AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 23, 1996

REGISTRATION NO. 333-9207

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

INTEGRATED SURGICAL SYSTEMS, INC.
(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

DELAWARE	3841	68-0232575
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

829 West Stadium Lane
Sacramento, California 95834
Telephone: (916) 646-3487
Telecopier: (916) 646-4075
(ADDRESS AND TELEPHONE NUMBER OF PRINCIPAL EXECUTIVE OFFICES)

DR. RAMESH C. TRIVEDI
CHIEF EXECUTIVE OFFICER AND PRESIDENT
INTEGRATED SURGICAL SYSTEMS, INC.
829 West Stadium Lane
Sacramento, California 95834
Telephone: (916) 646-3487
Telecopier: (916) 646-4075
(NAME, ADDRESS AND TELEPHONE NUMBER OF AGENT FOR SERVICE)

COPIES TO:

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	Telecopier: (212) 704-6288

APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC:
As soon as practicable after the effective date of this registration statement.

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

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

If any of the securities on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act please check the following box. /X/

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SECURITY(1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
Common Stock, $.01 par value.......	1,725,000(2)	$6.00	$10,350,000	$3,568.97
Warrants to purchase shares of Common Stock.....................	1,725,000(3)	$0.10	$172,500	$59.48
Common Stock issuable upon exercise of Warrants......................	1,725,000(4)	$7.00	$12,075,000	4,163.79
Underwriters' Warrants to purchase shares of Common Stock...........	150,000	$0.000033	$5	(5)
Underwriters' Warrants to purchase Warrants.........................	150,000	$0.000033	$5	(5)
Common Stock issuable upon exercise of Underwriters' Warrants........	150,000(4)	$9.90	$1,485,000	$ 512.07
Warrants issuable upon exercise of Underwriters' Warrants...........	150,000	$0.165	$24,750	$8.53
Common Stock issuable upon exercise of Warrants underlying Underwriters' Warrants...........	150,000(4)	$7.00	$1,050,000	362.07
Total Registration Fee......				$8,674.91

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457 promulgated under the Securities Act of 1933.

(2) Includes 225,000 shares of Common Stock which may be purchased by the Underwriters to cover over-allotments, if any.

(3) Includes 225,000 Warrants which may be purchased by the Underwriters to cover over-allotments, if any.

(4) Pursuant to Rule 416, there are also being registered such indeterminate number of additional shares as may become issuable pursuant to the anti-dilution provisions of the Warrants, the Underwriters' Warrants and the Warrants issuable upon exercise of the Underwriters' Warrants.

(5) Pursuant to Rule 457(g) promulgated under the Securities Act of 1933, no filing fee is required.

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

INTEGRATED SURGICAL SYSTEMS, INC.

CROSS REFERENCE SHEET SHOWING LOCATION
IN PROSPECTUS OF INFORMATION
REQUIRED BY ITEMS 1 THROUGH 23, PART I OF FORM SB-2

	ITEM AND HEADING	LOCATION IN PROSPECTUS
1.	Forepart of the Registration Statement and Outside Front Cover Page of Prospectus	Outside Front Cover Page
2.	Inside Front and Outside Back Cover Pages of Prospectus	Inside Front and Outside Back Cover Pages of Prospectus; Description of Securities - Reports to Stockholders
3.	Summary Information, Risk Factors	Prospectus Summary; Risk Factors
4.	Use of Proceeds	Use of Proceeds
5.	Determination of Offering Price	Outside Front Cover Page; Risk Factors; Underwriting
6.	Dilution	Dilution
7.	Selling Security Holders	Not Applicable
8.	Plan of Distribution	Underwriting
9.	Legal Proceedings	Business -- Litigation
10.	Directors, Executive Officers Promoters and/Control Persons	Management
11.	Security Ownership of Certain Beneficial Owners and Management	Security Ownership of Certain Beneficial Owners and Management
12.	Description of the Securities	Description of the Securities
13.	Interest of Named Experts and Counsel	Not Applicable
14.	Disclosure of Commission Position on Indemnification for Securities Act Liabilities	Management -- Indemnification of Officers and Directors and Limitation on Director Liability
15.	Organization Within Last Five Years	Not Applicable
16.	Description of Business	Prospectus Summary; Business
17.	Management's Discussion and Analysis or Plan of Operation	Management's Discussion and Analysis of Financial Condition and Results of Operations
18.	Description of Property	Business -- Facilities
19.	Certain Relationships and Related Transactions	Certain Transactions
20.	Market for Common Equity and Related Stockholder Matters	Description of Securities
21.	Executive Compensation	Management
22.	Financial Statements	Consolidated Financial Statements
23.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	Not Applicable

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

PRELIMINARY PROSPECTUS, SUBJECT TO COMPLETION, DATED SEPTEMBER 23, 1996

INTEGRATED SURGICAL SYSTEMS, INC.
1,500,000 SHARES OF COMMON STOCK AND
1,500,000 REDEEMABLE COMMON STOCK PURCHASE WARRANTS

This Prospectus relates to an offering (the "Offering") by Integrated Surgical Systems, Inc. (the "Company") of 1,500,000 shares of common stock, par value $.01 per share (the "Common Stock"), and 1,500,000 redeemable Common Stock purchase warrants (the "Warrants") through Rickel & Associates, Inc. (the "Representative") and Aegis Capital Corp. ("Aegis") (each an "Underwriter" and, collectively, the "Underwriters"). The shares of Common Stock and the Warrants offered hereby may be purchased separately and the Warrants will be transferable separately after issuance. The Common Stock is being offered at $6.00 per share and the Warrants at $.10 per Warrant.

Each Warrant entitles the registered holder thereof to purchase one share of Common Stock at an exercise price of $7.00 per share, subject to adjustment in certain events, at any time commencing 12 months after the date the Registration Statement of which this Prospectus forms a part is declared effective by the Securities and Exchange Commission (the "Effective Date"), or earlier upon notice of redemption as provided below, and expiring on the fifth anniversary of the Effective Date. The Warrants are subject to redemption by the Company at $.10 per Warrant at any time commencing 12 months after the Effective Date (or earlier with the prior written consent of the Representative), on not less than 30 days prior written notice to the holders of the Warrants, provided the average of the closing bid quotations of the Common Stock, during the period of 20 consecutive trading days ending on the third day prior to the date on which the Company gives notice of redemption, is at least 150% of the then current exercise price of the Warrants (initially, $10.50 per share). The Warrants will be exercisable until the close of business on the day immediately preceding the date fixed for redemption. See "Description of Securities -- Warrants." The Company has applied for quotation of the Common Stock and the Warrants on The NASDAQ SmallCap Market under the trading symbols "RDOC" and "RDOCW," respectively. The Company also has applied for listing of the Common Stock and the Warrants on The Pacific Stock Exchange. There can be no assurance that such listing will be obtained.

Prior to the Offering, there has been no public market for the Common Stock or the Warrants, and there can be no assurance that any such market for the Common Stock or the Warrants will develop after the closing of the Offering or that, if developed, it will be sustained. The offering prices of the Common Stock and the Warrants and the initial exercise price and other terms of the Warrants were established by negotiation between the Company and the Underwriters and do not necessarily bear any direct relationship to the Company's assets, earnings, book value per share or other generally accepted criteria of value.

THE SECURITIES OFFERED HEREBY ARE SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK. ONLY INVESTORS WHO CAN BEAR THE RISK OF LOSS OF THEIR ENTIRE INVESTMENT SHOULD INVEST. FOR A DESCRIPTION OF CERTAIN RISKS REGARDING AN INVESTMENT IN THE COMPANY AND IMMEDIATE SUBSTANTIAL DILUTION, SEE "RISK FACTORS" COMMENCING ON PAGE 10 AND "DILUTION" ON PAGE 23.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS(1)	PROCEEDS TO COMPANY(2)
Per Share............................	$6.00	$.57	$5.43
Per Warrant..........................	$.10	$.0095	$.0905
Total(3).............................	$9,150,000	$869,250	$8,280,750

- --

(footnotes appear on page 3)

RICKEL & ASSOCIATES, INC. AEGIS CAPITAL CORP.

THE DATE OF THIS PROSPECTUS IS , 1996.

[TO BE LOCATED ON INSIDE OF FRONT COVER]

[LOGO]

[PHOTO]

Integrated Surgical System's first product, ROBODOC(R) Surgical Assistant System, has been used safely on over 425 patients worldwide for total hip replacement. (Actual operating room photo.)

ROBODOC(R) and ORTHODOC(R) are registered trademarks of Integrated Surgical Systems, Inc. All other trademarks appearing in this Prospectus are the property of their respective holders.

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(1) Does not include additional compensation to the Underwriters consisting of (i) a non-accountable expense allowance payable to the Representative equal to 2.75% of the gross proceeds of the Offering, of which $50,000 has been paid by the Company to date, (ii) warrants (the "Underwriters' Warrants") entitling the Underwriters to purchase up to 150,000 shares of Common Stock and 150,000 Warrants, and (iii) a financial consulting agreement with the Representative for 12 months from the closing of the Offering at an annual fee of $35,000, all of which is payable at the closing of the Offering. The Company has agreed to pay the Representative, under certain circumstances, a warrant solicitation fee of 5% of the exercise price for each Warrant exercised. The Company has also agreed to indemnify the Underwriters against certain civil liabilities, including those arising under the Securities Act. See "Underwriting."

(2) After deducting discounts and commissions payable to the Underwriters, but before payment of the Representative's non-accountable expense allowance ($251,625, or $289,369 if the Underwriters' Over-Allotment Option is exercised in full), the consulting fee ($35,000) and the other expenses of the Offering (estimated at $513,375) payable by the Company. See "Underwriting."

(3) The Company has granted the Underwriters an option, exercisable for a period of 45 days after the closing of the Offering, to purchase up to an additional 15% of the Common Stock and/or Warrants, upon the same terms and conditions solely for the purpose of covering over-allotments, if any (the "Underwriters' Over-Allotment Option"). If the Underwriters' Over-Allotment Option is exercised in full, the Total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be $10,522,500, $999,638 and $9,522,862, respectively. See "Underwriting."

The Common Stock and Warrants are being offered by the Underwriters on a firm commitment basis, subject to prior sale, when, as and if delivered to the Underwriters and subject to certain conditions. Subject to the provisions of the underwriting agreement between the Underwriters and the Company, the Underwriters reserve the right to withdraw, cancel or modify the Offering and to reject any order in whole or in part. It is expected that delivery of certificates will be made against payment therefor at the office of the Representative, 875 Third Avenue, New York, New York 10022, on or about , 1996.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AND THE WARRANTS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NO DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THIS OFFERING OTHER THAN THOSE CONTAINED IN THE PROSPECTUS AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION AND REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THERE HAD BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OFFERED HEREBY BY ANYONE IN JURISDICTIONS IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANYONE TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

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UNTIL   , 1996, (25 DAYS AFTER THE EFFECTIVE DATE) ALL DEALERS EFFECTING TRANSACTIONS IN THE REGISTERED SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

TO INVEST IN THESE SECURITIES A CALIFORNIA RESIDENT MUST HAVE, AS A MINIMUM, EITHER (I) A NET WORTH OF $250,000, EXCLUSIVE OF HOME, HOME FURNISHINGS AND AUTOMOBILES, AND $65,000 OF GROSS INCOME DURING THE LAST TAX YEAR AND ESTIMATED GROSS INCOME OF $65,000 FOR THE CURRENT TAX YEAR OR (II) A NET WORTH OF $500,000, EXCLUSIVE OF HOME, HOME FURNISHINGS AND AUTOMOBILES.

On the Effective Date, the Company will become subject to the reporting requirements of the Securities Exchange Act of 1934 (the "Exchange Act"), and, in accordance therewith, will file reports, proxy and information statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy and information statements and other information can be inspected and copied at the Public Reference Section of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the following regional offices: New York Regional Office, Suite 1300, 7 World Trade Center, New York, New York 10048, and Chicago Regional Office, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511, and copies of such material may also be obtained from the Public Reference Section of the Commission at prescribed rates. The Commission maintains a Web site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants that file electronically. The Company intends to furnish its stockholders with annual reports containing audited financial statements and such other reports as the Company deems appropriate or as may be required by law.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information, financial statements and the notes thereto appearing elsewhere in this Prospectus. Unless otherwise indicated or the context otherwise requires, all share and per share data and information in this Prospectus relating to the number of shares of Common Stock outstanding give effect to a one-for-five reverse stock split with respect to the Company's capital stock effected on December 20, 1995, and a one-for-1.479586 reverse stock split with respect to the Common Stock to be effected prior to the Effective Date, and assumes that the Underwriters' Over-Allotment Option is not exercised. See the "Glossary" appearing at page 30 of this Prospectus for the definitions of certain technical terms used herein.

THE COMPANY

Integrated Surgical Systems, Inc. (the "Company") develops, manufactures, markets and services image-directed, computer-controlled robotic products for surgical applications. The Company's principal product is the ROBODOC(R) Surgical Assistant System (the "ROBODOC System"), consisting of a computer-controlled surgical robot and the Company's ORTHODOC(R) Presurgical Planner (the "ORTHODOC"). The ROBODOC System has been used for primary total hip replacement ("THR") surgery on over 425 patients worldwide. The Company believes its "active" robotic system is the only available system that can accurately perform key segments of surgical procedures 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 to 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 International Business Machines Corporation ("IBM"). Upon completion of the Offering, IBM will retain rights to acquire approximately 27% of the outstanding Common Stock on a fully diluted basis.

The ORTHODOC is a computer workstation that utilizes the Company's proprietary software for preoperative surgical planning. The ORTHODOC is included as part of the ROBODOC System and may be marketed separately by the Company. The ORTHODOC converts computerized tomography ("CT") scan data of a patient's femur (i.e., thigh bone) 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. Published scientific data 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.

THR surgery involves the insertion of an implant or metal prosthesis into a cavity created in the patient's femur. Precise fit and correct alignment of the implant within the femoral cavity are important for the long-term success of THR surgery. In conventional THR 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 at sites collecting applicable data for THR surgeries performed with the ROBODOC System, patients have become weight-bearing in a shorter period, intraoperative fractures have been dramatically reduced (no intraoperative fractures have resulted from THR surgeries performed with the ROBODOC system to date) and the Company believes fewer hip revision surgeries (implant replacements) may be necessary, as compared to primary THR surgery performed manually.

The Company will seek to establish itself as a leading provider of innovative image-directed, computer-controlled robotic technologies worldwide, initially for orthopaedic applications and subsequently for non-orthopaedic surgical applications. The Company's business strategy is to concentrate its marketing and sales efforts on selling the ROBODOC System throughout Europe over the next three years. The Company will thereby attempt to establish an installed customer base in Europe and other foreign markets through the sale of its ROBODOC System, and offer its customers separate software packages for each new orthopaedic application if, as and when developed by the Company. Consequently, the Company's customers would be

able to use the ROBODOC System as the platform for performing a variety of orthopaedic surgical procedures without incurring significant additional hardware costs. The Company also plans to further exploit its image-directed robotics technology by incorporating additional imaging modalities for presurgical planning, including ultrasound (which is less expensive than CT) and magnetic resonance imaging (which unlike CT does not involve the risk of radiation). The Company also intends to develop an active robotic system capable of performing non-orthopaedic surgical procedures.

The Company has commenced marketing the ROBODOC System in Western Europe, through direct marketing and arrangements with implant manufacturers. The Company has been notified by Technische Ubermachtungs Verein ("TUV"), a testing body in Germany, that the ROBODOC System has met the requirements of the European Directives, thus allowing the Company to use the European Conforming Mark (the "CE Mark") and distribute the ROBODOC System throughout the European Community. During the six months ended June 30, 1996, the Company realized revenues of approximately $1,064,000 from the initial commercial sales of the ROBODOC System (including related consumables) in Europe, and at June 30, 1996, the Company had signed purchase orders for ROBODOC Systems of approximately $1,300,000.

The Company is developing a software package, in collaboration with IBM and Johns Hopkins University, for surgery to replace loose or otherwise failed hip implants (the "hip revision application") using the ROBODOC System. The Company plans to commence clinical trials of the hip revision application in Europe before the end of 1996. Upon completion of the clinical trials, the Company intends to offer software for the hip revision application to its customers. The development of the hip revision application is being funded in part by a grant from the National Institute for Standards and Technology (Advanced Technology Program) of the United States Department of Commerce.

