net cash proceeds from the sale of a convertible note in the principal amount of $3,000,000 that, along with the accrued interest of $1,224,000, was converted into a warrant to purchase Common Stock, as part of the recapitalization of the Company in December 1995. Cash was also provided by the sale of convertible preferred stock and warrants in the amount of $14,676,000 in 1995. These were converted into Common Stock and warrants to purchase Common Stock in December 1995 and November 1996 in the amounts of $11,734,000 and $2,942,000 respectively. The sale of Common Stock and warrants provided an additional source of cash as a result of the Company's initial public offering in November 1996 and its' European offering

of Common Stock in November 1997 in the amounts of $6,137,000 and 8,440,00 respectively. Furthermore, the Company sold five series of convertible preferred stock and warrants during 1998 and 1999 that provided additional cash. Cash provided was: $3,300,400 from series A in September, 1998, $911,000 from Series B in March 1999, $658,000 from Series C in June 1999, $1,862,000 in June 1999 from Series D and $2,819,000 from Series E in July 1999. In December 1999, the Company sold 2,922,396 shares of Common Stock and warrants to purchase an additional 11,700,000 shares of Common Stock to three private investors for $3,657,000, net of offering expense. In 1998, the Company established a $1.5 million revolving credit facility with a bank which has been subsequently closed.

The Company believes that it has developed a viable plan to address the going concern issues raised by its independent auditors and that its plan will enable the Company to continue as a going concern through the end of 2000. This plan includes the expansion of the geographic markets in which its products are sold, new applications for its products, the consummation of equity financings in amounts sufficient to fund further growth, to attain its product development and marketing objectives and meet its working capital demands, and the reduction of certain operating expenses as necessary. Although the Company believes that its plan will be realized, there is no assurance that these events will occur. 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 the inability of the Company to continue as a going concern.

YEAR 2000 COMPLIANCE

In prior years, the Company discussed the nature and progress of its plans to become Year 2000 ready. In late 1999, the Company completed its upgrade and testing of systems. As a result of those planning and implementation efforts, the Company experienced no significant disruptions in mission critical information technology and non-information technology systems and believes those systems successfully responded to the Year 2000 date change. The Company expensed approximately $100,000 during 1999 in connection with remediating its systems. The Company is not aware of any material problems resulting from Year 2000 issues, either with its products, its internal systems, or the products and services of third parties. The Company will continue to monitor its mission critical computer applications and those of its suppliers and vendors throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly.

ITEM 7. FINANCIAL STATEMENTS.

The financial statements follow Item 13 of this report.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

The Company did not have any changes in or disagreements with its accountants on accounting and financial disclosure.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, AND PROMOTION AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

The information called for by this Item is incorporated by reference to the Company's definitive proxy statement for the 2000 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A.

ITEM 10. EXECUTIVE COMPENSATION.

The information called for by this Item is incorporated by reference to the Company's definitive proxy statement for the 2000 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information called for by this Item is incorporated by reference to the Company's definitive proxy statement for the 2000 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information called for by this Item is incorporated by reference to the Company's definitive proxy statement for the 2000 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

EXHIBIT	DESCRIPTION
3.1	Form of Certificate of Incorporation of the Registrant, as amended.(1)
3.2	By-laws of the Registrant.(2)
3.3	Certificate of Designations for Series D Convertible Preferred Stock.(3)
3.4	Certificate of Designations for Series F Convertible Preferred Stock.(4)
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)
4.10	Series D Preferred Stock Purchase Warrant issued by the Company to IBM, dated December 21, 1995 (included as Exhibit H to Exhibit 10.5 herein).(2)
4.11	Warrant issued by the Registrant to Sutter Health, Sutter Health Venture Partners ("Sutter Health VP") and Keystone Financial Corporation ("Keystone"), dated December 21, 1995 (included as Exhibits K, L and M, respectively, to Exhibit 10.5 herein).(2)

EXHIBIT	DESCRIPTION
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)
4.13	1995 Stock Option Plan, as amended.(2)
4.14	Series D Preferred Stock Purchase Warrant issued by the Registrant to IBM, dated February 29, 1996 (together with the warrant referred to in Exhibit 4.10, the "Series D Warrants").(2)
4.15	Letter Agreement between the Registrant and IBM dated October 29, 1997, amending the Series D Warrants and the Series D Preferred Stock and Warrant Purchase Agreement among the Registrant, IBM and EJ Financial, dated December 21, 1995.(6)
4.16	Form of warrant issued to CA IB Investmentbank Aktiengesellschaft and Value Management & Research GmbH.(6)
4.17	Preferred Stock Purchase Agreement for Series D Convertible Preferred Stock.(3)
4.18	Preferred Stock Purchase Agreement for Series F Convertible Preferred Stock.(4)
4.19	Form of warrant issued to purchasers of Series A Convertible Preferred Stock.(7)
4.20	Form of warrant issued to purchasers of Series B Convertible Preferred Stock.(8)
4.21	Form of warrant issued to purchasers of Series C Convertible Preferred Stock.(3)
4.22	Form of warrant issued to purchasers of Series D Convertible Preferred Stock.(3)
4.23	Form of warrant issued to purchasers of Series E Convertible Preferred Stock.(9)
4.24	Form of warrant issued to purchasers of Series F Convertible Preferred Stock.(4)
4.25	Form of Registration Rights Agreement for Series D Convertible Preferred Stock financing.(3)
4.26	Form of Registration Rights Agreement for Series F Convertible Preferred Stock financing.(4)
4.27	Form of warrant dated December 14, 1999 issued to ILTAG International Licensing Holding S.A.L., Bernd Herrmann and Urs Wettstein (included as Exhibit B to Exhibit 10.12).
4.28	Form of Registration Rights Agreement dated December 14, 1999 among the Registrant, ILTAG International Licensing Holding S.A.L., Bernd Herrmann and Urs Wettstein (included as Exhibit C to Exhibit 10.12).
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)
10.3	Series B Preferred Stock Purchase Agreement among the Registrant, Sutter Health and The John N. Kapoor Trust, dated as of April 10, 1992.(2)
10.4	Series C Preferred Stock Purchase Agreement among the Registrant, Sutter Health and Keystone, dated as of November 13, 1992, as amended December 13, 1995.(2)
10.5	Series D Preferred Stock and Warrant Purchase Agreement among the Registrant, IBM and EJ Financial, dated December 21, 1995.(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 (included as Exhibit F to Exhibit 10.5 herein).
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)
10.9	Agreement for the Purchase and Use of Sankyo Industrial Products between the Registrant and Sankyo Seiki (American) Inc. dated November 1, 1992.(2)
10.10	Stock Purchase Agreement dated as of September 5, 1997 between the Registrant and the holders of the outstanding capital stock of Innovative Medical Machines International, S.A.(6)

EXHIBIT	DESCRIPTION
10.11	Registration Rights Agreement dated September 5, 1997 by and among the Registrant and the holders of the outstanding capital stock of Innovative Medical Machines International, S.A.(6)
10.12	Stock and Warrant Purchase Agreement dated as of October 1, 1999 among the Registrant, ILTAG International Licensing Holding S.A.L., Bernd Herrmann and Urs Wettstein. (10)
10.13	Distribution Agreement dated November 12, 1999 between the Registrant and Spark 1st Vision GmbH & Co. KG.
23.1	Consent of Ernst & Young LLP, Independent Auditors.
27.1	Financial Data Schedule.

- ---

(1) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1998.

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

(3) Incorporated by reference to the Registrant's Registration Statement on Form S-3 (Registration No. 333-83067), declared effective on October 14, 1999.

(4) Incorporated by reference to the Registrant's Registration Statement on Form S-3 (Registration No. 333-30422), declared effective on February 22, 2000.

(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 Registration Statement on Form SB-2 (Registration No. 333-31481), declared effective on November 14, 1997.

(7) Incorporated by reference to the Registrant's Registration Statement on Form S-3 (Registration No. 333-66133), declared effective on January 14, 1999.

(8) Incorporated by reference to the Registrant's Quarterly Report on Form 10-QSB for the fiscal quarter ended March 31, 1999.

(9) Incorporated by reference to the Registrant's Quarterly Report on Form 10-QSB for the fiscal quarter ended June 30, 1999.

(10) Incorporated by reference to the Registrant's proxy statement dated October 5, 1999.

(b) Reports on Form 8-K:

The Registrant filed a Form 8-K dated December 14, 1999 reporting a change in control of the Registrant (Item 1) and that it had entered into a distribution agreement for Europe, the Middle East and Africa (Item 5).

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/ LOUIS J. KIRCHNER

Louis J. Kirchner, Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: March 29, 2000

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 March 29, 2000 in the capacities indicated.