Neither the ROBODOC System nor the ORTHODOC can be marketed in the United States until clearance or approval is obtained from the U.S. Food and Drug Administration ("FDA"). The Company intends to file a pre-market approval application ("PMA") with the FDA in the second quarter of 1997 for approval to market the ROBODOC System in the United States. The Company does not expect to commence marketing the ROBODOC System in the United States before 1999, subject to prior FDA approval. The Company filed a 510(k) pre-market notification for the ORTHODOC as a stand-alone device in February 1996, and subject to prior FDA clearance, expects to commence marketing the ORTHODOC in the United States before the end of 1996.

The Company was incorporated under the laws of the State of Delaware on October 1, 1990. The Company's offices are located at 829 West Stadium Lane, Sacramento, California 95834, and its telephone number is (916) 646-3487.

THE OFFERING

Securities Offered	1,500,000 shares of Common Stock and 1,500,000 Warrants. Each Warrant entitles the holder thereof to purchase one share of Common Stock at an exercise price of $7.00 per share, subject to adjustment in certain events. The Common Stock and the Warrants are separately tradeable and transferable. See "Description of Securities" and "Underwriting."
Offering Price	$6.00 per share of Common Stock and $.10 per Warrant
Common Stock Outstanding:	
Prior to the Offering(1)	1,776,864 shares of Common Stock
After the Offering(1)(2)	3,276,864 shares of Common Stock
Warrants Outstanding after the Offering(3)	1,500,000 Warrants
Terms of Warrants:	
Exercise price	$7.00 per share, subject to adjustment in certain events. See "Description of Securities -- Warrants."
Exercise period	Any time during the period commencing , 1997 [12 months after the Effective Date] or earlier upon notice of redemption as provided below) and ending , 2001 [five years after the Effective Date].
Redemption	Redeemable by the Company at a price of $.10 per Warrant upon not less than 30 days prior written notice to the holders of the Warrants at any time commencing , 1997 [12 months after the Effective Date] (or earlier with the prior written consent of the Representative), and prior to their expiration, provided that the average of the closing bid quotations of the Common Stock on The Nasdaq SmallCap Market (or if not quoted thereon, the average of the closing sale prices of the Common Stock on the principal securities exchange, including the Nasdaq National Market, on which the Common Stock is then traded), during the period of 20 consecutive trading days ending on the third day prior to the date on which the Company gives notice of redemption, has been at least 150% of the then current exercise price of the Warrants (initially, $10.50 per share). See "Description of Securities -- Warrants."
Use of Proceeds	The net proceeds of this Offering, aggregating approximately $7,480,750, will be used (i) for product development, (ii) for sales and marketing, and (iii) for working capital and general corporate purposes. See "Use of Proceeds."

Risk Factors................................	The securities offered hereby involve a high degree of risk and immediate substantial dilution to new investors. Only investors who can bear the loss of their entire investment should invest. See "Risk Factors" and "Dilution."
Proposed Nasdaq SmallCap Market Symbols............................	Common Stock -- RDOC; Warrants -- RDOCW
Pacific Stock Exchange Listing.............	Application has been made to list the Common Stock and Warrants on the Pacific Stock Exchange. There can be no assurance that such application will be approved or that trading, if commenced, will continue.

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(1) Gives effect to the automatic conversion of the outstanding shares of Series D Preferred Stock into 1,039,792 shares upon consummation of the sale of the shares of Common Stock and Warrants offered hereby (the "Closing"). Does not include (i) 2,274,066 shares of Common Stock issuable upon exercise of outstanding warrants, including (A) shares issuable upon exercise of outstanding warrants to purchase Series D Preferred Stock (the "Series D Warrants"), at an exercise price of $0.01 per share, which will become exercisable for 2,079,584 shares of Common Stock following the automatic conversion of the Series D Preferred Stock at the Closing, and (B) 194,482 shares issuable upon exercise of outstanding warrants, at exercise prices ranging from $0.01 to $0.07 per share, and (ii) 949,070 shares of Common Stock issuable upon exercise of outstanding options granted pursuant to the Company's stock option plans, at exercise prices ranging from $0.07 to $7.84 per share. See "Management -- Stock Option Plan," "Certain Transactions" and "Description of Securities -- Warrants."

(2) Does not include (i) 1,500,000 shares reserved for issuance upon exercise of the Warrants, (ii) 450,000 shares of Common Stock reserved for issuance upon exercise of the Underwriters' Over-Allotment Option and the Warrants included therein, and (iii) 300,000 shares reserved for issuance upon exercise of the Underwriters' Warrants and the Warrants included therein. See "Description of Securities -- Warrants" and "Underwriting -- Underwriters' Warrants."

(3) Does not include (i) 225,000 Warrants reserved for issuance upon exercise of the Underwriters' Over-Allotment Option, (ii) 150,000 Warrants reserved for issuance upon exercise of the Underwriters' Warrants, and (iii) outstanding warrants to purchase 2,274,066 shares of Common Stock, including the Series D Warrants which will become exercisable for Common Stock following the automatic conversion of the Series D Preferred Stock into Common Stock at the Closing. See "Underwriting -- Underwriters' Warrants."

SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION

The summary financial information set forth below is derived from and should be read in conjunction with the Company's consolidated financial statements, including the notes thereto, appearing elsewhere in this Prospectus.

STATEMENT OF OPERATIONS DATA:

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1994	1995	1995	1996
Net sales	$289,047	$174,521	$76,289	$1,064,206
Gross profit	85,191	104,342	46,142	605,723
Operating loss	(4,608,396)	(3,925,730)	(1,960,123)	(1,505,700)
Net loss	(4,840,385)	(4,053,528)	(1,970,292)	(1,491,118)
Net loss applicable to common shares	(5,796,959)	(4,989,853)	(2,448,579)	(1,491,118)
Net loss per common and common share equivalent	($1.35)	($1.16)	($0.57)	($0.33)
Shares used in per share calculations(1)	4,291,444	4,298,268	4,292,288	4,497,070

BALANCE SHEET DATA:

	JUNE 30, 1996	
	ACTUAL	PRO FORMA AS ADJUSTED(2)
Working capital	$1,735,668	$9,216,418
Total assets	2,847,953	10,328,703
Accumulated deficit	(17,143,100)	(17,143,100)
Stockholders' equity	2,022,903	9,503,653

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(1) See Note 2 of notes to consolidated financial statements for an explanation of the determination of the number of shares used in computing net loss per share.

(2) Gives effect to (i) the automatic conversion of the outstanding shares of Series D Preferred Stock into 1,039,792 shares at the Closing, and (ii) the issuance and sale of 1,500,000 shares of Common Stock and 1,500,000 Warrants offered hereby and the application of the estimated net proceeds from the sale thereof. See "Use of Proceeds." Does not include (i) 2,859,025 shares of Common Stock issuable upon exercise of outstanding warrants, including (A) shares issuable upon exercise of the Series D Warrants, at an exercise price of $0.01 per share, which will become exercisable for 2,079,584 shares of Common Stock following the automatic conversion of the Series D Preferred Stock at the Closing, (B) 194,482 shares issuable upon exercise of outstanding warrants, at exercise prices ranging from $0.01 to $0.07 per share, (C) warrants to purchase 528,178 shares, at an exercise price of $0.74 per share, which were exercised by delivery of shares of Common Stock in payment of the warrant exercise price on August 25, 1996, resulting in the net issuance of 463,054 shares of Common Stock, and (D) warrants to purchase 56,781 shares, at an exercise price of $0.74 per share, which expired unexercised on August 30, 1996, (ii) 949,070 shares of Common Stock issuable upon exercise of outstanding options granted pursuant to the Company's stock option plans, at exercise prices ranging from $0.07 to $7.84 per share, including 32,503 shares issuable upon exercise of options granted subsequent to June 30, 1996, (iii) the Underwriters' Over-Allotment Option, (iv) the Warrants and the Warrants included therein and (v) the Underwriters' Warrants and the Warrants included therein.

RISK FACTORS

The securities offered hereby are speculative and involve a high degree of risk, including, but not limited to, the risk factors described below. Each prospective investor should carefully consider the following risk factors before making an investment decision.

1. HISTORY OF LOSSES; ACCUMULATED DEFICIT; ANTICIPATED FUTURE LOSSES. Since its inception, the Company has incurred losses. The Company incurred a net loss of approximately $4,054,000 (on net sales of approximately $175,000) for its fiscal year ended December 31, 1995 and a net loss of approximately $4,840,000 (on net sales of approximately $289,000) for its fiscal year ended December 31, 1994. In addition, the Company incurred a net loss of approximately $1,491,000 (on net sales of approximately $1,064,000) for the six months ended June 30, 1996, as compared to a net loss of approximately $1,970,000 (on net sales of approximately $76,000), for the six months ended June 30, 1995. At June 30, 1996, the Company's accumulated deficit was approximately $17,143,000 as a result of continuing losses. The Company expects to continue to incur operating losses until such time, if ever, as it derives significant revenues from the sale of its products. The Company's ability to operate profitably depends upon market acceptance of the ROBODOC System, the development of an effective sales and marketing organization, and the development of new products and improvements to existing products. There can be no assurance that the Company will obtain FDA approval to market the ROBODOC System in the United States or that the ROBODOC System will achieve market acceptance in the United States, Europe and other foreign markets to generate sufficient revenues to become profitable.

2. INDEPENDENT AUDITORS' "GOING CONCERN" EXPLANATORY PARAGRAPH. The Company's independent auditors have included an explanatory paragraph in their report on the Company's financial statements for the year ended December 31, 1995, which indicates there is substantial doubt about the Company's ability to continue as a going concern due to the Company's need to generate cash from operations and obtain additional financing. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Report of Independent Auditors on the Company's Consolidated Financial Statements" appearing at page F-2 of this Prospectus.

3. LIMITED OPERATING HISTORY. Although the Company commenced operations in October 1990, its operations have consisted primarily of the development and clinical testing of the ORTHODOC and the ROBODOC System, the organization of its manufacturing facility, the hiring of key personnel and the formulation of a plan for marketing the ROBODOC System in Europe. Although the Company has commenced marketing the ROBODOC System in Europe, it has engaged only in clinical testing of the ROBODOC System in the United States, and the Company's ability to market its products in the United States is dependent upon FDA approval. See "Risk Factors -- Government Regulation." Accordingly, the Company must be evaluated in light of the uncertainties, delays, difficulties and expenses commonly experienced by companies in the early operating stage, which generally include unanticipated problems and additional costs relating to the development and testing of products, regulatory compliance, commencement of production, marketing and product introduction, and competition. Many of these factors may be beyond the Company's control, including but not limited to, unanticipated results of product tests requiring modification in product design, changes in applicable government regulations or the interpretation thereof, market acceptance of the Company's products and development of competing products by others. In addition, the Company's future performance also will be subject to other factors beyond the Company's control, including general economic conditions and conditions in the healthcare industry or targeted commercial markets.

4. LENGTHY SALES CYCLE. Since the purchase of a ROBODOC System represents a significant capital expenditure for a customer, the placement of orders may be delayed due to customers' internal procedures to approve large capital expenditures. The Company anticipates that the period between initial contact of a customer for the ROBODOC System and submission of a purchase order by that customer could be as long as 9 to 12 months. Furthermore, the current lead time required by the supplier of the robot is four (4) months after receipt of the order. Although the Company generally intends to require a deposit upon receipt of an order for the ROBODOC System, the Company may be required to expend significant cash resources to fund its operations until the balance of the purchase price is paid. Accordingly, a significant portion of the sales

price of a ROBODOC System may not be recognized until a fiscal quarter subsequent to the fiscal quarter in which the Company incurred marketing and sales expenses associated with that order. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Consolidated Financial Statements."

5. CHALLENGES OF GROWTH. The Company intends to use a portion of the net proceeds of this Offering to hire and retain sales and marketing, research and development and technical personnel to increase and support sales of ROBODOC Systems and to develop additional surgical applications for the ROBODOC System. See "Use of Proceeds." The anticipated growth of the Company will likely result in new and increased responsibilities for management personnel and place significant strain upon the Company's management, operating and financial systems and resources. To accommodate such growth and compete effectively, the Company must continue to implement and improve its operational, financial and management procedures and controls, as well as management information systems, procedures and controls, and to expand, train, motivate and manage its personnel. There can be no assurance that the Company's personnel, systems, procedures and controls will be adequate to support the Company's future operations. Any failure to implement and improve the Company's operational, financial and management systems, procedures or controls, or to expand, train, motivate or manage employees could materially and adversely affect the Company's business, financial condition and results of operations. See "Risk Factors -- Dependence on Key Personnel," "Business -- Employees" and "Management -- Directors, Executive Officers and Key Employees."

6. GOVERNMENT REGULATION.

Summary. The Company's products are subject to continued and pervasive regulation by the FDA and foreign and state regulatory authorities. In the United States, the Company must comply with food and drug laws and with regulations promulgated by the FDA. These laws and regulations require the Company's products to obtain various authorizations prior to being marketed in the United States, and there is no assurance the Company's products will receive these authorizations. The Company's facilities and manufacturing practices will also be subject to FDA regulations. In each foreign market, the Company's products may be subject to substantially different regulations. Failure to comply with U.S. or applicable foreign regulations could have a material adverse effect on the Company. See "Business -- Government Regulation."

U.S. Regulation. Pursuant to the Federal Food, Drug, and Cosmetic Act, as amended, and regulations thereunder (collectively, the "FDC Act"), the FDA regulates the clinical testing, manufacture, labeling, sale, distribution and promotion of medical devices in the United States. 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 recall, repair, replacement or refund of the cost of any device manufactured or distributed by the Company. Failure to comply with regulatory requirements, including any future changes to such requirements, could have a material adverse effect on the Company's business, financial condition and results of operation. See "Business -- Government Regulation."

Lengthy "Pre-Market" Approval Process for ROBODOC System. Before a new device can be introduced into the U.S. market, the manufacturer must obtain FDA permission to market through either the 510(k) pre-market notification process or the costlier, lengthier and less certain pre-market approval ("PMA") application process. The Company intends to file a PMA in the second quarter of 1997 for approval to market the ROBODOC System in the United States. There can be no assurance that the patient data from the U.S. clinical trials will be adequate to support the Company's PMA application or that the FDA will not require the Company to obtain additional clinical data to supplement the data available from the Company's current study or require a new clinical study, any of which would result in substantial additional delay and costs. Regardless of whether the FDA requires additional clinical data, there can be no assurance that the Company will submit a PMA application or receive FDA approval for the ROBODOC System in a timely fashion, if at all. New surgical applications for the ROBODOC System generally will require FDA approval of a PMA supplement or, possibly, a new PMA. The Company is also likely to require additional FDA approvals,

supported by additional clinical data, before incorporating new imaging modalities such as ultrasound and MRI or other new technologies in the ROBODOC System. See "Business -- Government Regulation."

501(k) Notification for ORTHODOC. In February 1996, the Company filed a 510(k) notification for the ORTHODOC as a stand-alone device and is preparing a response to correspondence from the FDA in which the FDA stated that it could not determine the ORTHODOC's substantial equivalence to legally marketed predicate devices without certain additional information. There can be no assurance that the FDA will consider the Company's response adequate or that the ORTHODOC will receive 510(k) clearance in a timely fashion, or at all. See "Business -- Government Regulation."

No Assurance of Approvals; Subsequent Review of Approvals, Etc. There can be no assurance that any of the Company's current or future products will obtain required FDA approvals on a timely basis, or at all, or that the Company will have the necessary resources to obtain such approvals. If any of the Company's products are not approved for use in the United States, the Company will be limited to marketing them in foreign countries. Furthermore, approvals that have been or may be granted are subject to continual review, and later discovery if previously unknown problems may result in product labeling restrictions or withdrawal of the product from the market. See "Business -- Government Regulation."

Requirement to Follow Good Manufacturing Practices. Assuming the Company obtains the necessary FDA approvals and clearances for its products, in order to maintain such approvals and clearances the Company will be required, among other things, to register its establishment and list its devices with the FDA and with certain state agencies, maintain extensive records, report any adverse experiences on the use of its products and submit to periodic inspections by the FDA and certain state agencies. The FDC Act also requires devices to be manufactured in accordance with good manufacturing practices ("GMP") regulations, which impose certain procedural and documentation requirements upon the Company with respect to manufacturing and quality assurance activities. The FDA has proposed changes to the GMP regulations that, if finalized, would likely increase the cost of complying with GMP requirements. See "Business -- Government Regulation."

Foreign Regulation. The introduction of the Company's products in foreign markets will also subject the Company to foreign regulatory clearances, which may be unpredictable and uncertain, and which may impose additional substantive costs and burdens. The Company has been notified by TUV that the ROBODOC System has met the requirements of the European Directors, thus allowing the Company to use the CE Mark and distribute the ROBODOC System throughout the European Community. Outside the European Community, international sales of medical devices are subject to the regulatory requirements of each country. The regulatory review process varies from country to country. In addition, many countries (including countries within the European Community) also impose product standards, packaging requirements, labeling requirements and import restrictions on devices. No assurance can be given that any additional necessary approvals or clearances for the Company's products will be granted on a timely basis, or at all. See "Business -- Government Regulation."

Adverse Effect of Delays or Loss of Approvals. Delays in the receipt of, or failure to receive, FDA approvals or clearances, or the loss of any previously received approvals or clearances, or, limitations on intended use imposed as a condition of such approvals or clearances, would have a material adverse effect on the business, financial condition and results of operations of the Company. See "Business -- Government Regulation."

7. DEPENDENCE ON PRINCIPAL PRODUCT. The Company expects to derive most of its revenues from sales of ROBODOC Systems. Accordingly, the Company's potential future success and financial performance will depend almost entirely on its ability to successfully market its ROBODOC Systems. If the Company is unable to obtain the requisite regulatory approvals or to achieve commercial acceptance of its ROBODOC System, the Company's business, financial condition and results of operations will be materially and adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

8. UNCERTAINTY OF MARKET ACCEPTANCE. The Company's ability to successfully commercialize its ROBODOC System will require substantial marketing efforts and the expenditure of significant funds to

inform potential customers, including hospitals and physicians, of its distinctive characteristics and the advantages of using the ROBODOC System instead of traditional orthopaedic surgical tools and procedures. Since the ROBODOC System employs innovative technology, rather than being an improvement of existing technology, and represents a substantial capital expenditure, the Company expects to encounter resistance to change, which it must overcome to successfully market its products. Failure of the ROBODOC System to achieve significant market acceptance would materially and adversely affect the Company's business, financial condition and results of operations.

9. COMPETITION. The principal competition for the ROBOCOC 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 (a division of Pfizer), located in New York; Zimmer (a division of Bristol-Myers Squibb), located in Indiana; Johnson & Johnson, located in New Jersey; DePuy (a division of Boehringer-Manheim), located in Indiana; Biomet, located in Indiana; and Osteonics (a division of Stryker), located in New Jersey. There are companies in the medical products industry, particularly the major orthopaedic companies, 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 the Company, and have established reputations in the medical device industry. Furthermore, there can be no assurance that IBM or the University of California, which developed the technology for the Company's active surgical robot and hold patents relating thereto, will not enter the market or license the technology to other companies. There can be no assurance that future competition will not have a material adverse effect on the Company's business. The cost of the ROBODOC System represents a significant capital expenditure for a customer and accordingly may discourage purchases by certain customers. See "Business -- Competition."

10. UNCERTAINTY REGARDING PATENTS AND PROTECTION OF PROPRIETARY TECHNOLOGY.

Summary. Certain technology underlying the Company's products is the subject of one United States patent issued to IBM, which IBM has agreed not to enforce against the manufacture and sale of the Company's products, and two patent applications by the Company, the outcome of which applications is uncertain. Third party claims to the technology used in the Company's products could, if valid, require the Company to obtain licenses to the technology; those licenses may not be available on acceptable terms. Certain pending U.S. legislation could limit patent protection in connection with certain medical procedures. The technology used in the Company's products could be (a) disclosed by Company employees despite their confidentiality obligations to the Company or (b) independently developed or otherwise acquired by potential competitors. See "Business -- Patents and Proprietary Rights."

General. The Company's ability to compete successfully may depend, in part, on its ability to obtain and protect patents, protect trade secrets and operate without infringing the proprietary rights of others. The Company's policy is to seek to protect its proprietary position by, among other methods, filing U.S. and foreign patent applications relating to its technology, inventions and improvements that are important to the development of its business. The Company has filed two patent applications, and is preparing for filing additional 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. Significant portions of the ROBODOC System and ORTHODOC software are protected by copyrights. IBM has granted the Company a royalty-free license for the underlying software code for the ROBODOC System. See "Business -- Patents and Proprietary Rights."

There can be no assurance that the Company's pending or future patent applications will mature into issued patents, or that the Company will continue to develop its own patentable technologies. Further, there can be no assurance that any patents that may be issued in the future will effectively protect the Company's technology or provide a competitive advantage for the Company's products or will not be challenged, invalidated, or circumvented in the future. In addition, there can be no assurance that competitors, many of which have substantially more resources than the Company and have made substantial investments in competing technologies, will not obtain patents that will prevent, limit or interfere with the Company's ability

to make, use or sell its products either in the United States or internationally. See "Business -- Patents and Proprietary Rights."

Secrecy of Patent Applications Until Patents Issued. Patent applications in the United States are maintained in secrecy until patents issue, and patent applications in foreign countries are maintained in secrecy for a period after filing. Publication of discoveries in the scientific or patent literature tends to lag behind actual discoveries and the filing of related patent applications. Patents issued and patent applications filed relating to medical devices are numerous and there can be no assurance that current and potential competitors and other third parties have not filed or in the future will not file applications for, or have not received or in the future will not receive, patents or obtain additional proprietary rights relating to products or processes used or proposed to be used by the Company. See "Business -- Patents and Proprietary Rights."

Lack of Infringement Study. The Company's patent counsel has not undertaken any infringement study to determine if the Company's products and pending patent applications infringe on other existing patents. The medical device industry has been characterized by substantial competition and litigation regarding patent and other proprietary rights. The Company intends to vigorously protect and defend its patents and other proprietary rights relating to its proprietary technology. Litigation alleging infringement claims against the Company (with or without merit), or instituted by the Company to enforce patents and to protect trade secrets or know-how owned by the Company or to determine the enforceability, scope and validity of the proprietary rights of others, is costly and time consuming. If any relevant claims of third-party patents are upheld as valid and enforceable in any litigation or administrative proceedings, the Company could be prevented from practicing the subject matter claimed in such patents, or could be required to obtain licenses from the patent owners of each patent, or to redesign its products or processes to avoid infringement. There can be no assurance that such licenses would be available or, if available, would be available on terms acceptable to the Company or that the Company would be successful in any attempt to redesign its products or processes to avoid infringement. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent the Company from manufacturing and selling its products, which would have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Patents and Proprietary Rights."

Possible Restrictive Federal Legislation. Legislation is pending in Congress that may limit the ability of medical device manufacturers in the future to obtain patents on surgical and medical procedures that are not performed by, or as part of, devices or compositions which are themselves patentable. While the Company cannot predict whether the legislation will be enacted, or precisely what limitations will result from the law if enacted, any limitation or reduction in the patentability of medical and surgical methods and procedures could have a material adverse effect on the Company's ability to protect its proprietary methods and procedures. See "Business -- Patents and Proprietary Rights."

Possibility of Disclosure or Discovery of Proprietary Information. Although the Company requires each of its employees, consultants, and advisors to execute confidentiality and assignment of inventions and proprietary information agreements in connection with their employment, consulting or advisory relationships with the Company, there can be no assurance that these agreements will provide effective protection for the Company's proprietary information in the event of unauthorized use or disclosure of such information. Furthermore, no assurance can be given that competitors will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to the Company's proprietary technology, or that the Company can meaningfully protect its rights in unpatented proprietary technology. See " Business -- Patents and Proprietary Rights."

11. 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 in amounts that it believes are adequate to protect against foreseeable risks. In addition, in connection with the sale of ROBODOC Systems, the Company enters into indemnification agreements with its customers pursuant to which the customers indemnify the Company against any claims against it arising from improper use of the ROBODOC System. However, there can be no assurance 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, that such insurance can be maintained at acceptable costs, or that customers will be able to satisfy indemnification claims. 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. See "Business -- Product Liability."

12. LIMITED MANUFACTURING EXPERIENCE. The Company's success will depend in part on its ability to manufacture its products in a timely, cost-effective manner and in compliance with GMPs, and manufacturing requirements of other countries, including the International Standards Organization ("ISO") 9000 standards and other regulatory requirements. The manufacture of the Company's products is a complex operation involving a number of separate processes and components. The Company's manufacturing activities to date have consisted primarily of manufacturing limited quantities of systems for use in clinical trials and a limited number of systems for commercial sale. The Company does not have experience in manufacturing its products in the commercial quantities that might be required. Furthermore, as a condition to receipt for PMA approval, the Company's facilities, procedures and practices will be subject to pre-approval and ongoing GMP inspections by FDA.

Manufacturers often encounter difficulties in scaling up manufacturing of new products, including problems involving product yields, quality control and assurance, component and service availability, adequacy of control policies and procedures, lack of qualified personnel, compliance with FDA regulations, and the need for further FDA approval of new manufacturing processes and facilities. There can be no assurance that manufacturing yields, costs or quality will not be adversely affected as the Company seeks to increase production, and any such adverse effect could materially and adversely affect the Company's business, financial condition and results of operations. See "Business -- Manufacturing."

13. DEPENDENCE ON SUPPLIER FOR ROBOT. Although the Company has multiple sources for most of the components, parts and assemblies used in the ROBODOC System, the Company is dependent on Sankyo Seiki of Japan for the robot. Alternatives to the robot are commercially available with appropriate hardware modifications and engineering effort. If the Company were no longer able to obtain the robot from its supplier, there can be no assurance that the delays resulting from the required hardware modifications or engineering effort to adapt alternative components would not have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Manufacturing."

14. RELIANCE ON FOREIGN SALES. From inception through June 30, 1996, substantially all of the Company's sales (other than clinical sales in the United States pursuant to an exemption in the rules and regulations of the FDA for investigational devices) have been to customers in Germany. The Company believes that until such time, if ever, as it receives approval from the FDA to market the ROBODOC System in the United States, substantially all of its sales will be derived from customers in foreign markets. Foreign sales are subject to certain risks, including economic or political instability, shipping delays, fluctuations in foreign currency exchange rates, changes in regulatory requirements, custom duties and export quotas and other trade restrictions, any of which could have a material adverse effect on the Company's business. To date, payment for all ROBODOC Systems in Europe has been fixed in U.S. Dollars, and the Company expects that in the future, payment for all of its products in foreign countries will continue to be in U.S. Dollars. However, there can be no assurance that in the future the customers will be willing to make payment to the Company for its products in fixed U.S. Dollars. If the U.S. Dollar strengthens substantially against the foreign currency of a country in which the Company sells its products, the cost of purchasing the Company's products in U.S. Dollars would increase and may inhibit purchases of the Company's products by customers in that country. The Company is unable to predict the nature of future changes in foreign markets or the effect, if any, they might have on the Company. See "Business -- Sales and Marketing."

15. UNCERTAINTY CONCERNING THIRD PARTY REIMBURSEMENT. The Company expects that its ability to successfully commercialize its products will depend significantly on the availability of reimbursement for surgical procedures using the Company's products from third-party payors such as governmental programs, private insurance and private health plans. Reimbursement is a significant factor considered by hospitals in determining whether to acquire new equipment. Notwithstanding FDA approval, if granted, third-party payors

may deny reimbursement if the payor determines that a therapeutic medical device is unnecessary, inappropriate, not cost-effective or experimental or is used for a nonapproved indication. Cost control measures adopted by third-party payors in recent years have had and may continue to have a significant effect performed with the ROBODOC System or as to the levels of reimbursement. There also can be no assurance that levels of reimbursement, if any, will not be decreased in the future, or that future legislation, regulation, or reimbursement policies of third-party payors will not otherwise adversely affect the demand for the Company's products or its ability to sell its products on a profitable basis. Fundamental reforms in the healthcare industry in the United States and Europe that could affect the availability of third-party reimbursement continue to be proposed, and the Company cannot predict the timing or effect of any such proposal. If third-party payor coverage or reimbursement is unavailable or inadequate, the Company's business, financial condition and results of operations could be materially and adversely affected.

16. DEPENDENCE ON KEY PERSONNEL. The Company's business and marketing plan was formulated by, and is to be implemented under the direction of, Dr. Ramesh C. Trivedi, the Chief Executive Officer and President of the Company. Dr. Trivedi is employed by the Company pursuant to an employment agreement terminable by the Company or Dr. Trivedi at any time. On or before the Effective Date, the Company will obtain key-man insurance on the life of Dr. Trivedi in the amount of $1,000,000. The Company's growth and future success also will depend in large part on the continued contributions of its key technical and senior management personnel, as well as its ability to attract, motivate and retain highly qualified personnel generally and, in particular, trained and experienced professionals capable of developing, selling and installing the ROBODOC System and training surgeons in its use. Competition for such personnel is intense, and there can be no assurance that the Company will be successful in hiring, motivating or retaining such qualified personnel. None of the Company's executive or key technical personnel, other than Dr. Trivedi, is employed by the Company pursuant to an employment agreement with the Company. The loss of the services of Dr. Trivedi or other senior management or key technical personnel, or the inability to hire or retain qualified personnel, could have a material adverse effect on the Company's business, financial condition and results of operations. See "Management" and "Business -- Sales and Marketing."

17. CONTROL OF THE COMPANY; OWNERSHIP OF SHARES BY CURRENT MANAGEMENT AND PRINCIPAL SECURITY HOLDERS. Upon completion of this Offering, the current executive officers, directors and other significant securityholders of the Company will continue to own or have rights to acquire 4,201,231 shares of Common Stock, which will represent a majority of the outstanding shares of Common Stock. Although these securityholders may or may not agree on any particular matter that is the subject of a vote of the stockholders, these securityholders may be effectively able to control the outcome of any issues which may be subject to a vote of securityholders, including the election of directors, proposals to increase the authorized capital stock, or the approval of, mergers, acquisitions, or the sale of all or substantially all of the Company's assets. See "Security Ownership of Certain Beneficial Owners and Management."

18. REPRESENTATIVE'S POTENTIAL INFLUENCE ON THE COMPANY. The Company has agreed that for three years from the Effective Date, the Representative may designate one person for election to the Company's Board of Directors and that the Company will reasonably cooperate with the Representative in respect of such designation. The election of such designee, if any, may enable the Representative to exert influence on the Company. As of the date of this Prospectus, the Representative has not designated any individual for election to the Company's Board of Directors. See "Underwriting."

19. NEED FOR ADDITIONAL FINANCING. Although the Company anticipates that the net proceeds of the Offering, together with cash flow from operations, will be sufficient to finance its operations for the 12 months following the date of this Prospectus, there can be no assurance that the Company will not require additional financing at an earlier date. This will depend upon the Company's ability to generate sufficient sales of ROBODOC Systems in Europe and other foreign markets, and the timing of required expenditures. If the Company is required to obtain financing in the future, there can be no assurance that such financing will be available on terms acceptable to the Company, if at all. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

20. LIMITATIONS ON DIRECTOR LIABILITY. The Company's certificate of incorporation provides that a director of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, with certain exceptions under Delaware law. This may discourage stockholders from bringing suit against a director for breach of fiduciary duty and may reduce the likelihood of derivative litigation brought by stockholders on behalf of the Company against a director. In addition, the Company's By-laws provide for mandatory indemnification of directors and officers. See "Management -- Indemnification of Officers and Directors and Limitations on Director Liability."

21. ABSENCE OF DIVIDENDS. Since inception, the Company has not paid any dividends on its Common Stock and it does not anticipate paying such dividends in the foreseeable future. The Company intends to retain earnings, if any, to finance its operations. See "Dividend Policy."

22. DILUTION. Purchasers of Common Stock in this Offering will suffer immediate dilution of $3.13 per share (or approximately 52.2%) in the net tangible book value of their investment from the initial public offering price of $6.00 per share of Common Stock. See "Dilution."