SIGNATURE	TITLE
/s/ RAMESH C. TRIVEDI Ramesh C. Trivedi	Chief Executive Officer, President and a Director (Principal Executive Officer)
/s/ LOUIS J. KIRCHNER Louis J. Kirchner	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ FALAH AL-KADI Falah Al-Kadi	Chairman of the Board
/s/ JOHN N. KAPOOR John N. Kapoor	Director
/s/ BERND HERRMANN Bernd Herrmann	Director
/s/ URS WETTSTEIN Urs Wettstein	Director

INTEGRATED SURGICAL SYSTEMS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Integrated Surgical Systems, Inc.

We have audited the accompanying consolidated balance sheet of Integrated Surgical Systems, Inc. as of December 31, 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 1999 and 1998. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Integrated Surgical Systems, Inc. at December 31, 1999, and the consolidated results of its operations and its cash flows for the years ended December 31, 1999 and 1998 in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that Integrated Surgical Systems, Inc. will continue as a going concern. As more fully described in Note 1, the Company has incurred recurring operating losses and has an accumulated deficit of $45,800,979 as of December 31, 1999. 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 1. 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 the outcome of this uncertainty.

ERNST & YOUNG LLP

Sacramento, California
March 10, 2000

INTEGRATED SURGICAL SYSTEMS, INC.

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1999

ASSETS	
Current assets:	
Cash and cash equivalents	$ 2,918,016
Accounts receivable less allowance for doubtful accounts of $345,466	634,216
Inventory	3,332,191
Other current assets	526,927
Total current assets	7,411,350
Net property and equipment	905,001
Leased equipment, net	638,357
Long-term net investment in sales-type leases	433,985
Intangible assets, net	2,175,938
Other assets	12,558
	$ 11,577,189
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 1,648,124
Value added taxes payable	78,408
Accrued payroll and related expenses	386,418
Customer deposits	1,047,066
Accrued product retrofit costs	207,953
Current portion of bank loans	114,433
Other current liabilities	485,893
Total current liabilities	3,968,295
Note payable	153,400
Commitments and contingencies (Notes 1, 10 and 11)	
Stockholders' equity:	
Convertible preferred stock, $0.01 par value, 1,000,000 shares authorized, 2,925 shares issued and outstanding ($2,925,000 aggregate liquidation value)	29
Common stock, $0.01 par value, 50,000,000 shares authorized; 14,291,915 shares issued and outstanding	142,919
Additional paid-in capital	53,631,218
Deferred stock compensation	(10,513)
Preferred stock discount	(19,853)
Accumulated other comprehensive loss	(487,327)
Accumulated deficit	(45,800,979)
Total stockholders' equity	7,455,494
	$ 11,577,189

See accompanying notes.

INTEGRATED SURGICAL SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,	
	1999	1998
Net sales	$ 6,240,842	$ 6,146,434
Cost of sales	3,563,943	3,413,221
	2,676,899	2,733,213
Operating expenses:		
Selling, general and administrative	6,589,222	6,347,592
Research and development	5,580,648	6,602,550
	12,169,870	12,950,142
Other income (expense):		
Interest income	197,551	240,959
Interest expense	(198,479)	(124,095)
Foreign currency gain (loss)	(183,197)	129,158
Other, net	(491,480)	(269,737)
Loss before provision for income taxes	(10,168,576)	(10,240,644)
Provision for income taxes	(13,155)	27,235
Net loss	(10,155,421)	(10,267,879)
Preferred stock accretion	(1,422,500)	(376,264)
Net loss applicable to common stockholders	$(11,577,921)	$(10,644,143)
Basic and diluted net loss per share	$ (1.47)	$ (1.91)
Shares used in computing basic net loss per share	7,896,171	5,584,639

See accompanying notes.

INTEGRATED SURGICAL SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	CONVERTIBLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN	DEFERRED STOCK	PREFERRED STOCK
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	COMPENSATION	DISCOUNT
Balance at December 31, 1997	--	--	5,503,390	55,034	$38,219,836	$(239,530)	--
Exercise of stock options	--	--	142,010	1,420	14,313	--	--
Issuance of stock options to consultant	--	--	--	--	208,386	--	--
Sale of common stock warrants	--	--	--	--	6,930	--	--
Sale of convertible preferred stock and warrants, net of offering expenses	3,520	35	5,000	50	3,300,362	--	--
Stock compensation expense	--	--	--	--	(22,540)	153,892	--
Preferred stock discount	--	--	--	--	616,000	--	(616,000)
Preferred stock accretion	--	--	--	--	--	--	376,264
Comprehensive loss:							
Net loss	--	--	--	--	--	--	--
Unrealized gains of securities	--	--	--	--	--	--	--
Foreign currency translation adjustments	--	--	--	--	--	--	--
Comprehensive loss	--	--	--	--	--	--	--
Balance at December 31, 1998	3,520	35	5,650,400	$ 56,504	$42,343,287	$ (85,638)	$ (239,736)
Exercise of stock options	--	--	80,546	806	4,982	--	--
Stock compensation, non-employees	--	--	30,351	304	204,123	--	--
Stock compensation, employees	--	--	10,335	103	48,175	75,125	--
Sale of common stock and warrants	--	--	2,922,396	29,224	3,627,865	--	--
Sale of convertible preferred stock and warrants, net of offering expenses	6,750	67	9,640	96	6,255,978	--	--
Conversions of preferred stock	(7,345)	(73)	5,588,247	55,882	(55,809)	--	--
Preferred stock discount	--	--	--	--	1,202,617	--	(1,202,617)
Preferred stock accretion	--	--	--	--	--	--	1,422,500
Comprehensive loss:							
Net loss	--	--	--	--	--	--	--
Adjustment to unrealized gains on available-for-sale securities	--	--	--	--	--	--	--
Foreign currency translation adjustments	--	--	--	--	--	--	--
Comprehensive loss	--	--	--	--	--	--	--
Balance at December 31, 1999	2,925	$29	14,291,915	$142,919	$53,631,218	$ (10,513)	$ (19,853)

	ACCUMULATED OTHER COMPREHENSIVE INCOME	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS EQUITY
Balance at December 31, 1997	$ 26,272	$(23,578,915)	$ 14,482,697
Exercise of stock options	--	--	15,733
Issuance of stock options to consultant	--	--	208,386
Sale of common stock warrants	--	--	6,930
Sale of convertible preferred stock and warrants, net of offering expenses	--	--	3,300,447
Stock compensation expense	--	--	131,352
Preferred stock discount	--	--	--
Preferred stock accretion		(376,264)	--
Comprehensive loss:			
Net loss	--	(10,267,879)	(10,267,879)
Unrealized gains of securities	50,626	--	50,626
Foreign currency translation adjustments	130,318	--	130,318
Comprehensive loss	--	--	(10,086,935)
Balance at December 31, 1998	$ 207,216	$(34,223,058)	$ 8,058,610
Exercise of stock options	--	--	5,788
Stock compensation, non-employees	--	--	204,427
Stock compensation, employees	--	--	123,403
Sale of common stock and warrants	--	--	3,657,089
Sale of convertible preferred stock and warrants, net of offering expenses	--	--	6,256,141
Conversions of preferred stock	--	--	--
Preferred stock discount	--	--	--
Preferred stock accretion	--	(1,422,500)	--
Comprehensive loss:			
Net loss	--	(10,155,421)	(10,155,421)
Adjustment to unrealized gains on available-for-sale securities	(50,626)	--	(50,626)
Foreign currency translation adjustments	(643,917)	--	(643,917)
Comprehensive loss	--	--	(10,849,964)

Balance at December 31, 1999.....	$ (487,327)	$(45,800,979)	$ 7,455,494

See accompanying notes.

INTEGRATED SURGICAL SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	YEARS ENDED DECEMBER 31,	
	1999	1998
Cash flows from operating activities:		
Net loss	$(10,155,421)	$(10,267,879)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	576,812	579,666
Amortization of intangible assets	839,040	839,040
Stock compensation, employees	123,403	131,352
Stock compensation, non-employees	204,427	208,386
Gain on short-term investments	(65,309)	50,626
Equity in net loss of Marbella High Care B.V.	--	317,000
Changes in operating assets and liabilities:		
Accounts receivable	1,214,882	(478,596)
Inventory	(996,248)	(1,110,320)
Other current assets	(96,260)	9,188
Accounts payable	234,703	65,539
Value added taxes payable	(242,733)	(91,098)
Accrued payroll and related expenses	(54,996)	54,655
Customer deposits	109,418	757,604
Accrued product retrofit costs	72,605	--
Other current liabilities	(139,482)	262,217
Note payable	--	(203)
Net cash used in operating activities	(8,375,159)	(8,672,823)
Cash flows from investing activities:		
Purchase of short-term investments	--	(2,024,278)
Proceeds from sale of short-term investments	2,038,961	--
Investment in Marbella High Care B.V.	--	(563,273)
Principal payments received on sales-type lease	92,489	88,425
Purchases of property and equipment	(410,384)	(1,746,127)
Proceeds from sale of property and equipment	50,367	--
Decrease (increase) in other assets	--	(12,868)
Net cash provided (used) in investing activities	1,771,433	(4,258,121)
Cash flows from financing activities:		
Proceeds from bank loans	32,600	678,447
Payments on bank loans	(762,723)	(69,138)
Proceeds from sale of preferred stock and warrants	6,256,141	3,300,447
Net proceeds from sale of common stock and warrants	3,657,089	6,930
Proceeds from exercise of stock options	5,788	15,733
Net cash provided by financing activities	9,188,895	3,932,419
Effect of exchange rate changes on cash and cash equivalents	109,266	130,318
Net increase (decrease) in cash and cash equivalents	2,694,435	(8,868,207)
Cash and cash equivalents at beginning of year	223,581	9,091,788
Cash and cash equivalents at end of year	$ 2,918,016	$ 223,581
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 70,856	$ 118,925

See accompanying notes.

INTEGRATED SURGICAL SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1999

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Integrated Surgical Systems, Inc. (the "Company") was incorporated on October 1, 1990 in Delaware. The Company develops, manufactures, markets and services computer-controlled, image-directed robotic products for surgical applications. The Company's principal product is the ROBODOC(R) Surgical Assistant System (ROBODOC(R)), which is designed for orthopedic applications. ROBODOC(R) is currently marketed in Europe and the Middle East.

On September 5, 1997, the Company acquired all of Innovative Medical Machines International, S.A.'s issued and outstanding capital stock, stock warrants and convertible debt in a transaction accounted for as a purchase. In April 1999 Innovotive Medical Machines International S.A. was renamed Integrated Surgical Systems, S.A. (ISS-SA). ISS-SA develops, manufactures and markets image guided robotic devices for surgical applications. Its principal product is the NeuroMate(R), a computer controlled surgical robot supporting neurosurgical procedures.

On June 1, 1994, the Company acquired all shares of Gasfabriek Thijssen Holding BV (later renamed Integrated Surgical Systems BV), a non-operating Netherlands corporation, for approximately $4,000. The acquisition was accounted for as a purchase. Integrated Surgical Systems BV (ISS-BV) purchases and licenses products and technology from Integrated Surgical Systems, Inc. for distribution in Europe and other markets.

The Company has incurred recurring operating losses and has an accumulated deficit of $45,800,979 as of December 31, 1999. The report of independent auditors on the Company's December 31, 1999 financial statements includes an explanatory paragraph indicating there is substantial doubt about the Company's ability to continue as a going concern. The Company believes that it has developed a viable plan to address these issues and that its plan will enable the Company to continue as a going concern through the end of 2000. This plan includes the expansion of the geographical markets in which its products are sold, new applications for its products, the consummation of equity financings in amounts sufficient to fund further growth, attain its product development and marketing objectives and meet its working capital demands, and the reduction of certain operating expenses as necessary. Although the Company believes that its plan will be realized, there is no assurance that these events will occur. 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 the inability of the Company to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

FOREIGN CURRENCY TRANSLATION

The financial position and results of operations of ISS-SA and ISS-BV are measured using their respective local currencies. The subsidiary balance sheet accounts are translated at the year-end exchange rate and statement of operations amounts are translated at the average exchange rate for the period. Translation adjustments are recorded as a separate component of stockholders' equity. Foreign currency transaction gain (loss) was ($183,197) and $129,158 during the years ended December 31, 1999 and December 31, 1998, respectively.

REVENUE RECOGNITION

Revenues from sales without significant Company obligations beyond delivery are recognized upon delivery of the products and transfer of title. Revenues pursuant to agreements which include significant Company obligations beyond delivery are deferred until the Company's remaining obligations are insignificant. Revenues are recognized net of any deferrals for estimated future contractual liabilities. Estimated future product retrofit costs for ROBODOC(R) sold for clinical trials have been accrued in the accompanying financial statements. Future retrofit costs are those expected to be required to update ROBODOC(R) to the equivalent level of performance expected to be approved by the Food and Drug Administration ("FDA").

RESEARCH AND DEVELOPMENT

Software development costs incurred subsequent to the determination of the product's technological feasibility and prior to the product's general release to customers are not material to the Company's financial position or results of operations, and have been charged to research and development expense in the accompanying consolidated statements of operations. Grants received from third parties for research and development activities are recorded as reductions of expense over the term of the agreement as the related activities are conducted. Research and development costs are expensed as incurred.

CONCENTRATION OF CREDIT RISK AND SIGNIFICANT DISTRIBUTOR (SEE NOTE 15)

The Company sells its products to companies in the healthcare industry and performs periodic credit evaluations of its customers and generally does not require collateral. The Company believes that adequate provision for uncollectible accounts receivable has been made in the accompanying financial statements. The Company maintains substantially all of its cash at four financial institutions.

FINANCIAL STATEMENT ESTIMATES

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

CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The Company invests its excess cash in various investment grade, interest-bearing securities. As of December 31, 1999, cash equivalents and short-term investments consisted of money market mutual funds. The Company has not experienced any losses on such investments.

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. At December 31, 1999, the Company's entire portfolio of investments is classified as available-for-sale. These securities are stated at fair market value, determined based on quoted market prices, with the unrealized gains and losses reported in a separate component of stockholders' equity.

The amortized cost of debt securities classified as available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity, over the estimated life of the security. Such amortization is included in interest income. Realized gains are included in other income (expense) in the statement of operations. The cost of securities sold is based on the specific identification method.

For purposes of reporting cash flows, the Company considers highly liquid investments with original maturities of three months or less as cash equivalents.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying values of the bank loans approximate their fair values as of December 31, 1999, based on current incremental borrowing rates for similar types of borrowing arrangements.

Active markets for the Company's other financial instruments that are subject to the fair value disclosure requirements of Statement of Financial Accounting Standards No. 107, which consist of long-term lease receivables and notes payable, do not exist and there are no quoted market prices for these assets and liabilities. Accordingly, it is not practicable to estimate the fair values of such financial instruments because of the limited information available to the Company and because of the significance of the cost to obtain independent appraisals for this purpose.

INTANGIBLE ASSETS

The Company continually evaluates the value and future benefits of its intangible assets. The Company assesses recoverability from future operations using cash flows and income from operations of the related acquired business as measures. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, the carrying value would be reduced to estimated net realizable value if it becomes probable that the Company's best estimate for expected future cash flows of the related business would be less than the carrying amount of the related intangible assets. There have been no adjustments to the carrying amounts of intangible assets resulting from these evaluations as of December 31, 1999.

Intangible assets consist primarily of developed technology relating to the NeuroMate(R) system. In the opinion of the Company's management the developed technology was completed and had alternative future uses. Accumulated amortization on intangible assets was $1,957,760 on December 31, 1999. The estimated useful lives range from 3 to 5 years.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over estimated useful lives of 3 to 5 years, or the lease term, whichever is shorter.

NET INVESTMENT IN SALES-TYPE LEASES

The net investment in sales-type leases consists of the following at December 31, 1999:

Total minimum lease payments receivable.....	$ 686,444
Less unearned interest.....	(78,062)
Net investment in sales type leases.....	608,382
Less current portion (included in other current assets).....	(174,397)
Long-term net investment in sales-type leases.....	$ 433,985

The following represents future minimum lease payments to be received by the Company under its net investment in sales-type leases as of December 31, 1999:

2000.....	240,667
2001.....	240,667
2002.....	205,111
	$686,444

OPERATING LEASES

The Company leases certain of its ROBODOC systems to customers under cancelable operating leases. The typical lease period is 5 years and certain of the leases contain purchase options. The cost of equipment

under operating leases as of December 31, 1999 was $774,029 and the related accumulated amortization thereon was $135,672.

INVENTORY

Inventory is recorded at the lower of cost (first-in, first-out method) or market and consists of materials and supplies used in the manufacture and service support of the ROBODOC(R) and NeuroMate(TM) Systems. Inventory consists of the following at December 31, 1999:

Raw materials	$1,766,365
Work-in process	742,663
Finished goods	823,163
	$3,332,191

STOCK-BASED COMPENSATION

As permitted under the provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company has elected to account for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Under the intrinsic value method, compensation cost is the excess, if any, of the quoted market price or fair value of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock.

INCOME TAXES

The liability method is used to account for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are scheduled to be in effect when the differences are expected to reverse.

NET LOSS PER SHARE

In 1997, the Financial Accounting Standards Board ("FASB") issued Statement No. 128, Earnings per Share. Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts have been presented on the basis set forth in Statement 128 (Note 9).

SIGNIFICANT CUSTOMERS AND FOREIGN SALES

The Company recognized approximately 15% of its revenues from one customer during the year ended December 31, 1999 and 64% of its revenue from five customers each representing at least 10% of the Company's total revenue, during the year ended December 31, 1998. Foreign sales, substantially all to Western European countries, were approximately $5,794,000 and $6,005,000 for the years ended December 31, 1999 and December 31, 1998, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivatives and Hedging Activities" ("SFAS 133"), SFAS 133 establishes accounting and reporting standards of derivative instruments, including certain derivative instruments embedded in other contracts, and

for hedging activities. In July 1999, the Financial Accounting Standards Board issued SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133". SFAS 137 deferred the effective date until the first fiscal quarter of the fiscal year beginning after June 15, 2000. The Company will adopt SFAS 133 in its quarter ending March 31, 2001 and has not yet determined whether such adoption will have a material impact on the Company's financial statements.