23. NO ASSURANCE OF PUBLIC MARKET; DETERMINATION OF PUBLIC OFFERING PRICE; POSSIBLE VOLATILITY OF MARKET PRICE FOR THE COMMON STOCK AND WARRANTS. Prior to the Offering, there has been no public trading market for the Common Stock or the Warrants. Consequently, the initial public offering prices of the Common Stock and the Warrants and the exercise price and other terms of the Warrants were determined through negotiations between the Company and the Underwriters and bear no relationship whatsoever to the Company's assets, book value per share, results of operations or other generally accepted criteria of value. The offering prices of the Common Stock and the Warrants, as well as the exercise price of the Warrants, should not be construed as indicative of their value. There can be no assurance that an active trading market for the Common Stock or Warrants will develop after the Offering or that, if developed, it will be sustained. As a result, purchasers of the Common Stock and Warrants will be exposed to a risk of a decline in the market prices of the Common Stock and Warrants after the Offering. The market prices of the Common Stock and Warrants following this Offering may be highly volatile as has been the case with the securities of many emerging companies. The Company's operating results and various factors affecting the medical device industry generally may significantly impact the market price of the Company's securities. In addition, the stock market generally, and the securities of technology companies in particular, have experienced a high level of price and volume volatility, and market prices for the securities of many companies have experienced wide price fluctuations not necessarily related to the operating performance of such companies. There can be no assurance that the market prices of the Common Stock and the Warrants will not experience significant fluctuations or decline below their initial public offering prices.

24. UNDERWRITERS' INFLUENCE ON THE MARKET; POSSIBLE LIMITATIONS ON MARKET MAKING ACTIVITIES. A significant number of the securities offered hereby may be sold to customers of the Underwriters. Such customers subsequently may engage in transactions for the sale or purchase of such securities through or with the Underwriters. The Underwriters have indicated that they intend to act as market-makers and otherwise effect transactions in the securities offered hereby. To the extent the Underwriters act as market-makers in the Common Stock or Warrants, they may exert a dominating influence in the markets for those securities. The prices and liquidity of the Common Stock and Warrants may be significantly affected to the extent, if any, that the Underwriters participate in such markets. Furthermore, the Underwriters may discontinue such activities at any time or from time to time. The Representative also has the right to act as the Company's exclusive agent, for a period of five years, in connection with any future solicitation of holders of Warrants to exercise the Warrants. Unless granted an exemption by the Commission from Rule 10-6 under the Exchange Act, the Representative and any other soliciting broker-dealers will be prohibited from engaging in any market making activities or solicited brokerage activities with regard to the Company's securities for a period of up to nine business days prior to the solicitation of the exercise of any Warrants until the later of the termination of such solicitation activity or the termination of any right the Representative may have to receive a fee for the solicitation of the Warrants. As a result, the Representative and such soliciting broker-dealers may be unable to continue to make a market for the Company's securities during certain periods while the Warrants are exercisable. Such a limitation, while in effect, could impair the liquidity and market price of the Company's securities. See "Underwriting."

25. POSSIBLE DELISTING. Application has been made to The Nasdaq Stock Market for inclusion of the Common Stock and Warrants on The Nasdaq SmallCap Market. In addition, application has been made to the Pacific Stock Exchange ("PSE") to list the Common Stock and Warrants on the PSE. There can be no assurance that the Common Stock and Warrants will qualify for quotation on The Nasdaq SmallCap Market, or for listing on the PSE. Furthermore, assuming that the Common Stock and Warrants are approved for quotation on The Nasdaq SmallCap Market and listing on the PSE, there can be no assurance that the Company will be able to satisfy specified financial tests and market related criteria required for continued quotation on The Nasdaq SmallCap Market or listing on the PSE following the Offering. If the Company is unable to satisfy The Nasdaq SmallCap Market and PSE maintenance criteria in the future, its Common Stock and Warrants may be delisted from trading on The Nasdaq SmallCap Market and PSE, and if delisted, trading, if any, would thereafter be conducted in the over-the-counter market in the so-called "pink sheets" or the "Electronic Bulletin Board" of the National Association of Securities Dealers, Inc. ("NASD"), and, consequently, an investor could find it more difficult to dispose of, or to obtain accurate quotations as to the price of, the Company's securities.

26. RISK OF LOW-PRICED SECURITIES. The regulations of the Securities and Exchange Commission promulgated under the Exchange Act require additional disclosure relating to the market for penny stocks in connection with trades in any stock defined as a penny stock. Commission regulations generally define a penny stock to be an equity security that has a market price of less than $5.00 per share, subject to certain exceptions. Unless an exception is available, those regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated therewith and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally institutions). In addition, the broker-dealer must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. Moreover, broker-dealers who recommend such securities to persons other than established customers and accredited investors must make a special written suitability determination for the purchaser and receive the purchaser's written agreement to a transaction prior to sale. If the Company's securities become subject to the regulations applicable to penny stocks, the market liquidity for the Company's securities could be severely affected. In such an event, the regulations on penny stocks could limit the ability of broker-dealers to sell the Company's securities and thus the ability of purchasers of the Company's securities to sell their securities in the secondary market.

27. SHARES ELIGIBLE FOR FUTURE SALE. No assurance can be given as to the effect, if any, that future sales of Common Stock, or the availability of shares of Common Stock for future sales, will have on the market price of the Common Stock from time to time. Sales of substantial amounts of Common Stock (including shares issued upon the exercise of warrants or stock options), or the possibility of such sales, could adversely affect the market price of the Common Stock and also impair the Company's ability to raise capital through an offering of its equity securities in the future. Upon completion of this Offering, the Company will have 3,276,864 shares of Common Stock outstanding, of which only the 1,500,000 shares of Common Stock offered hereby will be transferable without restriction under the Securities Act of 1933 (the "Securities Act"). The remaining 1,776,864 shares, issued in private transactions, will be "restricted securities" (as that term is defined in Rule 144 promulgated under the Securities Act) which may be publicly sold only if registered under the Securities Act or if sold in accordance with an applicable exemption from registration, such as Rule 144. In general, under Rule 144 as currently in effect, subject to the satisfaction of certain other conditions, a person, including an affiliate of the Company, who has beneficially owned restricted securities for at least two years, is entitled to sell (together with any person with whom such individual is required to aggregate sales), within any three-month period, a number of shares that does not exceed the greater of 1% of the total number of outstanding shares of the same class or, if the Common Stock is quoted on Nasdaq or a national securities exchange, the average weekly trading volume during the four calendar weeks preceding the sale. A person who has not been an affiliate of the Company for at least three months and who has beneficially owned restricted securities for at least three years is entitled to sell such restricted securities under Rule 144 without regard to any of the limitations described above. Officers, directors and the other existing securityholders of the Company, owning or having rights to acquire in the aggregate 4,981,931 shares of Common Stock constituting

restricted securities, have entered into agreements with the Underwriters not to sell or otherwise dispose of any shares of Common Stock (other than shares purchased in open market transactions) for a period of 18 months following the Effective Date (the "Lock-Up Agreements"), without the prior written consent of the Representative. In addition, securityholders of the Company owning or having rights to acquire in the aggregate 3,980,872 shares of Common Stock granted certain registration rights with respect to those shares, agreed that they will not exercise such registration rights for a period of 18 months following the Effective Date. See "Description of Securities -- Shares Eligible for Future Sale," "Description of Securities -- Registration Rights," "Certain Transactions" and "Underwriting." Following expiration of the term of the Lock-Up Agreements, 1,313,444 shares and 463,420 shares will become eligible for resale pursuant to Rule 144 commencing in the second and third quarters of 1998, respectively, subject to the volume limitations and compliance with the other provisions of Rule 144. Furthermore, the holders of the Underwriters' Warrants (including the securities issuable upon exercise thereof) have demand and piggyback registration rights with respect to the shares of Common Stock and Warrants issuable upon exercise of the Underwriters' Warrants.

28. EFFECT OF ISSUANCE OF COMMON STOCK UPON EXERCISE OF WARRANTS AND OPTIONS; POSSIBLE ISSUANCE OF ADDITIONAL OPTIONS. Immediately after the Offering, assuming the Underwriters' Over-Allotment Option is not exercised, the Company will have an aggregate of approximately 5,548,136 shares of Common Stock authorized but unissued and not reserved for specific purposes and an additional 6,175,000 shares of Common Stock unissued but reserved for issuance pursuant to (i) the Company's stock option plans, (ii) outstanding warrants, (iii) exercise of the Warrants and (iv) exercise of the Underwriters' Warrants and the Warrants included therein. All of such shares may be issued without any action or approval by the Company's stockholders. Although there are no present plans, agreements, commitments or undertakings with respect to the issuance of additional shares or securities convertible into any such shares by the Company, any shares issued would further dilute the percentage ownership of the Company held by the public stockholders. The Company has agreed with the Underwriters that, except for the issuances disclosed in or contemplated by this Prospectus, it will not issue any securities, including but not limited to any shares of Common Stock, for a period of 24 months following the Effective Date, without the prior written consent of the Representative. See "Underwriting."

The exercise of warrants or options and the sale of the underlying shares of Common Stock (or even the potential of such exercise or sale) may have a depressive effect on the market price of the Company's securities. Moreover, the terms upon which the Company will be able to obtain additional equity capital may be adversely affected since the holders of outstanding warrants and options can be expected to exercise them, to the extent they are able, at a time when the Company would, in all likelihood, be able to obtain any needed capital on terms more favorable to the Company than those provided in the warrants and options. See "Management -- Stock Option Plan," "Description of Securities" and "Underwriting."

29. POSSIBLE ADVERSE EFFECT OF ISSUANCE OF PREFERRED STOCK. The Company's certificate of incorporation, as amended as of the Effective Date, will authorize the issuance of 1,000,000 shares of "blank check" preferred stock, with designations, rights and preferences determined from time to time by its Board of Directors. Accordingly, the Company's Board of Directors is empowered, without further stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of the Common Stock. In the event of issuance, the preferred stock could be used, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of the Company, since the terms of the Preferred Stock that might be issued could potentially prohibit the Company's consummation of any merger, reorganization, sale of substantially all of its assets, liquidation or other extraordinary corporate transaction without the approval of the holders of the outstanding shares of Common Stock. The Company has no current plans to issue any shares of preferred stock. However, there can be no assurance that preferred stock will not be issued at some time in the future. The Company has agreed with the Underwriters that it will not issue any shares of preferred stock, or any options, warrants or other rights to purchase shares of preferred stock, for a period of 24 months following the Effective Date, without the prior written consent of the Representative. See "Description of Securities -- Preferred Stock."

30. ANTITAKEOVER PROVISIONS OF DELAWARE BUSINESS COMBINATION STATUTE. The Company is subject to Section 203 of the Delaware General Corporation Law ("DGCL"), which limits transactions between a publicly held company and "interested stockholders" (generally, these stockholders who, together with their affiliates and associates, own 15% or more of a company's outstanding capital stock). This provision of the DGCL also may have the effect of deferring certain potential acquisitions of the Company. See "Description of Securities -- Statutory Provisions Affecting Stockholders."

31. ADVERSE EFFECT OF REDEMPTION OF WARRANTS. Under certain conditions, the Warrants may be redeemed by the Company, prior to their expiration, at a redemption price of $0.10 per Warrant, upon not less than 30 days prior written notice to the holders of such Warrants. Redemption of the Warrants could force the holders to exercise the Warrants and pay the exercise price at a time when it may be disadvantageous for the holders to do so, to sell the Warrants at then current market price when they might otherwise wish to hold the Warrants or to accept the redemption price, which is likely to be substantially less than the market value of the Warrants at the time of redemption. See "Description of Securities -- Warrants."

32. NEED FOR FUTURE REGISTRATION OF WARRANTS; STATE BLUE SKY REGISTRATION; EXERCISE OF WARRANTS. The Warrants will trade separately upon the completion of the Offering. Although the Warrants will not knowingly be sold to purchasers in jurisdictions in which the Warrants are not registered or otherwise qualified for sale, purchasers may buy Warrants in the after-market or may move to jurisdictions in which the Warrants and the Common Stock underlying the Warrants are not so registered or qualified. In this event, the Company would be unable to issue Common Stock to those persons desiring to exercise their Warrants unless and until the Warrants and the underlying Common Stock are qualified for sale in jurisdictions in which such purchasers reside, or an exemption from such qualification exists in such jurisdictions. There can be no assurance that the Company will be able to effect any required qualification.

The Warrants will not be exercisable unless the Company maintains a current Registration Statement on file with the Commission through post-effective amendments to the Registration Statement containing this Prospectus. Although the Company has agreed to file appropriate post-effective amendments to the Registration Statement containing this Prospectus and to maintain a current Prospectus with respect to the Warrants, there can be no assurance that the Company will file post-effective amendments necessary to maintain a current Prospectus or that the Warrants will continue to be so registered. See "Description of Securities -- Warrants."

USE OF PROCEEDS

The net proceeds to the Company from the sale of the shares of Common Stock and Warrants offered hereby, after deducting underwriting discounts and other expenses of the Offering, are estimated to be $7,480,750 ($8,685,117 if the Underwriters' Over-Allotment Option is exercised in full). The Company expects to use the net proceeds of the Offering as follows:

	APPROXIMATE AMOUNT	PERCENT
Product development(1)	$3,700,000	49%
Sales and marketing(2)	3,500,000	47%
Working capital and general corporate purposes	280,750	4%
Total	$7,480,750	100%

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(1) Includes development of software packages for revision and total knee replacement surgeries, as well as other orthopedic surgical applications, expansion of the implant libraries for the Company's products and development of multiple imaging modalities for use with the ROBODOC System.

(2) Represents costs associated with marketing and sales activities with respect to the Company's products, principally in Europe, including advertising and promotional activities, as well as participation in trade shows. Also includes costs associated with hiring, training and maintaining sales, marketing and service personnel.

Additional proceeds from the exercise of the Underwriters' Over-Allotment Option and the Warrants will be added to the Company's working capital and be available for general corporate purposes. Pending application, the Company will invest the net proceeds of this Offering in United States government securities and investment-grade commercial paper.

The Company has not determined the specific allocation of the net proceeds among the various uses described above. Specific allocations of such net proceeds will ultimately depend on the development of the Company's products and the related technology, the adaptation of its products to additional surgical applications and commercial acceptance of its products. The Company anticipates, based on currently proposed plans and assumptions relating to its operations, that the net proceeds of this Offering will be sufficient to satisfy the Company's anticipated cash requirements for at least 12 months following the date of this Prospectus.

CAPITALIZATION

The following table sets forth the capitalization of the Company (i) as of June 30, 1996, and (ii) such capitalization on a pro forma basis after giving effect to the automatic conversion of the outstanding Series D Preferred Stock at the Closing, and as adjusted to give effect to the sale of 1,500,000 shares of Common Stock and 1,500,000 Warrants offered hereby, and the application of the estimated net proceeds thereof. The information set forth below should be read in conjunction with the consolidated financial statements and notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Use of Proceeds."

	JUNE 30, 1996	
	ACTUAL(1)(2)	PRO FORMA AS ADJUSTED(1)(3)
Stockholders' equity:		
Preferred stock, $0.01 par value, no shares authorized, issued or outstanding; 1,000,000 shares authorized, no shares issued or outstanding, pro forma as adjusted.......	$ --	$ --
Convertible preferred stock, $0.01 par value, 5,750,000 shares authorized; 1,039,792 shares issued and outstanding; no shares authorized, issued or outstanding, pro forma as adjusted; liquidation preference value of $1,000,000..	10,398	--
Common stock, $0.01 par value, 15,000,000 shares authorized; 274,018 shares issued and outstanding; 2,813,810 shares issued and outstanding, pro forma as adjusted............	2,740	28,138
Additional paid-in capital....................................	19,634,990	27,100,740
Deferred stock compensation...................................	(482,384)	(482,384)
Accumulated translation adjustment............................	259	259
Accumulated deficit...	(17,143,100)	(17,143,100)
Total stockholders' equity....................................	2,022,903	9,503,653
Total capitalization.....................................	$ 2,022,903	$9,503,653

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(1) Does not include (i) 2,859,025 shares of Common Stock issuable upon exercise of outstanding warrants, including (A) shares issuable upon exercise of the Series D Warrants, at an exercise price of $0.01 per share, which will become exercisable for 2,079,584 of Common Stock following the automatic conversion of the Series D Preferred Stock at the Closing, (B) 194,482 shares issuable upon exercise of outstanding warrants at exercise prices ranging from $0.01 to $0.07 per share, (C) warrants to purchase 528,178 shares, at an exercise price of $0.74 per share, which were exercised by delivery of shares of Common Stock in payment of the warrant exercise price on August 25, 1996, resulting in the net issuance of 463,054 shares of Common Stock, and (D) warrants to purchase 56,781 shares at an exercise price of $0.74 per share, which expired unexercised on August 30, 1996, (ii) 949,070 shares of Common Stock issuable upon exercise of outstanding options granted pursuant to the Company's stock option plans, at exercise prices ranging from $0.07 to $7.84 per share, including 32,503 shares issuable upon exercise of options granted subsequent to June 30, 1996. See "Certain Transactions."

(2) Does not include 1,039,792 shares of Common Stock issuable upon conversion of the Series D Preferred Stock.

(3) Gives effect to the automatic conversion of the outstanding shares of Series D Preferred Stock into 1,039,792 shares of Common Stock upon the consummation of the sale of the shares of Common Stock and Warrants offered hereby. Does not include (i) 1,500,000 shares of Common Stock reserved for issuance upon the exercise of the Warrants, (ii) 450,000 shares of Common Stock reserved for issuance upon exercise of the Underwriters' Over-Allotment Option, including the Warrants included therein, and (iii) 300,000 shares of Common Stock reserved for issuance upon the exercise of the Underwriters' Warrants and the Warrants included therein.

DILUTION

The net tangible book value of the Company as of June 30, 1996, was $1,937,903 or approximately $1.09 per share of Common Stock, assuming conversion of the outstanding shares of Series D Preferred Stock into Common Stock and as adjusted to reflect the issuance of 463,054 shares of Common Stock in August 1996 upon the exercise of warrants. The net tangible book value of the Company is the tangible assets (total assets less deferred financing and offering costs) less total liabilities. Dilution per share represents the difference between the amount paid per share of Common Stock by purchasers in the Offering, attributing no value to the Warrants, and the pro forma net tangible book value per share after the Offering.

After giving effect to the sale by the Company of the 1,500,000 shares of Common Stock and 1,500,000 Warrants offered hereby, the pro forma net tangible book value of the Company as of June 30, 1996, would have been $9,418,653 or $2.87 per share. This represents an increase in net tangible book value per share of $1.78 to the Company's existing stockholders and an immediate dilution of $3.13 per share (or 52.2% of the offering price) to new stockholders purchasing shares of Common Stock in the Offering. The following table illustrates this dilution on a per share basis:

Public offering price per share		$6.00
Net tangible book value before Offering	$1.09	
Increase attributable to new investors	1.78	
Pro forma net tangible book value after Offering		2.87
Dilution to new investors		$3.13

The above table assumes the conversion of the outstanding shares of the Series D Preferred Stock into Common Stock, but no exercise of outstanding stock options or warrants, except for the issuance of 463,054 shares of Common Stock in August 1996 upon the exercise of warrants. As of June 30, 1996, there were outstanding options to purchase an aggregate of 916,567 shares of Common Stock having exercise prices from $0.07 per share to $7.84 per share and outstanding warrants to purchase an aggregate of 2,859,025 shares of Common Stock having exercise prices from $0.01 per share to $0.74 per share. To the extent that stock options or warrants are exercised at prices below the public offering price per share, there will be further dilution to new investors. See "Risk Factors," "Certain Transactions," "Description of Securities" and "Underwriting."

The information in the foregoing table summarizes the number and percentages of shares of Common Stock, including Series D Preferred Stock which will convert into Common Stock, purchased from the Company through the date of this Prospectus, the amount and percentage of cash consideration paid and the average price per share paid to the Company by existing stockholders and by new investors pursuant to the Offering:

	SHARES PURCHASED		TOTAL CONSIDERATION PAID		AVERAGE PRICE PER SHARE
Existing Stockholders	1,776,864	54.2%	$13,019,556	59.1%	$ 7.33
New Investors	1,500,000	45.8%	9,000,000	40.9%	6.00
	3,276,864	100.0%	$22,019,556	100.0%	

The information in the foregoing table gives effect to the conversion of the outstanding shares of Series D Preferred Stock, but it excludes 916,567 shares of Common Stock issuable upon the exercise of outstanding options, 2,859,025 shares of Common Stock issuable upon exercise of outstanding warrants, except for the issuance of 463,054 shares of Common Stock in August 1996 upon the exercise of warrants, 1,500,000 shares of Common Stock reserved for issuance upon exercise of the Warrants, 450,000 shares of Common Stock reserved for issuance upon exercise of the Underwriters' Over-Allotment Option and the Warrants included therein, and 300,000 shares of Common Stock reserved for issuance pursuant to the Underwriters' Warrants and the Warrants included

therein. See "Capitalization" and "Underwriting."

DIVIDEND POLICY

The payment of dividends by the Company is within the discretion of its Board of Directors and depends in part upon the Company's earnings, capital requirements and financial condition. Since its inception, the Company has not paid any dividends on its Common Stock and does not anticipate paying such dividends in the foreseeable future. The Company intends to retain earnings, if any, to finance its operations.

SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information regarding the results of operations and financial position of the Company for the periods and at the dates indicated. The financial statements of the Company as of December 31, 1995 and for the years ended December 31, 1994 and 1995 have been audited by Ernst & Young LLP, independent auditors, as set forth in their report included elsewhere in this Prospectus, which includes an explanatory paragraph which indicates there is substantial doubt about the Company's ability to continue as a going concern due to the Company's need to generate cash from operations and obtain additional financing. The selected financial information as of June 30, 1996 and for the six months ended June 30, 1995 and 1996 are derived from the unaudited interim consolidated financial statements of the Company set forth elsewhere in this Prospectus and include, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of its results of operations for such period. The results of operations for the six months ended June 30, 1996, are not necessarily indicative of the results to be expected for the full year. This data should be read in conjunction with the Company's consolidated financial statements including the notes thereto, the Company's unaudited interim consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Prospectus.

STATEMENT OF OPERATIONS DATA:

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1994	1995	1995	1996
Net sales	$ 289,047	$ 174,521	$ 76,289	$1,064,206
Cost of sales	203,856	70,179	30,147	458,483
	85,191	104,342	46,142	605,723
Operating expenses:				
Selling, general and administrative	1,973,816	1,668,947	932,629	887,283
Research and development	2,719,771	2,361,125	1,073,636	977,616
Stock compensation	--	--	--	246,524
	4,693,587	4,030,072	2,006,265	2,111,423
Other income (expense):				
Interest income	74,956	107,306	76,757	38,723
Interest expense	(281,650)	(287,792)	(147,590)	--
Other	(14,508)	55,801	63,906	(20,958)
Loss before provision for income taxes	(4,829,598)	(4,050,415)	(1,967,050)	(1,487,935)
Provision for income taxes	10,787	3,113	3,242	3,183
Net loss	(4,840,385)	(4,053,528)	(1,970,292)	(1,491,118)
Preferred stock dividends	(956,574)	(936,325)	(478,287)	--
Net loss applicable to common stockholders	$(5,796,959)	$(4,989,853)	$(2,448,579)	$(1,491,118)
Net loss per common and common share equivalent	$ (1.35)	$ (1.16)	$ (0.57)	$ (0.33)
Shares used in per share calculations (1)	4,291,444	4,298,268	4,292,288	4,497,070

BALANCE SHEET DATA:

	DECEMBER 31, 1995	JUNE 30, 1996
Working capital	$ 1,827,408	$ 1,735,668
Total assets	3,727,129	2,847,953
Accumulated deficit	(15,651,982)	(17,143,100)
Stockholders' equity	2,272,518	2,022,903

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(1) See Note 2 of notes to consolidated financial statements for an explanation of the determination of the number of shares used in computing net loss per share.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The following discussion and analysis should be read in conjunction with the consolidated financial statements, including the notes thereto, appearing elsewhere in this Prospectus.

From its inception in October 1990, the Company has been primarily engaged in the development and clinical evaluation of the ROBODOC System. Net sales are derived from the sale of ROBODOC Systems and related consumables. Prior to 1996, sales of the ROBODOC System were limited to sales for clinical evaluation. In the first quarter of 1996, the Company was notified by TUV, a testing body in Germany, that the ROBODOC System had met the requirements of the European Directives, thus allowing the Company to use the CE Mark and to distribute the ROBODOC System throughout the European Community. The Company sold its first commercial ROBODOC System to a clinic in Germany in March 1996. The Company intends to use a significant portion of the net proceeds of this Offering for marketing and sales in Europe. See "Use of Proceeds."

In the United States, the Company's products are subject to regulation by the FDA. The Company intends to file an application for pre-market approval with the FDA in the second quarter of 1997 for approval to market the ROBODOC System in the United States. See "Risk Factors -- Government Regulation" and "Business -- Government Regulation."

Until the commercial introduction of the ROBODOC System in the first quarter of 1996, the Company operated as a development stage enterprise, and incurred a net loss for each period since its inception. The Company intends to develop additional surgical applications for the ROBODOC System and to significantly increase its technical staff. The Company also plans to increase spending on sales and marketing. See "Use of Proceeds." The Company expects operating losses to continue until sales of its products increase significantly. See "Risk Factors -- History of Losses; Accumulated Deficit; Anticipated Future Losses."

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 1996 COMPARED TO SIX MONTHS ENDED JUNE 30, 1995

Net Sales. Net sales for the six months ended June 30, 1996 (the "1996 interim period"), increased by approximately $988,000, as compared to the six months ended June 30, 1995 (the "1995 interim period"), as a result of commercial sales of the ROBODOC System to customers in Germany. Prior to 1996, sales of the ROBODOC System were limited to heavily discounted clinical evaluation systems. No clinical evaluation systems were sold during the 1995 interim period. Sales of consumables during the 1996 interim period (approximately $42,000, or 4% of net sales) decreased by approximately $34,000, or 45%, as compared to the 1995 interim period when sales of consumables accounted for all net revenues, primarily due to the completion of U.S. clinical trials in February 1996.

Cost of Sales. Cost of sales for the 1996 interim period (approximately $458,000), increased significantly as compared to the 1995 interim period (approximately $30,000), as a result of the first commercial sales of the ROBODOC System. Cost of sales as a percentage of net sales increased to 43% for the 1996 interim period, as compared to 40% for the 1995 interim period due to a lower gross margin percentage realized on the sale of the first commercial ROBODOC Systems, as compared to the gross margin percentage realized on sales of consumables, in the 1995 interim period.

Selling, General and Administrative. Selling, general and administrative expenses for the 1996 interim period (approximately $887,000) decreased by approximately $46,000, or 5%, as compared to the 1995 interim period (approximately $933,000), due to a reduction in staff in February 1995. The cost savings associated with the staff reductions have been partially offset by the Company's participation in trade shows in Germany during the 1996 interim period.

Research and Development. Research and development expenses for the 1996 interim period (approximately $978,000) decreased by approximately $96,000, or approximately 9%, as compared to the 1995 interim period (approximately $1,074,000), due to staff reductions in regulatory and quality control in February 1995. In addition, the completion of U.S. clinical trials in February 1996 resulted in a decrease in costs associated with the sponsorship of the trials. These decreases were partially offset by an increase in consulting and outside service costs during the 1996 interim period.

Stock Compensation. During the 1996 interim period, the Company recorded deferred stock compensation of approximately $729,000 relating to stock options granted during the interim 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 ranges from 3 to 5 years. Deferred compensation relating to stock options which vested immediately was expensed on the date of grant. Compensation expense of $246,526 was recorded during the 1996 interim period relating to these stock options, and the remaining $482,384 will be amortized into expense in future periods.

Interest Income. Interest income for the 1996 interim period (approximately $39,000) decreased by approximately $38,000, or 50%, as compared to the 1995 interim period, primarily due to higher average cash balances during the 1995 interim period.

Interest Expense. The Company had no interest expense for the 1996 interim period, as compared to the 1995 interim period (approximately $148,000), primarily as a result of the conversion in December 1995 of a $3,000,000 convertible note payable, bearing interest at 9.25% per annum, into a warrant to purchase Common Stock.

Other Income and Expense. Other expense for the 1996 interim period was approximately $21,000, as compared to other income for the 1995 interim period of approximately $64,000. The primary reason for the difference is the strengthening of the Dutch Guilder against the U.S. Dollar during the 1995 interim period, as compared to a weakening of the Dutch Guilder against the U.S. Dollar in the 1996 interim period. This resulted in currency transaction gains and losses on the U.S. currency obligations of the Company's wholly owned subsidiary in The Netherlands, Integrated Surgical Systems BV.

Net Loss. The net loss for the 1996 interim period (approximately $1,491,000) decreased by approximately $479,000, or approximately 24%, as compared to the net loss for the 1995 interim period (approximately $1,970,000), primarily due to the gross margin realized on the increased net sales. This increase was partially offset by an increase in operating expenses, principally due to stock compensation expense.

Preferred Stock Dividends. The Company accumulated preferred stock dividends of approximately 8% on the outstanding shares of Series B and Series C Preferred Stock for the 1995 interim period. These cumulative dividends, together with the Series B and Series C Preferred Stock, were converted into Common Stock in December 1995. The Series D Preferred Stock outstanding at June 30, 1996 does not provide for cumulative dividends.

FISCAL YEAR ENDED DECEMBER 31, 1995 AND 1994

Net Sales. Net sales for the fiscal year ended December 31, 1995 ("Fiscal 1995") decreased by approximately $114,000, as compared to the fiscal year ended December 31, 1994 ("Fiscal 1994"). During Fiscal 1995, all net sales were derived from consumables. During Fiscal 1994, the Company recognized the sale of one clinical evaluation system for approximately $242,000, to an affiliate of Keystone Financial Corporation, a stockholder of the Company, with the remaining net sales in Fiscal 1994 related to consumables. See "Certain Transactions." Sales of consumables increased significantly in Fiscal 1995 due to the operation of a clinical system in Germany for all of Fiscal 1995. Revenue was not recognized for the installation of the ROBODOC System in Germany in 1994 because the ROBODOC System was temporarily placed at the site for purposes of clinical evaluation until the Company received notification from TUV, a testing body in Germany, that the ROBODOC System met the requirements of the European Directives, thus allowing the Company to use the CE Mark and distribute the ROBODOC System throughout the European Community.

Cost of Sales. Cost of sales for Fiscal 1995 (approximately $70,000) decreased by approximately $134,000, or 66%, as compared to Fiscal 1994 (approximately $204,000). Cost of sales as a percentage of net sales decreased from 71% in Fiscal 1994 to 40% in Fiscal 1995 since net sales in Fiscal 1995 consisted entirely of consumables, which generate a higher gross margin percentage than sales of clinical evaluation systems.

Selling, General and Administrative. Selling, general and administrative expenses for Fiscal 1995 (approximately $1,669,000), decreased by approximately $305,000, or 15%, as compared to Fiscal 1994 (approximately $1,974,000), primarily due to staff reductions in February 1995. This decrease was partially offset by increased consulting fees associated with a consultant involved with marketing and general business strategy.

Research and Development. Research and development expenses for Fiscal 1995 (approximately $2,361,000) decreased by approximately $359,000, or 13%, as compared to Fiscal 1994 (approximately $2,720,000), primarily due to staff reductions in February 1995. This decrease was partially offset by the cost of a comparative histology study at Auburn University, which commenced in the fourth quarter of 1995.

Interest Income. Interest income for Fiscal 1995 (approximately $107,000) increased by approximately $32,000, or 43%, as compared to Fiscal 1994 (approximately $75,000), due to an improvement in money market conditions resulting in an improved return on the Company's investments during Fiscal 1995. The Company had an investment in an intermediate term bond fund in Fiscal 1994 which had a negative return due to rising interest rates.

Interest Expense. Interest expense for Fiscal 1995 (approximately $288,000) increased slightly as compared to Fiscal 1994 (approximately $282,000). Interest expense for both periods was primarily associated with a $3,000,000 convertible note, bearing interest at 9.25% per annum. The principal amount of this note, together with interest that had accrued from the date of issuance, was converted in December 1995 into a warrant to purchase Common Stock.