In December, 1999, the Securities and Exchange Commission staff issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements. The SAB states that all registrants are expected to apply the accounting and disclosures described it in. The SEC staff, however, will not object if registrants that have not applied this accounting do not restate prior financial statements provided they report a change in accounting principle in accordance with APB Opinion No. 20, Accounting Changes, by cumulative catch-up adjustment no later than the second fiscal quarter of the fiscal year beginning after December 15, 1999. The Company is currently evaluating the impact, if any, of SAB 101 on its financial statements.

RECLASSIFICATIONS

Certain amounts reported in prior years financial statements have been reclassified to conform with the 1999 presentation.

3. SHORT-TERM INVESTMENTS

The company held no marketable securities on December 31, 1999. As of December 31, 1998 marketable debt securities were all classified as available for sale and consisted of 1,849,000 shares of U.S. Treasury Strips and a 1-year certificate of deposit. The treasury strips had an original cost of $1,767,773 on August 11, 1998. The net unrealized holding gain as of December 31, 1998 of $50,626 was included as a separate component of stockholders' equity. The certificate of deposit had an original cost of $200,000.

All of these marketable securities were sold during 1999 and all remaining income was realized as interest income in the Statement of Operations.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 1999:

ROBODOC and NeuroMate System equipment	$ 937,201
Other equipment	1,722,089
Furniture and fixtures	308,107
Leasehold improvements	45,418
	3,012,815
Less accumulated depreciation	(2,107,814)
	$ 905,001

5. INVESTMENT IN MARBELLA HIGH CARE B.V.

As of December 31, 1999 the Company owned approximately 27% of the outstanding shares of Marbella High Care B.V. ("MBHC") and accounts for its investment under the equity method. The Company recorded expenses relating to its investment and advances in MBHC of $480,000 and $317,000 for years ended December 31, 1999 and 1998, respectively. These charges are included in other income (expense).

6. BANK LOANS AND NOTE PAYABLE

Bank loans consist of the following at December 31, 1999:

Revolving line of credit established in July 1996 for five years with an available amount of $107,380 at December 31, 1999, with interest accruing at 7.15% per annum. The amount available decreases quarterly by 5% of the original amount beginning October 1996	107,380
Bank term loan with monthly principal and interest payments of approximately $1,762 over three years from May 1997, with interest accruing at 5.75% per annum	7,053
	114,433
Less current portion	114,433
Long-term bank loans	$ 0

The bank term loan is secured by substantially all of IMMI's tangible assets (with a net book value of approximately $1,041,000 at December 31, 1999) and is guaranteed by the Company.

The Company received an interest free loan with a balance of $153,400 at December 31, 1999 from a grant organization for the development of a new system. In the case of failure of the project, the Company will have to repay approximately $38,000 of the loan. If the Company sells either a license for the related technology, the prototype developed, or articles manufactured specifically for the research project, 50% of the revenue must be paid to the grant organization in the subsequent year, up to the balance of the loan amount outstanding. According to the contract, any such payments would be considered to be an advance repayment of the loan. The Company has not made any sales of this type through December 31, 1999.

7. STOCKHOLDERS' EQUITY

COMMON STOCK

As of December 31, 1999 the Company has reserved a total of 22,587,445 shares of common stock pursuant to Series D&E Convertible Preferred Stock, warrants and options outstanding and reserved for future issuance.

INITIAL PUBLIC OFFERING

In November 1996, the Company sold in its initial public offering, a total of 1,525,000 shares of common stock at $5.00 per share and 3,272,754 warrants at $0.10 per warrant. In addition, the Company sold to its underwriter warrants to purchase an additional 343,281 shares for total consideration of $10.00. The net proceeds after underwriters' commissions and fees and other costs associated with the offering were approximately $6,137,000.

The Company issued 708,540 warrents to underwirters to purchase Common Stock or warrents. Each warrant entitles the holder to purchase one share of Common Stock or warrents at an adjusted exercise price of $2.87 per share as of December 31, 1999, subject to future adjustment in certain events, at any time during the period commencing November 20, 1997, and thereafter for a period of four years. The warrants are subject to redemption by the Company at $0.10 per warrant at any time during the exercise period on not less than 30 days prior written notice to the holders of the warrants provided certain criteria regarding the price performance of the Company's common stock are met.

EUROPEAN OFFERING

On November 20, 1997, the Company sold 1,500,000 shares of Common Stock at approximately $7.00 per share in an offering to European investors (the "European Offering"). In addition, the Company sold to its

underwriters in the European Offering warrants to purchase an additional 338,412 shares for nominal consideration. The net proceeds of the European Offering were approximately $8,440,000.

Each of the warrants issued to the European Offering underwriters entitles the holder to purchase one share of common stock at an adjusted exercise price of $3.70 per share as of December 31, 1999, subject to future adjustments in certain events, at any time during the period commencing November 21, 1998, and thereafter for a period of four years.

PREFERRED STOCK

As part of a Stock Purchase Agreement in December 1995 the Company sold a warrant for $1,333,333 to purchase 1,386,390 shares of Series D Preferred Stock at $0.01 per share, and in February 1996 sold a warrant for $666,667 to purchase 693,194 shares of Series D Preferred Stock at $0.01 to per share. On October 29, 1997, the Company and IBM executed an amendment to the Stock Purchase Agreement pursuant to which the Company and IBM agreed that these combined warrants to purchase 2,274,066 shares of Series D Preferred Stock would be exercisable only for 2,274,066 shares of Common Stock at $0.01 to $0.07 per share. The warrants expire on December 31, 2005 and have not been exercised as of December 31, 1999. Also on October 29, 1997, the Company delivered to CA IB Investmentbank AG ("CA IB") an agreement not to issue any shares of Common Stock, or any warrants, options or other rights to subscribe for or purchase shares of Series D Preferred Stock, or any other securities convertible into or exercisable or exchangeable for, Series D Preferred Stock, without the consent of CA IB. In addition, the Company's management caused the Board of Directors to present a resolution at the annual meeting of the Company's stockholders to amend the Company's Restated Certificate of Incorporation to eliminate the Series D Preferred Stock therefrom. On April 28, 1998 elimination of Series D Preferred Stock was adopted by the Company's stockholders.

In November 1996, the Board of Directors amended, and the stockholders subsequently approved, the Company's Articles of Incorporation to authorize 1,000,000 shares of undesignated 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 vote or action by the Company's stockholders.

CONVERTIBLE PREFERRED STOCK

Since September 1998, we have received aggregate net proceeds of approximately $11.4 million from the sale of six series of our convertible preferred stock. Information concerning these convertible preferred stock financings is set forth below.

SERIES	DATE OF SALE	SHARES OF PREFERRED STOCK SOLD	NET PROCEEDS
A	September 10, 1998	3,520	$3,300,447
B	March 26, 1999	1,000	916,918
C	June 10, 1999	750	658,190
D	June 30, 1999	2,000	1,861,549
E	July 30, 1999	3,000	2,819,484
F	February 22, 2000	2,000	1,880,000

Each series of convertible preferred stock has a stated value of $1,000 per share and is convertible into common stock at a conversion price equal to 85% of the lowest sale price of the Common Stock on the Nasdaq SmallCap Market over the five trading days preceding the date of conversion (the "Market Price") 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. As of December 31, 1999, 1,725 shares of series D convertible preferred stock and 1,200 shares of Series E convertible preferred stock were outstanding. No other shares of preferred stock were outstanding. On February 7, 2000 the Company redeemed the remaining outstanding shares of series E convertible preferred stock for a total redemption price of $1,185,000, or $1,000 per share, the stated value of a share of series E convertible preferred stock.

The maximum conversion price for the series D and series F preferred stock is $1.22 per share. There is no minimum conversion price for any series of convertible preferred stock.

Holders of series D convertible preferred stock may convert 25% of their shares commencing September 29, 1999, 50% of their shares commencing October 28, 1999, 75% of their shares commencing November 27, 1999 and 100% of their shares commencing December 27, 1999. The Company may require holders to convert all (but not less than all) of the Series D convertible preferred stock at any time after June 30, 2002, or buy out all outstanding shares, at the then conversion price.

The number of shares of Common Stock issued upon conversion of each series of convertible preferred stock as of December 31, 1999 was as follows: series A -- 2,867,135; series B -- 459,831; series C -- 563,497; series D -- 219,961; series E -- 1,477,823. The average actual conversion price for shares of each series of convertible preferred stock converted into shares of Common Stock as of December 31, 1999 was as follows: series A -- $2.23; Series B -- $2.17; Series C -- $1.33; Series D -- $1.61; Series E -- $1.22.

The value assigned to the beneficial conversion feature is based upon the quoted market price of the Company's Common Stock on the date the convertible preferred stock was sold which represents a discount to the value of each series of convertible preferred stock (the "Discount"). The Discount is being accreted using the straightline method over certain conversion periods. The following table sets forth information pertaining to the beneficial conversion feature for each series of convertible preferred stock.

SERIES	VALUE ASSIGNED TO BENEFICIAL CONVERSION FEATURES AT DATE OF SALE	ACCRETION	
		1998	1999
A	$616,000	$376,264	$ 239,736
B	176,471	--	176,471
C	143,793	--	143,793
D	352,941	--	352,941
E	529,559	--	509,559
	1,818,764	376,264	1,422,500

No series of convertible preferred stock entitles 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.

The Company may redeem the series D convertible preferred stock upon written notice to the holders of the series D convertible preferred stock at any time after the earlier of December 30, 1999 and the closing of a registered firm underwritten secondary offering of equity securities, at a redemption price equal to the greater of $1,500 per share and the Market Price of the shares of Common Stock into which such series D convertible preferred stock could have been converted on the date of the notice of redemption. All other series of convertible preferred stock have been converted as of December 31, 1999 except series E which was subsequently converted and redeemed in February, 2000.

The following table summarizes information about warrants issued in connection with each series of convertible preferred stock and outstanding as of December 31, 1999:

SERIES	ISSUE DATE	WARRANTS ISSUED	EXERCISE PRICE
A	September 10, 1998	44,000	$2.00
B	March 26, 1999	12,500	2.28
C	June 10, 1999	9,375	2.15
D	June 30, 1999	25,000	3.41
E	July 30, 1999	37,500	4.39

The warrants are exercisable upon vesting and expire between March 5, 2002 and February 11, 2003. The exercise price and the number of shares of Common Stock issuable upon conversion are subject to adjustment based upon certain future events. None of the warrants had been exercised as of December 31, 1999.

ISSUANCE OF STOCK AND STOCK WARRANTS

In September 1997, the Company issued 4,500 shares of Common Stock and warrants to purchase 55,132 shares of Common Stock (with an aggregate estimated fair value of $93,885) to Rickel & Associates, Inc. for services performed in connection with the acquisition of IMMI. The warrants have an exercise price of $7.50 per share and expire in September 2002.

The Company issued shares of Common Stock to Trinity Capital Advisors, Inc. for financial advisory services performed in connection with each series of convertible preferred stock as follows:

SERIES	DATE ISSUED	NUMBER OF SHARES	AGGREGATE ESTIMATED FAIR VALUE AT DATE OF ISSUE
A	September 1998	5,000	$20,625
B	March 1999	1,429	2,903
C	June 1999	1,071	1,941
D	June 1999	2,856	8,479
E	August 1999	4,284	13,923

On December 14, 1999 the Company issued and sold to ILTAG International Licensing Holding S.A.L., Bernd Herrmann and Urs Wettstein an aggregate of 2,922,396 shares of Common Stock and three-year warrants to purchase an additional 11,700,000 shares of common stock under a Stock and Warrant Purchase Agreement dated as of October 1, 1999. The purchase price for the shares and warrants was $4 million. The warrants vest immediately, are exercisable at $1.02656 per share and expire in December, 2002. The warrants are exercisable for three years after the date of issue. None of the warrants have been exercised as of December 31, 1999.

STOCK OPTION PLANS

The Company has elected to follow Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options.

The Company established a stock option plan in 1991 (the "1991 Plan") and on December 13, 1995, it established a new stock option plan (the "1995 Plan"). The Company adopted a third plan on April 28, 1998 (the "1998 Plan"). Certain employees of the Company surrendered their options under the 1991 Plan in

return for new and additional options granted under the 1995 Plan. During the year ended December 31, 1998, the Company reduced the exercise prices of certain outstanding stock options with exercise prices ranging from $4.31 to $8.63 (377,752 options) to $3.00 per share which was the fair market value of common stock as determined by the Company's Board of Directors on the date of repricing. Officers, employees, directors and consultants to the Company may participate in the Plans. Options granted under the Plans may be incentive stock options or non-statutory stock options. 1,876,624 shares of the Company's common stock have been reserved for issuance under the Plans. Options granted generally have a term of ten years from the date of the grant. The exercise price of incentive stock options granted under the Plans may not be less than 100% of the fair market value of the Company's common stock on the date of the grant. The exercise price of non-statutory stock options granted under the Plans may not be less than 85% of the fair market value of the Company's common stock on the date of the grant. For a person who, at the time of the grant, owns stock representing 10% of the voting power of all classes of Company stock, the exercise price of the incentive stock options or the non-statutory stock options granted under the Plans may not be less than 110% of the fair market value of the common stock on the date of the grant.

Pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS No. 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 1999 and 1998, respectively: risk-free interest rates of 6.0% and 5.0%; dividend yield of 0%; volatility factors of the expected market price of the Company's common stock of 0.91 and 0.77; and an expected life of the option of 4 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period. The Company's pro forma information follows:

	1999	1998
Pro forma net loss	$(11,908,599)	$(10,997,076)
Pro forma basic net loss per share	$ (1.51)	$ (1.97)

The following summarizes activity under the Plans for the years ended December 31, 1998 and 1999:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at December 31, 1997 (at $0.07 to $8.88 per share)	1,203,373	$1.97
Granted (at $2.84 to $6.06 per share)	724,252	3.23
Canceled (at $.07 to $8.88 per share)	(456,356)	5.33
Exercised (at $.07 to $2.07 per share)	(142,010)	0.11
Outstanding at December 31, 1998 (at $0.07 to $8.88 per share)	1,329,259	$1.93
Granted (at .01 to 3.94 per share)	167,288	2.41
Canceled (at .01 to 8.63 per share)	(46,767)	4.43
Exercised (at .01 to 0.10 per share)	(80,436)	0.07
Outstanding at December 31, 1999 (at .07 to 8.63 per share)	1,369,344	$1.40

All options granted in 1998 were granted with option prices equal to the fair market value of the Company's stock on the grant date. The weighted average exercise price of options granted in 1998 was $3.23 and the weighted average grant date fair value of these options was $1.47.

The weighted average exercise price of options granted in 1999 with option prices equal to the fair market value of the Company's stock on the grant date was $3.13 and the weighted average grant date fair value of these options was $2.08.

The weighted average exercise price of options granted in 1999 with option prices less than the fair market value of the company's stock on the date of grant was 1.50 and the weighted average grant date fair value of these options was 2.33.

The following summarizes information related to options outstanding and options exercisable at December 31, 1999:

EXERCISE PRICE	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	OPTIONS EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$0 - $ .99	639,531	$0.07	5.9	625,703	$0.07
$1 - $1.99	48,000	$1.74	9.6	4,000	$1.88
$2 - $2.99	45,056	$2.72	9.2	12,234	$2.65
$3 - $3.99	447,648	$3.12	8.7	162,161	$3.11
$4 - $4.99	40,500	$4.71	8.4	15,865	$4.73
$5 - $6.99	102,109	$5.33	7.0	73,722	$5.29
$7 - $8.88	46,500	$7.88	7.7	30,884	$7.91
	1,369,344	$2.01	7.3	924,569	$1.40

Of the options outstanding at December 31, 1999, options to purchase 924,569 shares of common stock were immediately exercisable at a weighted-average exercise price of $1.40 per share. A total of 216,926 shares were still available for grant under the 1995 Plan at December 31, 1999. A total of 290,354 shares were still available for grant under the 1998 Plan at December 31, 1999.

During the year ended December 31, 1996, the Company recorded deferred stock compensation of $783,666 relating to stock options granted during the period with exercise prices less than the estimated fair value of the Company's common stock, as determined by an independent valuation analysis, on the date of grant. The deferred stock compensation is being amortized into expense over the vesting period of the stock options which generally range from 3 to 5 years. Deferred compensation relating to stock options which vested immediately was expensed on the date of grant. The Company recorded a reduction of $5,675 and $22,540 in deferred stock compensation relating to canceled options in 1999 and 1998, respectively. Compensation expense of $69,450 and $131,352 was recorded during the years ended December 31, 1999 and 1998, respectively, relating to these options. The remaining $10,513 will be amortized into expense in future periods.

8. INCOME TAXES

The income tax provisions for the years ended December 31, 1999 and 1998 are comprised of currently payable state franchise taxes and currently payable foreign income taxes.

Deferred taxes result from temporary differences in the recognition of certain revenue and expense items for income tax and financial reporting purposes. The significant components of the Company's deferred taxes as of December 31, 1999 and 1998 are as follows:

	1999	1998
Deferred tax assets:		
Net operating loss carryover	$ 8,085,000	$ 5,842,000
Research and Development Credit	1,261,000	559,000
Research and development	417,000	285,000
Accrued product retrofit costs	83,000	54,000
Inventory	192,000	330,000
Depreciation	224,000	109,000
Stock compensation	285,000	256,000
Loss on investment	319,000	230,000
Deferred income	506,000	358,000
Other	100,000	(311,000)
	11,472,000	7,712,000
Less: Valuation allowance	(11,472,000)	(7,712,000)
Net deferred taxes	$ --	$ --

The Company expects the carryforward amounts will not be utilized prior to the expiration of the carryforward periods.