Other Income and Expense. Other income for Fiscal 1995 was approximately $56,000, as compared to other expense for Fiscal 1994 of approximately $15,000. The primary reason for the difference is the strengthening of the Dutch Guilder against the U.S. Dollar during Fiscal 1995, as compared to a weakening of the Dutch Guilder against the U.S. Dollar in Fiscal 1994. This resulted in currency transaction gains and losses on the U.S. currency obligations of the Company's wholly owned subsidiary in The Netherlands, Integrated Surgical Systems BV.

Provision for Income Taxes. As a result of the issuance of the Company's Series D Preferred Stock in connection with the recapitalization of the Company in December 1995, a change of ownership (as defined in Section 382 of the Internal Revenue Code of 1986, as amended) occurred. As a result of this change, the Company's federal and state net operating loss carryforwards generated through December 31, 1995 (approximately $13,500,000 and $4,500,000, respectively) will be subject to a total annual limitation in the amount of approximately $400,000. Except for the amounts described below, the Company expects that the carryforward amounts will not be utilized prior to the expiration of the carryforward periods. As a consequence of the limitation, the Company had at December 31, 1995 a net operating loss carryover of approximately $6,000,000 for federal income tax purposes which expires between 2005 and 2009, and a net operating loss carryforward of approximately $2,000,000 for state income tax purposes which expires between 1997 and 1999. See Note 7 of notes to consolidated financial statements.

Net Loss. The net loss for Fiscal 1995 (approximately $4,054,000) decreased by approximately $786,000, or 16%, as compared to Fiscal 1994 (approximately $4,840,000), primarily due to improved gross margins, reduced operating expenses, resulting principally from staff reductions, improved returns on invested cash and an increase in other income due to a strengthening of the Dutch Guilder against the U.S. Dollar.

Preferred Stock Dividends. The Company accumulated preferred stock dividends on the Series B and Series C Preferred Stock at 8% per annum throughout Fiscal 1994 and until December 1995, when these cumulative dividends, together with the Series B and Series C Preferred Stock, were converted into Common Stock. The Series D Preferred Stock outstanding at June 30, 1996 does not provide for cumulative dividends.

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 $17.7 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 $170,000, $3,508,000, $1,805,000 and $1,750,000 in Fiscal 1994, Fiscal 1995 and the 1995 and 1996 interim periods, respectively. Net cash used for operations in each of these periods resulted primarily from the net loss. Cash used for operations in Fiscal 1994 reflected a transfer of cash from short term investments, a deposit received relating to the initial commercial system, decreases in accounts receivable and inventory and an increase in accrued retrofit costs for the systems used in the United States clinical trials. Cash used for operations in Fiscal 1995 reflected a decrease in inventory, an increase in other liabilities and payments made under a severance agreement with a former executive officer. Cash used for operations in the 1995 interim period reflected an increase in accounts payable and payments made to a former executive officer. Cash used for operations in the 1996 interim period reflected a payment made on a note payable held by a supplier and a decrease in a customer deposit relating to the delivery of a commercial system. The Company is eligible to receive reimbursement for 49% of its qualified expenditures under the terms of a grant from the National Institute for Standards & Technology ("NIST"). The Company received reimbursements from this program of $19,000 and $93,000 for Fiscal 1995 and the 1996 interim period, respectively.

The Company's investing activities have consisted primarily of expenditures for property and equipment which totaled $476,000, $121,000, $63,000 and $41,000 in Fiscal 1994, Fiscal 1995, and the 1995 and 1996 interim periods, respectively. Included in Fiscal 1994 and Fiscal 1995 is a ROBODOC System owned by the Company and placed in a clinic in Germany for clinical evaluation. This system was sold to the clinic during the 1996 interim period.

Cash provided by financing activities from inception through June 30, 1996 is comprised of the net cash proceeds from the sale of a convertible note in the principal amount of $3,000,000, together with accrued interest thereon of $1,224,373 which was converted into a warrant to purchase 126,895 shares of Common Stock at an exercise price of $0.01 per share in December 1995, the sale of convertible preferred stock and warrants for $14,676,000, and the sale of Common Stock for $9,000. As part of the recapitalization of the Company in December 1995, the entire $3,000,000 principal amount of the convertible note, together with accrued interest thereon of approximately $1,224,000, was converted into a warrant to purchase Common Stock. A total of $11,734,000 of preferred stock was converted into Common Stock in December 1995.

The Company expects to incur additional operating losses and cash requirements at least through 1997. These losses will be as a result of expenditures related to product development projects and the establishment of marketing, sales, service and training organizations. The timing and amounts of these expenditures will depend on many factors, some of which are beyond the Company's control, such as the requirements for and time required to obtain FDA authorization to market the ROBODOC System, the progress of the Company's product development projects and market acceptance of the Company's products. The Company expects that the net proceeds of this Offering, together with cash flow from operations, will be sufficient to finance its operations for the 12 months following the date of this Prospectus.

The Company's independent auditors have included an explanatory paragraph in their report on the Company's financial statements for the year ended December 31, 1995, which indicates there is substantial doubt about the Company's ability to continue as a going concern due to the Company's need to generate cash from operations and obtain additional financing. See "Report of Independent Auditors" on the Company's consolidated financial statements appearing at page F-2 of this Prospectus.

GLOSSARY

The following glossary is intended to provide the reader with an explanation of certain terms used in this Prospectus.

510(k)	Pre-market notification application required in the United States to market medical devices that are "substantially equivalent" to medical devices previously approved by the FDA or were marketed in the United States prior to May 28, 1976 (the date of the Medical Device Amendment to the FDC Act) pursuant to the FDC Act.
ACTIVE ROBOT	A robot that is capable of moving by itself. In the context of robotic surgery, active robot refers to a robot that performs a segment of a surgical procedure under the supervision of a surgeon.
CE MARK	The European conforming mark.
CONSUMABLES	Disposable items consumed each time a surgery is performed including sterile drapes, bone screws, cutters and control pendants.
CT SCAN	Computerized tomography scan, which produces multiple x-ray "slices" taken close together, which when reconstructed by a computer provide an accurate three dimensional picture of a patient's anatomy.
FDA	U.S. Food and Drug Administration.
FDC Act	Federal Food, Drug and Cosmetic Act, as amended, and the regulations promulgated thereunder.
FIXATOR	Device which holds the leg bone still and attaches it to the robot base.
GMPs	Good manufacturing practices regulations promulgated by the FDA pursuant to the FDC Act.
IMPLANT	Usually inert metal "hardware" left in the body to repair injuries or replace joints.
IMPLANT LIBRARY	Visual three dimensional renderings of all the sizes and shapes of implants available for use on the system.
ISO	Manufacturing standards established by the International Standards Organization.
MRI	Magnetic resonance imaging, a method of collecting images of the body using radio waves, but without radiation.
NIST	National Institute of Standards and Technology of the United States Department of Commerce.
ORTHOPAEDICS	The branch of surgery concerned with the skeletal system.
OSTEOTOMY	An angular cut in a bone usually removing a wedge.
PASSIVE ROBOT	A passive robot requires the application of external forces to cause motion. In the context of robotic surgery, a passive robot is used only as an aiming or holding device.
PMA	Pre-market approved application required in the United States to market new medical devices pursuant to the FDC Act.
PROSTHESIS	An artificial substitute for a body part, including joints.

THR	Primary total hip replacement.
TKR	Total knee replacement.
TUV	Technische Ubermachtungs Verein, a testing body in Germany.

BUSINESS

The Company develops, manufactures, markets and services image-directed, computer-controlled robotic products for surgical applications. The Company's principal 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 425 patients worldwide. The Company believes its "active" robotic system is the only available system that can accurately perform key segments of surgical procedures with precise tolerances generally not attainable by traditional manual surgical techniques. The ROBODOC System also allows the surgeon to prepare a preoperative plan customized to 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 which utilizes the Company's proprietary software for preoperative surgical planning. The ORTHODOC is included as part of the ROBODOC System or may be marketed separately by the Company. 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. Published scientific data 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.

THR surgery involves the insertion of an implant into a cavity created in the patient's femur. Precise fit and correct alignment of the implant within the femoral cavity are important for the long-term success of THR surgery. In conventional THR 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 at sites collecting applicable data for THR surgeries performed with the ROBODOC System, the patients have become weight-bearing in a shorter period, intraoperative fractures have been dramatically reduced (no intraoperative fractures have resulted from THR surgeries performed with the ROBODOC System to date) and the Company believes that fewer hip revision surgeries (implant replacements) may be necessary, as compared to primary THR surgery performed manually.

In the past, a majority of THR 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 in-growth. 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, all 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. Consequently, the surgeon would have a clearer view of the remaining bone in planning hip revision surgery and thereby be better able to remove fragmented cement without removing any of the remaining thin thigh bone.

THE MARKET

According to an industry study, in 1995 the worldwide orthopaedic market (which includes power surgical instruments, prosthetic devices, fixation devices and bone growth stimulants) was approximately $6.8 billion, including approximately $3.9 billion in the United States (constituting approximately 57% of the worldwide market) and approximately $1.8 billion in Europe (constituting approximately 27% of the worldwide market). In 1995, over 600,000 hip implants were sold worldwide, of which 280,000 were sold in the United States. Similarly in 1995, over 400,000 knee implants were sold worldwide, of which 289,000 were sold in the United States. The growth in hip and knee surgeries is expected to be in the range of 4% to 7% per

annum over the next several years. This anticipated growth is based upon the growth in the number of people reaching an age (60 and over) where orthopaedic surgeries are more prevalent, and also on an increasingly active population. Finally, an earlier generation of implanted protheses have reached an age where replacement is increasingly necessary, thus resulting in an increased demand for hip and knee revision surgeries.

According to the American Academy of Orthopaedic Surgeons, there are approximately 15,000 orthopaedic surgeons in the United States and there are over 5,000 hospitals performing orthopaedic surgeries that have, or have access to, CT scanners. Of these, approximately 1,000 hospitals perform over 150 orthopaedic surgeries (hip and knee) per year. There are approximately 800 hospitals in Germany that have a CT scanner and perform the vast majority of the orthopaedic surgeries. Since the procedure for performing THR surgery using the ROBODOC System requires a CT scan of patient prior to surgery, these are the primary centers that would consider purchasing the ROBODOC System. According to industry sources, there are an additional 1,000 hospitals in the rest of Europe that perform a significant number of orthopaedic and trauma surgeries. Thus, a total of 1,800 hospitals in Europe are likely to consider acquiring the ROBODOC System.

STRATEGY

The Company will seek to establish itself as a leading provider of innovative image-directed, computer-controlled robotic technologies worldwide, initially for orthopaedic applications and subsequently for non-orthopaedic surgical applications. The Company currently markets and sells ROBODOC Systems only in Europe. The Company's business strategy is to concentrate its marketing and sales efforts on selling the ROBODOC System throughout Europe over the next three years. The Company will thereby attempt to establish an installed customer base in Europe and other foreign markets through the sale of its ROBODOC System, and offer its customers separate software packages for each new orthopaedic application if, as and when developed by the Company. Consequently, the Company's customers would be able to use the ROBODOC System as the platform for performing a variety of orthopaedic surgical procedures without incurring significant additional hardware costs. The Company also plans to further exploit its image-directed robotics technology by incorporating additional imaging modalities for presurgical planning, including ultrasound (which is less expensive than CT) and magnetic resonance imaging (which unlike CT does not involve the risk of radiation). The Company also intends to develop an active robotic system capable of performing non-orthopaedic surgical procedures.

PRODUCTS

The Company's products are:

-- ROBODOC SYSTEM

The ROBODOC System, which consists of a computer-controlled, five-axis surgical robot and the Company's ORTHODOC Presurgical Planner, is an active robotic system that can accurately perform key segments of surgical procedures with precise tolerances generally not attainable by traditional surgical techniques. The ROBODOC System allows the surgeon to prepare a preoperative plan customized to the characteristics of the individual patient's anatomy and generates a tape instructing the computer-controlled robot to implement the surgical plan. The ROBODOC System includes a display console for screen prompts and surgical plan simulation, a control cabinet for computers and other electronic components, and proprietary applications and robot control software. The surgeon communicates with the robot via a sterile controller. Attendant supplies include custom surgical drapes, specially designed cutters, a leg-holding device (fixator) and a bone motion-detecting apparatus.

The sales price of the ROBODOC System is currently $635,000 and includes full warranty, service, installation, training and some consumables. The current list price for consumables averages approximately $700 per surgery. The service contract is renewable annually for 10% of the original purchase price and entitles the customer to upgrades and limited consumables.

-- ORTHODOC

The ORTHODOC is a Pentium(R)-based computer workstation which utilizes the Company's proprietary software for preoperative surgical planning. The ORTHODOC 500, an integral part of the ROBODOC System, may be sold separately as a surgical planner. The ORTHODOC 500 converts CT scan data of a patient's femur into three dimensional models of the femur on a high-resolution monitor, and through a graphical user interface permits the surgeon to examine the bone more thoroughly, select the optimal implant for the patient using a built-in library of available implants and select the position of the implant in the femur prior to surgery. The ORTHODOC 100, which will be sold only on a stand-alone basis, converts digitized x-rays of a patient's femur into pseudo three-dimensional images for planning surgery.

The Company expects the price of the ORTHODOC to range from $33,000 to $95,000, depending on the features selected.

POTENTIAL ORTHOPAEDIC APPLICATIONS OF ROBODOC SYSTEM

The Company intends to offer ROBODOC System customers separate software packages for each new orthopaedic application if, as and when developed by the Company. Consequently, the Company's customers would be able to use the ROBODOC System as the platform to perform a variety of orthopaedic surgical procedures without incurring significant additional hardware costs. The Company plans to develop software packages for the following orthopaedic surgical procedures for use with the ROBODOC System:

Hip Revision. Hip revision surgery generally is required to replace loose or otherwise failed implants. Most implants require replacement in five to 20 years after the first operation. 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 view of the remaining bone and, if a cemented implant is to be replaced, the location of the fragmented cement. The removal of the fragmented cement without removing any of the remaining thin bone structure is a major challenge for the surgeon.

The Company is developing a software package for hip revision surgery using the ROBODOC System, in collaboration with IBM and Johns Hopkins University. The development of the hip revision application is being funded in part by a grant from the National Institute for Standards and Technology (Advanced Technology Program) of the United States Department of Commerce. See "Business - Research and Development." The first phase of the hip revision project relates to the development and implementation of software to create a clearer image of the remaining bone and fragmented cement in preparing the surgical plan. The second phase of the project involves its validation in a clinical setting. The Company believes that its hip revision software will improve surgical planning and enable the five-axis robot to remove cement more precisely than if the hip revision procedure were performed manually. The Company plans to conduct clinical trials of the hip revision application in Europe before the end of 1996. Upon completion of the clinical trials, the Company intends to offer software packages for the hip revision application to its customers.

Total Knee Replacement. The Company plans to develop a software package for total knee replacement ("TKR") surgery using the ROBODOC System. The proposed software package to be developed for TKR surgery is intended to enable 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. The proposed software package to be developed by the Company for TKR surgery performed with the ROBODOC System, if and when developed, is intended to result in a precise and accurate fit for implants that are properly sized and placed, regardless of bone quality. Furthermore, the Company believes that if and when this software package is developed, implant longevity and the prognosis for restored biomechanics will be significantly improved as a result of TKR surgery performed with the ROBODOC System.

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 if

and when the development of the proposed software package for this surgical procedure is completed, the ROBODOC 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. Further development work is required to refine and validate this application for clinical use.

Acetabulum Replacement and Revision. The Company plans to complement the THR 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 software for this application, if and 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., the shin bone). The proposed software for this application, if and 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 which would instruct the robot where to make saw cuts. The computer-controlled, five-axis 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.

SALES AND MARKETING

Neither the ROBODOC System nor the ORTHODOC can be marketed in the United States until clearance or approval is obtained from the FDA.

The Company has commenced marketing the ROBODOC System, and plans to market the ORTHODOC, to orthopaedic and trauma surgeons and hospitals in Western Europe, through direct sales and arrangements with implant manufacturers. Presentations to potential customers focus on the clinical benefits obtained by patients, potential financial and marketing benefits obtained by hospitals and surgeons. The Company promotes its products in Europe through presentations at trade shows and advertisements in professional journals, technical and clinical publications, as well as through direct mail campaigns. A significant portion of the net proceeds of this Offering will be used for marketing and sales activities with respect to Company's products, principally in Europe, and to establish a sales and marketing staff. See "Use of Proceeds." To date, the Company's direct sales efforts have been primarily in Germany. Over 315 THR surgeries have been performed with the ROBODOC System at The Berufsgenossenschaftliche Unfallklinik ("BGU") clinic in Frankfurt, Germany since August 1994. As result of a significant increase in the number of THR surgeries performed at the clinic with the ROBODOC System, the BGU clinic purchased a second ROBODOC System in the second quarter 1996.