The principal reasons for the difference between the effective income tax rate and the federal statutory income tax rate are as follows:

	YEARS ENDED DECEMBER 31,	
	1999	1998
Federal benefit expected at statutory rates	$(3,445,977)	$(3,481,777)
Domestic net operating loss with no current benefit	2,978,323	3,012,575
Effect of foreign loss with no current benefit	467,654	469,202
Other taxes	(13,155)	14,000
Foreign income taxes	--	13,235
	$ (13,155)	$ 27,235

As a result of stock sales a change of ownership (as defined in Section 382 of the Internal Revenue Code of 1986, as amended) has occurred. As a result of this change, the Company's federal and state net operating loss carryforwards will be subject to a total annual limitation in the amount of approximately $400,000.

The Company has at December 31, 1999 a net operating loss carryover of approximately $22,712,000 for federal income tax purposes which expires between 2005 and 2014, a net operating loss carryforward of approximately $6,110,000 for state income tax purposes which expires through 2004, and a net operating loss carryforward of approximately $1,615,000 for foreign income tax purposes of which approximately $769,000 expires between 2000 and 2004. The Company has at December 31, 1999 research and development credit carryovers of approximately $572,000 and $689,000 for federal and state income tax purposes, respectively.

The Company paid $800 for income and franchise taxes during each of the two years ended December 31, 1999 and 1998. The valuation allowance increased by $2,194,000 in 1998 and $1,718,000 in 1997.

9. NET LOSS PER SHARE INFORMATION

As of December 31, 1999, outstanding options to purchase 1,369,344 shares of common stock (with exercise prices ranging from $0.01 to $8.88), outstanding warrants to purchase 18,820,560 shares of common stock (with exercise prices from $0.07 to $8.26) and 2,397,541 shares of common stock issuable upon conversion of Series D and E Preferred Stock could potentially dilute basic earnings per share in the future and have not been included in the computation of diluted net loss per share because to do so would have been antidilutive for the periods presented.

10. COMMITMENTS

The Company leases its U.S. facility under a non-cancelable operating lease. The lease is for a term of seven years and expires on June 2, 2005. The lease provides for rent of $29,229 per month during the first year of the lease (plus real estate taxes and assessments, utilities and maintenance), subject to adjustment in subsequent years for cumulative increases in the cost of living index, not to exceed 4% per year.

The Company leases its European facility under a non-cancelable operating lease. The lease is for a term of eight years and expires on 2006. The lease provides for rent of $7,197 per month.

Future payments under non-cancelable facility operating leases are approximately as follows:

2000	440,000
2001	450,000
2002	457,000
2003	465,000
2004	242,000
Thereafter	182,000
	$2,236,000

Aggregate rental expense under these leases amounted to $422,000 and $309,000 during the years ended December 31, 1999 and 1998, respectively.

Future minimum payments under non-cancelable equipment operating leases are approximately as follows:

2000	11,000
2001	11,000
2002	11,000
2003	11,000
	$44,000

Rental expense for these non-cancelable equipment operating leases during the years ended December 31, 1999 and 1998 was approximately $11,000 and $41,000, respectively.

11. CONTINGENCIES

The Company has from time to time been notified of various claims incidental to its business that are not the subject of pending litigation. While the results of claims cannot be predicted with certainty, the Company believes that the final outcome of all such matters will not have a materially adverse effect on its consolidated financial position, results of operations or cash flows.

12. NIST GRANT

During 1994, the Company received notification it was awarded a $1,960,000 National Institute of Science and Technology ("NIST") grant from the U.S. Department of Commerce ("USDC"). The grant is shared by the Company and two strategic partners to fund approximately 49% of a $4 million joint development project to adapt the ROBODOC System for use in hip revision surgery. The development project and related NIST Grant began in 1995 and ended in 1999. The Company received approximately $129,000 and $514,000 in proceeds under this grant during the years ended December 31, 1999, and 1998, respectively.

13. ANVAR GRANT

During 1996, IMMI received notification it was awarded a $222,492 grant from the French agency Agence Nationale de Valorisation de la Recherche ("ANVAR") which is a French national agency established to aid research and development projects. The grant is to fund the clinical tests to be performed at two university hospitals on the NeuroMate system over a period of fifteen months commencing March 1997. IMMI received $173,595 in proceeds under this grant during the year ended December 31, 1997. The grant income is being recognized ratably over the project period.

14. EMPLOYEE STOCK PURCHASE PLAN

Shareholders approved and the Board of Directors adopted the Company's Employee Stock Purchase Plan (the "Purchase Plan") at the annual Shareholders meeting held April 28, 1998. The Purchase Plan provides all eligible employees an opportunity to acquire a proprietary interest in the Company on a payroll deduction or other compensation basis at a 15% discount. The Purchase Plan is intended to qualify as an employee stock purchase plan under Section 423 of the Code. The Purchase Plan covers an aggregate of 300,000 shares of the Company's Common Stock. As of December 31, 1999, no offerings have been made to employees.

15. DISTRIBUTION AGREEMENT

The Company has entered into a distribution agreement, dated November 12, 1999, with Spark 1st Vision GmbH & Co. KG, a German company, that gives the distributor the exclusive right to distribute the Company's products in Europe, the Middle East and Africa through 2003. The distributor is obligated to purchase a minimum of 24 ROBODOC systems during 2000 and 32 ROBODOC systems during 2001. The distributor is required to pay the Company advance payments of $200,000 per month for the first six months of 2000, $300,000 per month for the remainder of 2000, and $400,000 per month for 2001, to be applied as a credit against the products purchased. However, the distributor has no minimum purchase or advance payment obligation after 2001, even though it will retain exclusive rights to distribute the Company's products in Europe, the Middle East and Africa through 2003. The distributor's only obligation to the Company after 2001 is to pay for products that it purchases. The distributor's liability to the Company under the distribution agreement is limited to $1 million, exclusive of the minimum purchase obligation. The Company will continue to receive service contract revenues and bear the cost of maintenance, training and customer support. The distribution agreement will eliminate marketing; sales and administrative expenses associated with the Company's European activities and provide the Company with a more predictable source of revenues based upon the minimum purchase commitments of the distributor. The Company believes that the terms of the distribution agreement are as fair to the Company as those that could have been obtained from an unaffiliated party.

As of March 30, 2000 the Company had only received the advance payments from the distributor for January , and had not received any orders for the Company's products from the distributor.

MASTER DISTRIBUTION AND OFF-TAKE-AGREEMENT

("Agreement")

between

Integrated Surgical Systems, Inc.
1850 Research Park Drive
Davis, CA 95616
USA

("ISS")

and

SPARK 1 VISION GmbH & Co. KG
Grosse Bockenheimer Strasse 50
60313 Frankfurt
Germany

("Marketing Company")

- both hereinafter individually and jointly referred to as "Party" or "Parties" -

with regard to the marketing, sales and off-take of ISS technology and products in Europe, the Middle East and Africa.

WHEREAS, ISS is a prestigious medical robotics company and the world leader in image-directed, semi-autonomous software and robotic products for surgical applications, and

WHEREAS, ISS wishes to substantially increase the market share of its technology and products in Europe, the Middle East and Africa, and

WHEREAS, the Marketing Company is in a position to use its marketing and business resources with the intention to increase the sale of ISS products in such regions under the terms and conditions set forth in this Agreement, and

WHEREAS, the Marketing Company wishes to be granted an exclusive right to distribute ISS products in the above regions,

NOW THEREFORE, the Parties agree as follows:

ARTICLE 1 - DEFINITIONS

12.1 "ISS" shall mean ISS and any of its Affiliates, unless expressly set forth otherwise.

12.2 "ISS Products" shall mean any current or future products, materials, appliances, devices, supplies or services of ISS and its Affiliates and the underlying technology relating thereto, including but not limited to the Robodoc(R), the Orthodoc(R) and the NeuroMate(TM) systems, any parts thereof, or any improvements to or adaptions thereof. For the avoidance of doubt, even products as defined above in new areas of business of ISS, such as but not limited to custom-made prosthesis, shall be part of this Agreement.

12.1 "Territory" shall include all European countries (including the C.I.S.), the Middle East (Lebanon, Syria, Jordan, New-Palestine, Iraq, Dubal, Abu Dhabi, Oman, Bahrain, Qatar, Kuwait, Iran, Saudi Arabia and Yemen) and Africa.

12.2 "ISS Affiliates" shall include IMMI S.A., Lyon, France; ISS B.V., Amsterdam, The Netherlands; IMMI Inc., Davis, CA, U.S.A. as well as any other companies ISS directly or indirectly has a controlling interest or majority of the voting rights in.

12.3 "Customers" shall mean any customers with regard to ISS Products or ISS Sub-Licenses within the Territory.

12.4 "ISS Sub-Licenses" shall mean any licenses granted to third parties by the Marketing Company after prior written approval of ISS with regard to ISS Products.

ARTICLE 2 - SCOPE OF AGREEMENT AND GRANT OF RIGHTS, NON-COMPETE

12.1 ISS herewith appoints the Marketing Company as the exclusive distributor with regard to ISS Products and ISS Sub-Licenses within the Territory on the terms and conditions set forth herein. The Marketing Company accepts such appointment.

12.2 For the term of this Agreement, ISS shall not appoint any other distributors, agents or marketing companies in the Territory. ISS shall neither directly nor indirectly solicit any sales to Customers. The Marketing Company shall neither directly nor indirectly sell any ISS Products or ISS Sub-Licenses to Customers outside the Territory. The Parties shall inform each other of all business opportunities in the respective other marketing territories, however, no commission shall be payable to the respective other Party.

12.3 The Marketing Company shall import and distribute the ISS Products by purchasing them from ISS under the terms and conditions of this Agreement and selling them to Customers in the Territory. The full commercial risk with regard to the possibility and profitability of the sale of any ISS Products or ISS Sub-Licenses to Customers shall be vested in the Marketing Company as set forth herein.

12.4 During the term of this Agreement, the Marketing Company shall not distribute, market or sell any products, equipment, devices, supplies or services that may compete with ISS Products or ISS Sub-Licenses.

12.5 For the purposes and during the term of this Agreement, ISS hereby grants to the Marketing Company the exclusive, irrevocable and royalty-free license to use the ISS firm name, as well as any trademarks, trade names, logotypes with regard to ISS Products or ISS Sub-Licenses within the Territory. The firm name, the trademarks, the trade names and the logotypes shall remain the sole property of ISS and shall not be used by the Marketing Company other than with regard to the ISS Products and ISS Sub-Licenses. The Marketing Company shall promptly notify ISS of any counterfeits, imitations thereof used by third parties as well as any unfair competition activities of competitors with regard thereto.

ARTICLE 3 - MARKETING EFFORTS IN EUROPE AND OPTION TO RE-ASSUME MARKETING RESPONSIBILITIES IN FAVOR OF ISS

12.1 As of January 1, 2000, ISS shall make available all qualified sales and marketing personnel in Europe (i.e. the respective employees of ISS B.V., The Netherlands, and IMMI S.A., France) to the Marketing Company by assigning them on a contractual basis to the Marketing Company for the term of this Agreement, as far as permitted under applicable law. The Marketing Company shall be responsible for obtaining official approvals, if any, and shall bear all associated cost in connection therewith. Upon request of the Marketing Company, the Parties shall use best efforts to transfer the employment contracts of any such employees to the Marketing Company. The Marketing Company may reject individual employees it deems to be not qualified and such employees shall remain with ISS B.V. or IMMI S.A., respectively. Where qualified employees do not wish to enter into an employment agreement with the Marketing Company, the consideration payable to ISS for their services shall be calculated on an at-cost-basis based on current salaries including any social security payments and fringe benefits as well as reimbursement of cost and expenses incurred in connection with such services, to be agreed upon in more detail between the Parties.

12.2 Upon request of the Marketing Company, ISS and its Affiliates shall render additional services (e.g. accounting, assistance with customs and import formalities etc.) for a transitional period from January 1, 2000 until at least March 31, 2000 so as to enable the Marketing Company to smoothly commence its activities hereunder and to best comply with any Customers' requirements. Upon request of the Marketing Company, ISS and its Affiliates shall also agree if and to what extent any assets of any ISS Affiliates necessary for the Marketing Company to perform its obligations hereunder shall be made available to the Marketing Company.

12.3 ISS shall at its own cost provide a sufficient number of qualified technical and Customer support staff (training, after-sales-services etc.) as well as supply any spare parts or consumables so as to always ensure compliance with any Customers' needs or requests in the Territory. Any service or maintenance agreements with any Customers shall be entered into between ISS and any Customers directly. Where a Customer requests the Marketing Company to enter into such agreements, the agreement shall be transferred to or internally be performed by ISS. With regard to any of the a.m. services, the Marketing Company shall be entitled to a 10% commission, based on the net value of the respective services. Any material non-compliance with this Article 3.3 by ISS shall entitle the Marketing Company to terminate this Agreement for cause as per Article 3.6 below.

The Marketing Company shall have no obligation to render any technical services to any Customers.

12.4 Any additional cost incurred by ISS or ISS Affiliates apart from the above shall be borne by ISS or the respective ISS Affiliates.

12.5 In due course, prior to December 31, 2001 the Parties shall discuss if and how to modify the terms of this Agreement for the time period commencing on January 1, 2002. In case the Marketing Company foresees an annual increase of at least 10% with regard to ISS Products or ISS Sub-Licenses the Marketing Company shall continue its services under a similar agreement. If the Parties do not agree, this Agreement shall automatically terminate as of December 31, 2001. In such case all marketing activities, employees and assets shall be re-transferred to ISS or the respective ISS Affiliates. Any cost arising out of in connection with such re-transfer shall be borne by ISS.

12.6 Upon effectiveness of the termination under Article 3.3 or 3.5 above or 4.3 below, all rights and licenses granted under this Agreement by one Party to the other Party shall automatically terminate and all marketing activities within the Territory with regard to ISS Products or ISS Sub-Licenses shall be performed by ISS or any ISS Affiliates. Any related cost arising after effectiveness of such termination shall be borne by ISS.

12.7 Upon effectiveness of the termination, the profit or loss with regard to any contracts with Customers entered into by the Marketing Company with regard to ISS Products or ISS Sub-Licenses that have not been fully performed shall be realized by the Marketing Company. Upon effectiveness of the termination, any warranty or guaranty obligations assumed by the Marketing Company with regard to any ISS Products or ISS Sub-Licenses shall be assumed by ISS and ISS shall fully indemnify and hold the Marketing Company harmless from any and all loss, claims, damage or cost out of or in connection with its activities under this Agreement.

ARTICLE 4 - OBLIGATIONS OF THE PARTIES

12.1 Both Parties shall cooperate with each other at all times in good faith and shall keep each other fully informed with regard to marketing strategies and any other developments that might be relevant for their successful cooperation.

12.2 ISS shall fulfil all orders with regard to ISS Products within reasonable delivery times in a way so as to enable the Marketing Company to fully comply with its obligations towards the Customers, whether in time, quality, quantity and otherwise.

12.3 ISS shall render any and all training or other technical support services on terms to be agreed upon between ISS and the respective Customers. ISS shall closely cooperate with any Customers so as to further its reputation as a leading manufacturer and developer of complex and sophisticated medical systems. ISS shall constantly and at its own cost update or upgrade the ISS Products and Licenses so as not to jeopardize such reputation of ISS with any Customers or the market in general. Both Parties acknowledge that any material non-compliance with

this obligation by ISS may severely and adversely affect the sales targets of the Marketing Company as set forth in Article 5.2. In such case Article 3.6 shall apply.

12.4 ISS shall provide the Marketing Company with all reasonable documentation (leaflets, brochures, manuals etc.) with regard to ISS Products which shall be returned to ISS promptly after expiry of this Agreement.

12.5 The Marketing Company shall promote and distribute any ISS Products in the Territory to its best ability and shall maintain satisfactory organizational infrastructure to professionally conduct its marketing and sales efforts. Any marketing strategy and marketing or promotional events or campaigns and the attendance of any congresses shall be discussed with the CEO of ISS and agreed in good faith beforehand. In general, all cost for marketing within the Territory shall be borne by the Marketing Company, subject however, to different arrangements on a case-by-case basis.

ARTICLE 5 - REMUNERATION AND OFF-TAKE OBLIGATION

12.1 In consideration of the rights and licenses granted to the Marketing Company under Article 2 above with respect to the ISS Products and ISS Sub-Licenses, the Marketing Company shall pay to ISS a fixed monthly license fee at an amount of EUR 192,300.00 from January 1, 2000 until June 30, 2000, at an amount of EUR 288,450.00 from July 2000 until December 2000, and at an amount of EUR 384,600.00 from January 1 until December 31, 2001 on an account to be designated by ISS. The license fee shall be the minimum remuneration payable irrespective of the meeting of any marketing targets by the Marketing Company with regard to ISS Products. There shall be no license fee beyond December 31, 2001 irrespective of whether or not the Marketing Company acts as exclusive distributor for ISS Products under this Agreement beyond such date or not.

12.2 Furthermore, the Marketing Company is contractually obligated to buy from ISS the following minimum number of Robodoc/NeuroMate systems (the current minimum sales targets based on reasonable assumptions of ISS and the Marketing Company) at competitive sales prices, to be reviewed and agreed upon between the Parties regularly in accordance with standard business practices and as in more detail set forth below:

2000:	24 Robodoc-Systems	4 NeuroMate-Systems
2001:	32 Robodoc-Systems	6 NeuroMate-Systems

In case ISS and the Marketing Company cannot find an agreement with regard to competitive pricing or an adjustment of the prices, the matter shall be referred to the Board of Directors of ISS for evaluation and shall be decided by simple majority of the votes.