To accelerate sales and reduce the lengthy sales cycle, the Company offers lease financing for the ROBODOC System through arrangements with two major multinational leasing companies. Based upon lease financing proposals offered to customers in Germany by these leasing companies, the monthly lease payment for a five-year lease for the ROBODOC System would be equivalent to the average price of one THR surgery.

The Company intends to commence marketing the ORTHODOC to hospitals, orthopaedic surgeons and implant manufacturers in the United States, upon receipt of clearance from the FDA. See "Risk Factors -- Government Regulation" and "Business -- Government Regulation."

MANUFACTURING

The Company's manufacturing process consists primarily of final assembly of purchased components, testing of the products and packaging, and is conducted at its facility in Sacramento, California, which currently can support the construction of two ROBODOC Systems per month. The Company purchases substantially all components for its ROBODOC System 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 robot is supplied by a sole source vendor, Sankyo Seiki of Japan, which customizes the robot to the Company's specifications for use with the ROBODOC System. Upon delivery of a robot, the Company performs a series of tests to verify proper functioning. The customization and supply process for the robot currently requires four months lead time. While alternatives to the robot are commercially available with appropriate hardware modifications and engineering effort, there can be no assurance that delays resulting from the required hardware modifications or engineering effort to adopt alternative components would not adversely affect the Company. See "Risk Factors -- Dependence on Supplier for Robot." Ancillary items required to perform a robotic THR, including devices for fixing the hip and attaching it to the robot, numerous probes and cutter bearing sleeves are assembled and tested separately.

Consumables, including sterile drapes, bone screws, cutters and pendants, 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 on 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 built configured for 110 or 220 AC volt operation.

The Company's manufacturing facilities are subject to periodic inspection by the FDA for compliance with Good Manufacturing Procedures ("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 expects to obtain ISO-9000 certification, which will be required for sales of its products in Europe after June 14, 1998, by the end of 1996. See "Risk Factors -- Government Regulation" and "Business -- Government Regulation."

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 $2,361,000 and $2,720,000 in connection with the development of the ROBODOC System and the ORTHODOC for the years ended December 31, 1995 and December 31, 1994, respectively.

The Company is developing a software package for hip revision surgery, in collaboration with IBM and Johns Hopkins University, 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 fragmented cement. The removal of the fragmented cement without removing any of the remaining thin bone structure is a major challenge for the surgeon. The first phase of the hip revision project relates to the development and implementation of software to create a clearer image of the remaining bone and fragmented cement in preparing the surgical plan. The second phase of the project involves its validation in a clinical setting. The Company believes that its hip revision software will improve surgical planning for hip revision surgery and would enable the five-axis robot to remove cement more precisely than if the hip revision procedure was 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 approximately $1,960,000 in expenses may be reimbursed in the aggregate to the Company, IBM and Johns Hopkins University under the grant. The Company has incurred research and development expenses of approximately $350,100 in connection with the hip revision project through June 30, 1996. As of June 30, 1996, the Company had received $112,508 and IBM had received $107,340 of a total of $219,848 distributed under the grant. A portion of the net proceeds of this Offering will be used for the development of the hip revision application. See "Use of Proceeds" and "Business--Potential Orthopaedic Applications of ROBODOC System." The Company expects to commence clinical trials for the hip revision application in Europe before the end of 1996.

The Company is expanding the library of implants used at clinical sites to include multiple implant lines, revision stems, and custom-made prostheses. The Company has also commenced preliminary work with respect to the application of the base technology for total knee replacement surgery.

As of September 1, 1996, the Company's engineering staff was comprised of 14 engineers (including three Ph.D.s) in a variety of specialities.

SCIENTIFIC ADVISORY BOARD

The Company has established relationships with the outside scientific advisors listed below. These scientific and medical experts provide strategic advice to the Company regarding its research and development programs, new technological advances and medical requirements. It is anticipated that meetings of the Company's scientific advisors will be held quarterly.

RUSSELL TAYLOR, PH.D., has been a professor of Computer Science at Johns Hopkins University since 1995. From 1976 through 1995, Dr. Taylor was a manager of various departments at the Research Division of IBM. Dr. Taylor is Editor Emeritus of the International Journal of Robotics Research and the Journal of Image Guided Surgery and Medical Image Analysis. Dr. Taylor received a Ph.D. in Computer Science from Stanford University in 1976.

RONALD KIKINIS, M.D. has been the Director of the Surgical Planning Laboratory of the Department of Radiology, Brigham & Women's Hospital and Harvard Medical School since 1989 and has been an Adjunct Assistant Professor of Biomedical Engineering at Boston University since 1992. From 1986 to 1988, Dr. Kikinis was a research fellow at the ETH in Zurich and a resident at the University Hospital in Zurich. He received his M.D. from the University of Zurich, Switzerland in 1982.

KENNETH ALAN KRACKOW, M.D., an orthopaedic surgeon specializing in total knee replacement, has been a professor of Orthopaedics at the State University of New York at Buffalo and head of the Department of Orthopaedic Surgery at Buffalo General Hospital since 1992. From 1990 through 1992, he was a Professor of Orthopaedic Surgery at Johns Hopkins University. Dr. Krackow received an M.D. from Duke University in 1971.

RAINER KOTZ, M.D., an orthopaedic surgeon specializing in total hip replacement and limb salvage, is the Head of the Department of Orthopaedics, University of Vienna, Austria. He is President elect of the European Federation of Orthopaedists and Traumatologists.

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 (a division of Pfizer), located in New York; Zimmer (a division of Bristol-Myers Squibb), located in Indiana; Johnson & Johnson, located in New Jersey; DePuy (a division of Boehringer-Manheim), located in Indiana; Biomet, located in Indiana; and Osteonics (a division of Stryker), located in New Jersey. There are companies in the medical products industry, particularly the major orthopaedic companies, 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 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, rather than replace surgeons in performing THR 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 only active robotic system that performs a key segment of THR surgery (i.e., milling a bone cavity) under the supervision of a surgeon. The cost of the ROBODOC System represents a significant capital expenditure for a customer, and accordingly may discourage purchases by certain customers. The Company intends to offer its customers separate software packages for each new orthopaedic application developed by the Company. Consequently, the Company's customers would be able to use the ROBODOC System as the platform to perform a variety of orthopaedic surgical procedures without incurring significant additional hardware costs.

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 of 10% of the original purchase price of the product.

Generally, minor problems have been diagnosed through modem and fixed on site by users. The Company has developed a service program using a high volume clinical site as a model. The Company plans to provide 24-hour turn around time for any site. The Company has recruited a service person in Europe through an arrangement with a third party to service its customer base.

The Company plans to continue training its customers with its in-house technical staff. Following the completion of this Offering, the Company anticipates hiring a staff of technicians to train customers.

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 filed two patent applications, and is preparing for filing additional 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.

The Company's ability to compete successfully may depend, in part, on its ability to obtain and protect patents, protect trade secrets and operate without infringing the proprietary rights of others. However, there can be no assurance that pending or future patent applications will mature into issued patents, or that the Company will continue to develop its own patentable technologies. Further, there can be no assurance that any patents that may be issued in the future will effectively protect the Company's technology or provide a competitive advantage for the Company's products or will not be challenged, invalidated, or circumvented in the future. In addition, there can be no assurance that competitors, many of which have substantially more resources than the Company and have made substantial investments in competing technologies, will not obtain patents that will prevent, limit or interfere with the Company's ability to make, use or sell its products either in the United States or internationally.

Patent applications in the United States are maintained in secrecy until patents issue, and patent applications in foreign countries are maintained in secrecy for a period after filing. Publication of discoveries in the scientific or patent literature tends to lag behind actual discoveries and the filing of related patent applications. Patents issued and patent applications filed relating to medical devices are numerous and there can be no assurance that current and potential competitors and other third parties have not filed or in the future will not file applications for, or have not received or in the future will not receive, patents or obtain additional proprietary rights relating to products or processes used or proposed to be used by the Company.

The Company's patent counsel has not undertaken any infringement study to determine if the Company's products and pending patent applications infringe on other existing patents. The medical device industry has been characterized by substantial competition and litigation regarding patent and other proprietary rights. The Company intends to vigorously protect and defend its patents and other proprietary rights relating to its proprietary technology. Litigation alleging infringement claims against the Company (with or without merit), or instituted by the Company to enforce patents issued to the Company or to protect trade secrets or know-how owned by the Company or to determine the enforceability, scope and validity of the proprietary rights of others, is costly and time consuming. If any relevant claims of third-party patents are upheld as valid and enforceable in any litigation or administrative proceedings, the Company could be prevented from practicing the subject matter claimed in such patents, or could be required to obtain licenses from the patent owners of each patent, or to redesign its products or processes to avoid infringement. There can be no assurance that such licenses would be available or, if available, would be available on terms acceptable to the Company or that the Company would be successful in any attempt to redesign its products or processes to avoid infringement. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent the Company from manufacturing and selling its products, which would have a material adverse effect on the Company's business, financial condition and results of operations.

Legislation is pending in Congress that may limit the ability of medical device manufacturers in the future to obtain patents on surgical and medical procedures that are not performed by, or as part of, devices or compositions which are themselves patentable. While the Company cannot predict whether the legislation will be enacted, or precisely what limitations will result from the law if enacted, any limitation or reduction in the patentability of medical and surgical methods and procedures could have a material adverse effect on the Company's ability to protect its proprietary methods and procedures.

The Company requires each of its employees, consultants, and advisors to execute confidentiality and assignment of inventions and proprietary information agreements in connection with their employment, consulting or advisory relationships with the Company. These agreements generally provide that all inventions, ideas and improvements made or conceived by the individual arising out of his relationship with the Company will be the exclusive property of the Company. This information is required to be kept confidential and not disclosed to third parties, except with the consent of the Company or under certain circumstances. However, there can be no assurance that these agreements will provide effective protection for the Company's proprietary information in the event of unauthorized use or disclosure of such information, or that the Company will have adequate remedies in the event of such breach. Furthermore, no assurance can be given that competitors will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to the Company's proprietary technology, or that the Company can meaningfully protect its rights in unpatented proprietary technology.

GOVERNMENT REGULATION

The medical devices to be marketed and manufactured by the Company are subject to extensive regulation by the FDA and, in some instances, 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, manufacture, 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.

In the United States, medical devices are classified into one of three classes (Class I, II or III), on the basis of the controls deemed necessary by FDA to reasonably assure their safety and effectiveness. Under FDA regulations, Class I devices are subject to general controls (e.g., labeling, pre-market notification and adherence to good manufacturing practices ("GMPs")) and Class II devices are subject to general and special controls (e.g., performance standards, postmarket surveillance, patient registries, and FDA guidelines). Generally, Class III devices are those which must receive pre-market approval by the FDA to ensure their safety and effectiveness (e.g., life-sustaining, life-supporting and implantable devices, or new devices which are not substantially equivalent to legally marketed devices).

Before a new device can be introduced into the market, the manufacturer must generally obtain FDA permission to market through either a 510(k) notification or a pre-market approval ("PMA") application. A 510(k) clearance will be granted if the submitted information establishes that the proposed device is "substantially equivalent" to a legally marketed Class I or II medical device, or to a Class III medical device for which the FDA has not called for PMAs. The FDA has recently been requiring a more vigorous demonstration of substantial equivalence than in the past, including in some cases requiring clinical data. It generally takes from four to twelve months from the date of submission to obtain a 510(k) clearance, but it may take longer. The FDA may determine that a proposed device is not substantially equivalent to a legally marketed device, or that additional information is needed before a substantial equivalence determination can be made. A "not substantially equivalent" determination, or a request for additional information, could delay the market introduction of a new product that falls into this category and could have a material adverse effect on the Company's business, financial condition and results of operations. For any of the Company's products that are cleared through the 510(k) process, modifications or enhancements that could significantly affect the safety or efficacy of the device or that constitute a major change to the intended use of the device will require new 510(k) submissions.

A PMA application must be filed if a proposed device is not substantially equivalent to a legally marketed Class I or Class II device, or if it is a pre-amendment Class III device for which FDA has called for PMAs. A PMA application must be supported by valid scientific evidence, which typically includes extensive data, including human clinical trial data to demonstrate the safety and effectiveness of the device. The PMA application must also contain the results of all relevant bench tests, laboratory and animal studies, a complete description of the device and its components, and a detailed description of the methods, facilities and controls used to manufacture the device. In addition, the submission must include the proposed labeling, advertising literature and any required training materials.

Upon receipt of a PMA application, the FDA makes a threshold determination as to whether the application is sufficiently complete to permit a substantive review. If the FDA determines that the PMA application is sufficiently complete to permit a substantive review, the FDA will accept the application for filing. Once the submission is accepted for filing, the FDA begins an in-depth review of the PMA. An FDA review of a PMA application generally takes one to two years from the date the PMA application is accepted for filing, but may take significantly longer. The review time is often significantly extended by the FDA asking for more information or clarification of information already provided in the submission. During the review period, an advisory committee, typically a panel of clinicians, will likely be convened to review and evaluate the application and provide recommendations as to whether the device should be approved. The FDA is not

bound by the recommendations of the advisory panel. Toward the end of the PMA review process, the FDA generally will conduct an inspection of the manufacturer's facilities to ensure that the facilities are in compliance with applicable GMP requirements.

If the FDA's evaluations of both the PMA application and the manufacturing facilities are favorable, FDA will either issue an approval letter or an approvable letter, which usually contains a number of conditions which must be met in order to secure final approval of the PMA. When and if those conditions have been fulfilled to the satisfaction of FDA, the agency will issue a PMA approval letter, authorizing commercial marketing of the device for certain indications. If the FDA's evaluation of the PMA application or manufacturing facilities are not favorable, the FDA will deny approval of the PMA application or issue a "non-approvable letter." The FDA may also determine that additional clinical trials are necessary, in which case PMA approval may be delayed for years while additional clinical trials are conducted and submitted in an amendment to the PMA. The PMA process can be expensive, uncertain and lengthy and a number of devices for which FDA approval has been sought by other companies have never been approved for marketing.

Modifications to a device that is the subject of an approved PMA, its labeling, or manufacturing process may require approval by the FDA of PMA supplements or new PMAs. Supplements to a PMA often require the submission of the same type of information required for an initial PMA, except that the supplement is generally limited to that information needed to support the proposed change from the product covered by the original PMA.

There can be no assurance that the Company will be able to obtain necessary regulatory approvals for current products or products under development on a timely basis, or at all, or that the Company will have the necessary resources to obtain such approval. Delays in receipt of or failure to receive such approvals, the loss of previously received approvals, or failure to comply with existing or future regulatory requirements would have a material adverse effect on the Company's business, financial condition and results of operation.

If human clinical trials of a device are required in connection with either a 510(k) notification or a PMA application, and the device presents a "significant risk," the sponsor of the trial (usually the manufacturer or the distributor of the device) is required to file an investigational device ("IDE") application prior to commencing human clinical trials. The IDE application must be supported by data, typically including the results of animal and laboratory testing. If the IDE application is reviewed and approved by the FDA and one or more appropriate Institutional Review Boards ("IRBs"), human clinical trials may begin at a specific number of investigational sites with a specific number of patients, as approved by the FDA. If the device presents a "nonsignificant risk" to the patient, a sponsor may begin the clinical trial after obtaining approval for the study by one or more appropriate IRBs, without the need for FDA approval. Sponsors of clinical trials are permitted to sell those devices distributed in the course of the study provided such compensation does not exceed recovery of the costs of manufacture, research, development and handling. An IDE supplement must be submitted to and approved by FDA before a sponsor or an investigator may make a change to the investigational plan that may affect its scientific soundness or the rights, safety or welfare of human subjects.

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 recordkeeping requirements 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 inspections by the FDA and certain state agencies. The FDC Act requires devices to be manufactured in accordance with GMP regulations, which impose certain procedural and documentation requirements upon the Company with respect to manufacturing and quality assurance activities. The FDA has proposed changes to the GMP regulations which, if finalized, would likely increase the cost of complying with GMP requirements.