In reward of the Marketing Company's efforts under this Agreement, the payments for the supply of the above systems may be applied and set off against any license fees payable or previously paid under Article 5.1 above to ISS, and the Marketing Company shall be released from any off-take or payment obligations under the

supply contracts for ISS Products accordingly. There shall not be any off-take commitments for ISS Products beyond December 31, 2001.

In case regulatory changes or the market conditions in general within the Territory (including but not limited to the introduction of competitive products by any competitors) have an adverse effect on the sales targets of the Marketing Company as above, the Parties agree to re-negotiate the above sales targets for 2000 and 2001 and to adapt them to such developments.

12.3 Should the sales of the Marketing Company exceed the off-take obligations set forth above, ISS will supply any additional systems promptly within reasonable delivery times so as to allow the Marketing Company to fully comply with its obligations in time, quality and quantity towards any Customers.

12.4 The Parties shall agree on a schedule for the projected supply of ISS Products so as to both satisfy Customer's needs and to constantly make best use of the assembly capacities and facilities of ISS.

12.5 The Marketing Company shall be entitled to a commission of 10% of the net sales on any consumables or spare parts by ISS with Customers in the Territory.

ARTICLE 6 - ORDERING AND DELIVERY PROCEDURES, GOVERNMENTAL APPROVALS

12.1 Sales to the Marketing Company shall be made CIF destination within the Territory, to be designated by the Marketing Company.

12.2 The ISS Products shall be invoiced for each delivery of ISS Product in accordance to the current ISS price list as per Attachment 2 to this Agreement which may be amended from time to time. Unless agreed upon otherwise, all payments shall be made in DEM/EUR.

12.3 The Marketing Company shall assist with and carry out at the cost of ISS any customs formalities required to import the ISS Products into the Territory.

12.4 The Marketing Company shall assist ISS in complying with all licensing and regulatory requirements in the Territory. All decisions which permits, licenses or clinical testing with regard thereto shall be initiated, conducted or undertaken, shall be taken by ISS. ISS shall maintain all licenses, approvals and permits necessary for the Marketing Company to comply with its obligations under this Agreement during the term of this Agreement at the cost of ISS. Any non-compliance of ISS in any material respect shall entitle the Marketing Company to terminate this Agreement as per Article 11.2 below.

ARTICLE 7 - INTELLECTUAL PROPERTY RIGHTS, PATENT AND COPY RIGHT INFRINGEMENT

12.1 Any intellectual property rights with regard to any inventions or technical or design improvements relating to ISS Products, made by the Marketing Company shall be the sole property of ISS, as far as permitted under mandatory law. The Marketing Company shall inform ISS immediately on any such improvements or inventions.

12.1 Should the Marketing Company become aware of any patent, copyright or other intellectual property right infringement or potential infringement with regard to any ISS Products it shall accordingly advise ISS thereof. The Parties shall mutually agree on the strategy to be taken, ISS undertakes to prosecute any infringement in its own name and at its own cost.

12.2 In case any claims, suits or actions are brought against the Marketing Company with regard to any intellectual property rights relating to the ISS Products or ISS Sub-Licenses, the Marketing Company shall provide all reasonable assistance to ISS in the defense. ISS shall indemnify and hold the Marketing Company harmless against any and all damage, loss or cost incurred by the Marketing Company in connection therewith.

ARTICLE 8 - WARRANTIES AND GENERAL TERMS AND CONDITIONS

12.1 ISS shall use general terms and conditions that include warranties ("Gewahrieistungen und Garantien") to the Marketing Company with regard to any ISS Products as in more detail set forth in Attachment 1 to this Agreement.

12.2 The Marketing Company shall use best efforts to make any Customers agree to such terms and conditions including the warranties in the contracts with such Customers and to pass them on a back-to-back basis. In case specific Customers refuse to accept to enter into contracts on such items ISS and the Marketing Company shall in good faith discuss and - if necessary - adapt the conditions of their contract so as to match the terms finally agreed between the Marketing Company and the Customer. The Parties agree that ISS shall indemnify and save the Marketing Company harmless from any loss, cost or damage out of or in connection with any guaranty obligations or claims from any Customers of third parties.

12.3 In case ISS fails to supply any ISS Products within the delivery schedule to be included in each supply contract between ISS and the Marketing Company, the Marketing Company shall be entitled to claim liquidated damages for each completed two weeks of delay of 2% of the purchase price for the delayed ISS Product up to a maximum of 20% of such purchase price. The Marketing Company shall be entitled to claim any proven damages exceeding such amount. If ISS proves to the reasonable satisfaction of the Marketing Company that the actual damages incurred by the Marketing Company are lower than the liquidated damages, ISS shall only be liable for the lower amount.

ARTICLE 9 - LIMITATION OF LIABILITY

12.1 The Parties shall in no case be liable towards each other for any indirect or consequential damage or loss, such as but not limited to loss of business opportunity, loss of profit or increased cost of financing.

12.2 The aggregate liability of the Parties towards each other out of or in connection with this Agreement shall be limited to 1 million USD, however, this shall not apply to the payment obligations of the Marketing Company for supplies under Article 5.2.

ARTICLE 10 - CONFIDENTIALITY

12.1 The Parties shall keep the contents of this Agreement as well as any technical or commercial information exchanged or received hereunder confidential and shall not disclose it to any third parties for the term of this Agreement and for a period of 2 years thereafter.

12.2 The confidentiality obligation shall not apply insofar as the disclosure of any information is required to comply with filing or notification requirements under applicable capital markets regulations.

ARTICLE 11 - TERM AND TERMINATION

12.1 This Agreement shall come into force upon January 1, 2000, provided however that The Marketing Company has received a legal opinion from ISS's attorneys that all Conditions to Closing as set forth in Section 5 of the Stock and Warrant Purchase Agreement between ISS and the Purchasers dated.... have been fulfilled by such time. If the Closing has not been reached by December 31, 1999 this Agreement shall become null and void and the Parties shall have no claims, rights or remedies against each other in connection therewith.

12.2 The Agreement shall have a fixed term until December 31, 2001. During such term it may only be terminated by either Party for cause ("aus wichtigem Grund"), e.g. in case one Party files for insolvency or is subject to any voluntary or judicial reorganization or protection from creditors proceedings (Chapter 11 in the U.S.) or is in danger thereof or in case the Marketing Company is in material breach of its payment obligations hereunder, in which cases each Party shall be entitled to terminate the Agreement with immediate effect.

12.3 In case of termination of this Agreement as above the Parties shall be released from their obligations hereunder, unless expressly set forth otherwise herein. They shall not be precluded from bringing any claims or actions against the Party in default. Irrespective thereof, any outstanding warranty or guaranty obligations with regard to ISS Products or ISS Sub-Licenses shall be assumed by ISS upon effectiveness of such termination. Furthermore, the Parties shall cooperate in good faith to ascertain that the Marketing Company shall be in a position to comply with all obligations towards Customers.

ARTICLE 12 - GENERAL PROVISIONS

12.1 This Agreement shall be governed by the laws of Germany without regard to its conflict of laws provisions. Exclusive place of jurisdiction shall be Frankfurt am Main, Germany.

12.2 This Agreement constitutes the entire understanding and agreement of the Parties with regard to the subject matter hereof and supersedes all prior agreements, negotiations, correspondence and understandings between the Parties.

12.3 Any changes to or amendments to this Agreement shall require written form. This Agreement may not be assigned by either Party without the prior written consent of the other Party.

12.4 In case any provision of this Agreement is either invalid or not enforceable the validity of the remaining provisions of this Agreement shall not be affected thereby. The Parties undertake to replace the invalid or unenforceable provision by a provision coming as close as possible to the intended commercial purpose of the replaced provision.

Attachments:
- ------------

Attachment 1 - Standard Warranty Terms
Attachment 2 - Current Prices for Systems

Davis, this 12 day of November, 1999

[SIG]
- ----------
ISS

Frankfurt, this 12 day of November, 1999

[SIG]
- ----------
Marketing Company

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 333-42051, 333-83607, 333-30422) of Integrated Surgical Systems, Inc. and in the related Prospectuses and the Registration Statements (Form S-8 Nos. 333-44093, 333-70779) pertaining to the 1995 Stock Option Plan, As Amended, 1998 Stock Option Plan and Employee Stock Purchase Plan of Integrated Surgical Systems, Inc. of our report dated March 10, 2000, with respect to the consolidated financial statements of Integrated Surgical Systems, Inc. included in this Annual Report (Form 10-KSB) for the year ended December 31, 1999.

ERNST & YOUNG LLP

Sacramento, California
March 27, 2000

YEAR	
	DEC-31-1999
	JAN-01-1999
	DEC-31-1999
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	(10,155,421)
	(1.47)
	(1.47)