The Company intends to file a pre-market approval application ("PMA") with the FDA in the second quarter of 1997 for approval to market the ROBODOC System in the United States. To date, the Company has conducted a clinical trial in the United States at three centers with 129 patients enrolled, consisting of 68 patients receiving treatment with the ROBODOC System and 61 control patients not receiving such treatment. The Company is no longer enrolling patients in this clinical trial but continues to follow patients who have received treatment. Although the Company believes that the existing patient base is sufficient to

support a PMA application, there can be no assurance that the FDA will not require enrollment of more patients in the current study or require a new clinical study. If the FDA requires the Company to obtain additional clinical data by enrolling more patients or beginning another study, there would be a substantial delay in submitting a PMA application and a substantial increase in the cost. Regardless of whether the FDA requires additional clinical data, there can be no assurance that the Company will submit a PMA application or receive FDA approval for the ROBODOC System in a timely fashion, if at all.

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 new technologies in the ROBODOC System. The FDA likely will require that such additional approvals be supported by clinical data.

In February 1996, the Company filed a 510(k) submission for the ORTHODOC as a stand-alone device. The Company is in the process of formulating a response to correspondence from the FDA in which the agency stated that it could not determine the ORTHODOC's substantial equivalence to legally marketed predicate devices without certain additional information. There can be no assurance that FDA will consider the Company's response adequate or that the ORTHODOC will receive 510(k) clearance in a timely fashion, or at all.

Labeling and promotion activities are subject to scrutiny by 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 that have market clearance from FDA do not require FDA export approval. However, some foreign countries require manufacturers to provide an FDA certificate for products for export ("CPE") which requires the device manufacturer to certify to the FDA that the product has been granted pre-market clearance in the United States and that the manufacturing facilities appeared to be in compliance with GMPs at the time of the last GMP inspection. The FDA generally will not issue a CPE if significant outstanding GMP violations exist.

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 Community and certain other countries, including Australia, Canada, Israel, Japan, New Zealand, Switzerland, 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, including documentation demonstrating that the product is approved for import into the country to which it is to be exported and, in some instances, safety data from animal or human studies. There can be no assurance that the Company will receive FDA export approval when such approval is necessary, or that countries to which the devices are to be exported will approve the devices for import. Failure of the Company to obtain CPEs, meet FDA's export requirements, or obtain FDA export approval when required to do so, could have a material adverse effect on the Company's business, financial condition and results of operations.

The introduction of the Company's products in foreign markets will also 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 approval by the FDA and foreign government authorities is unpredictable and uncertain, and no assurance can be given that the necessary approvals or clearances for the Company's products will be granted on a timely basis or at all. Delays in receipt of, or a failure to receive, such approvals or clearances, or the loss of any previously received approvals or clearances, could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has designed its products to meet international electro-medical standards and has received certification by TUV, a testing body in Germany, as a notified body for having met the essential requirements of the European Directives. TUV certification allows the system to be marketed in the European Community under the CE mark. In addition, the Company had pursued import authorization from most of the countries of the European Community and the European Economic Area. The system is already registered for distribution in Italy, France, The Netherlands and Germany, and the Company has started the registration process in Spain.

The Company's products are subject to continued and pervasive regulation by the FDA and foreign and state regulatory authorities. Changes in existing requirements or adoption of new requirements or policies could adversely affect the ability of the Company to comply with regulatory requirements. Failure to comply with regulatory requirements could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company will not be required to incur significant costs to comply with laws and regulations in the future or that the failure to comply with such laws or regulations will not have a material adverse effect upon the Company's business, financial condition or results of operations.

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. In addition, in connection with the sale of ROBODOC Systems, the Company enters into indemnification agreements with its customers pursuant to which the customers indemnify the Company against any claims against it arising from improper use of the ROBODOC System. 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, that such insurance can be maintained at acceptable costs, or that customers will be able to satisfy indemnification claims. 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.

FACILITIES

The Company's executive offices and production facility, comprising a total of approximately 15,000 square feet of space, are located in Sacramento, California. The Company occupies its manufacturing facility premises pursuant to a lease that expires in 1998 and occupies its office facilities on a month-to-month tenancy. The total rent expense for these premises is approximately $12,300 per month. The lease for the Company's manufacturing facility provides for escalation of rent at the rate of 5% per annum. See Note 8 of notes to consolidated financial statements. The Company is considering alternative lease arrangements, and believes that alternative space is available on reasonable terms. While the Company believes that its existing facilities are adequate for its present operations, it anticipates that within the next two years it will be required to relocate to a larger facility of from 20,000 to 25,000 square feet to accommodate future growth in manufacturing and research and development.

EMPLOYEES

As of September 1, 1996, the Company had 26 full time employees, including 14 in research and development, three in manufacturing, four in regulatory affairs and quality assurance, and five in administration. The Company also has two part-time employees. None of the Company's employees is covered by a collective bargaining agreement. The Company believes its relationship with its employees is satisfactory.

LITIGATION

The Company is not a party to any legal proceedings.

MANAGEMENT

DIRECTORS, EXECUTIVE OFFICERS AND KEY EMPLOYEES

The directors, executive officers and key employees of the Company are as follows:

NAME	AGE	POSITION
Ramesh C. Trivedi(1)	56	President and Chief Executive Officer and a Director
James C. McGroddy(1)(2)	59	Chairman of the Board
Wendy Shelton-Paul	44	Vice President of Medical Affairs and a Director
Michael J. Tomczak	41	Vice President and Chief Financial Officer
Peter Kazanzides	35	Director of Robotics and Software
Brent D. Mittelstadt	37	Director of Biomedical Applications
Stu Heald	59	Manager of Manufacturing
John N. Kapoor(1)(2)	52	Director
Paul A.H. Pankow	66	Director

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(1) Member of Compensation Committee of the Board of Directors.

(2) Member of Audit Committee of the Board of Directors.

RAMESH C. TRIVEDI, PH.D., has been President, Chief Executive Officer and a Director of the Company since November 1995, and served as a consultant to the Company from February 1995 until November 1995. Dr. Trivedi has over 25 years experience in the healthcare field. Dr. Trivedi founded California Biomedical Consultants in 1987, an international consulting firm. From 1985 to 1986, Dr. Trivedi was the President and Chief Executive Officer of DigiRad Corporation, a medical imaging company. He was the director of business development of Syva Company and the General Manager of Synaco, Inc., divisions of Syntex Corporation, from 1978 to 1984. From 1972 to 1978, Dr. Trivedi was the head of the product management group at the Worthington division of Millipore, and the head of the chemistry group of the Diagnostic Division of Pfizer, Inc. from 1971 to 1972. Dr. Trivedi received a Ph.D. in Chemical Engineering from Lehigh University in 1970 and an MBA from Pepperdine University in 1981.

JAMES C. MCGRODDY, PH.D., has been Chairman of the Board of Directors of the Company since November 1995. He has been employed by IBM since 1965, and since January 1, 1996 has served as Senior Vice President and Special Advisor to the Chairman of IBM. From May 1989 to December 31, 1995, Dr. McGroddy was Senior Vice President of Research of IBM with responsibility for approximately 2,500 technical professionals in IBM's seven research laboratories around the world. He is a member of IBM's Worldwide Management Council. The Company has been advised by IBM that Mr. McGroddy is retiring from IBM effective December 31, 1996. Dr. McGroddy has been involved in the development of the Company since its inception in October 1990, initially as an advisor and since November 1995 as a Director. Dr. McGroddy received a Ph.D. in physics from the University of Maryland in 1965. Mr. McGroddy was appointed to the Board of Directors as the designee of IBM pursuant to a Stockholders' Agreement. See "Certain Transactions -- Initial Transactions with IBM."

WENDY SHELTON-PAUL, DVM, has been a Director of the Company since February 1993. Dr. Shelton-Paul served as a consultant to the Company from February 1993 to January 1994, when she joined the Company as its Vice President of Medical Affairs. From February 1995 through November 1995, she served as Acting Chief Executive Officer of the Company. Until 1993, Dr. Shelton-Paul owned and operated a private veterinary practice. Dr. Shelton-Paul received a DVM from the University of California School of Veterinary Medicine in 1981.

MICHAEL J. TOMCZAK has been Vice President and Chief Financial Officer of the Company since October 1991. From September 1988 to October 1991, Mr. Tomczak served as a Senior Manager of Ernst & Young LLP, directing its Entrepreneurial Services Group in the Sacramento office. From September 1985 to September 1988, Mr. Tomczak served as Vice President of Finance for Valley Industries, a leading manufacturer of automotive products. Mr. Tomczak became a certified public accountant in Michigan in 1981 and in California in 1989. He received a B.A. from Western Michigan University in 1979.

PETER KAZANZIDES, PH.D., a co-founder of the Company, has been an employee of the Company since November 1990 and Director of Robotics and Software of the Company since December 1995. He received Sc.B., Sc.M., and Ph.D. degrees in electrical engineering from Brown University in 1983, 1985, and 1988, respectively. His dissertation focused on force control and multiprocessor systems for robotics. He performed post-doctoral research in surgical robotics from March 1989 to March 1990 at the IBM T.J. Watson Research Center.

BRENT D. MITTELSTADT, a co-founder of the Company, has been an employee of the Company since November 1990 and Director of Surgical Applications of the Company since December 1995. He began research in surgical robotics in 1986 as a visiting research scientist at the IBM T.J. Watson Research Center and is responsible for much of the early development of CT guided robotic systems for total hip replacement surgery. Mr. Mittelstadt received a B.S. in Biology from the University of Arizona in 1984.

STU HEALD has been Manager of Manufacturing of the Company since June 1996. Mr. Heald has over thirty years experience in manufacturing products. From September 1993 to June 1996, Mr. Heald served as Operations Manager at Advanced Power Systems. From October 1986 to August 1993, Mr. Heald served as Shop Operation Manager at Resonex, a manufacturer of magnetic resonance imaging systems. Mr. Heald received a B.S. in Industrial Management from California State University San Francisco in 1962.

JOHN N. KAPOOR, PH.D., has been a Director of the Company since December 1995. Dr. Kapoor founded EJ Financial Enterprises, Inc., a healthcare consulting and investment company, in March 1990, of which he is currently President. Dr. Kapoor is presently Chairman of Option Care, Inc., a public outpatient and home infusion healthcare company. Dr. Kapoor also is the Chairman of Unimed Pharmaceuticals, Inc., a specialty pharmaceutical company; Akorn, Inc., a manufacturer and distributor of ophthalmic products, of which Dr. Kapoor also is the Chief Executive Officer; and NeoPharm, Inc., a cancer drug research and development company. Dr. Kapoor received a Ph.D. in medicinal chemistry from State University of New York in 1970.

PAUL A.H. PANKOW has been a Director of the Company since May 1995. Since March, 1995, Mr. Pankow has been President of PAP Consulting, a business and technical consulting firm. From September 1959 to February 1995, Mr. Pankow held various senior management positions with 3M Corporation, most recently as a Vice President, and as Chief Executive Officer of the Imaging Systems Division. He currently serves as chairman of the Optoelectronic Industry Development Association and is a member of several other industry boards. Mr. Pankow received a B.S. in mechanical engineering and business administration from the University of Minnesota in 1956.

All directors hold office until the annual meeting of stockholders of the Company following their election or until their successors are duly elected and qualified. Officers are appointed by the Board of Directors and serve at its discretion.

Directors do not receive any cash compensation from the Company for service as members of the Board of Directors; however, the Company reserves the right to adopt a policy providing for compensation of independent directors. On July 26, 1996, Mr. Pankow was granted an option to purchase 2,704 shares of Common Stock at an exercise price of $2.07 per share.

SUMMARY COMPENSATION TABLE

The following table sets forth the compensation awarded to, earned by or paid to the Company's Chief Executive Officer and each other executive officer of the Company whose salary and bonus for the year ended December 31, 1995 exceeded $100,000 (collectively, the "Named Executive Officers").

	ANNUAL COMPENSATION			LONG-TERM COMPENSATION
NAME AND PRINCIPAL POSITION	YEAR	SALARY	OTHER ANNUAL COMPENSATION	SECURITIES UNDERLYING OPTIONS
Ramesh C. Trivedi.......................... Chief Executive Officer and President	1995	$ 34,014(1)	--	0(2)
Wendy Shelton-Paul......................... Vice President of Medical Affairs	1995	$120,000(3)	--	13,517(4)
Michael J. Tomczak......................... Vice President and Chief Financial Officer	1995	$104,000(5)	--	8,786(4)

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(1) Includes compensation award to, earned by or paid to Dr. Trivedi as Chief Executive Officer and President of the Company from November 15, 1995, when he assumed these offices through the end of the year. Does not include fees of $256,175 for consulting services rendered to the Company from February 1995 until November 15, 1995 pertaining to the formulation and implementation of the Company's business and marketing plan.

(2) Although Dr. Trivedi received no options during fiscal 1995, he was granted options to purchase 316,907 shares of Common Stock, at an exercise price of $0.07 per share, on February 16, 1996.

(3) Dr. Shelton-Paul served as acting Chief Executive Officer of the Company from February 1995 through November 15, 1995, and has been Vice President of Medical Affairs of the Company since January 1994. Dr. Shelton-Paul receives a salary of $120,000 per annum.

(4) The options covering these shares of Common Stock were repriced on February 16, 1996. See the table captioned "Repricing of Options" under "Management -- Stock Options."

(5) Mr. Tomczak receives a salary of $112,000 per annum.

EMPLOYMENT AGREEMENTS

On December 8, 1995, the Company entered into an employment agreement with Dr. Ramesh C. Trivedi, the Company's Chief Executive Officer and President. The agreement is for no specified term and provides for the at-will employment of Dr. Trivedi. Pursuant to the employment agreement, Dr. Trivedi is to receive an annual salary of $264,000 ($22,000 per month), plus out-of-pocket expenses. Dr. Trivedi's employment agreement provides for the grant of options to purchase 316,907 shares of the Company's Common Stock, at an exercise price of $0.07 per share, which were granted in February 1996. Upon termination by the Company, other than for cause (as defined in the employment agreement), Dr. Trivedi is entitled to receive his monthly salary for a period of nine months following the date of termination and consulting fees (at his then prevailing rate) for three months of consulting services to be rendered during the twelve months following such termination.

None of the other Named Executive Officers has an employment agreement with the Company.

STOCK OPTIONS

The following table contains information concerning the grant of stock options under the Company's 1991 Stock Option Plan (which was terminated in December 1995) to Dr. Shelton-Paul and Mr. Tomczak during the fiscal year ended December 31, 1995. See "Management -- Stock Option Plan" and Note 6 to notes to consolidated financial statements.

NAME	NUMBER OF SHARES UNDERLYING OPTIONS GRANTED(1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE PER SHARE(2)	EXPIRATION DATE
Dr. Ramesh C. Trivedi	--(3)	--	--	--
Dr. Wendy Shelton-Paul	13,517(4)	41.3%	$ 4.88	4/30/05
Michael J. Tomczak	8,786(4)	26.9%	$ 4.88	4/30/05

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(1) Stock options are granted at the discretion of the Compensation Committee of the Company's Board of Directors. Stock options have a 10-year term and vest periodically over a period not to exceed 5 years.

(2) The Compensation Committee of the Company's Board of Directors may elect to reduce the exercise price of any option to the current fair market value of the Common Stock if the value of the Common Stock has declined from the date of grant.

(3) Although Dr. Trivedi received no options during fiscal 1995, he was granted options to purchase 316,907 shares of Common Stock, at an exercise price of $0.07 per share, on February 16, 1996 pursuant to the Company's 1995 Stock Option Plan.

(4) The options covering these shares of Common Stock were repriced on February 16, 1996. See the table captioned "Repricing of Options" below.

The following table summarizes for each of the Named Executive Officers the total number of unexercised options, if any, held at December 31, 1995, and the aggregate dollar value of in-the-money, unexercised options, held at December 31, 1995, in each case, after giving effect to the replacement in February 1996 of previously held options. The value of the unexercised, in-the-money options at December 31, 1995, is the difference between their exercise or base price and the value of the underlying Common Stock on December 31, 1995, at an assumed price of $6.00 per share.

AGGREGATED OPTION EXERCISES -- JANUARY 1, 1995 -

DECEMBER 31, 1995 AND DECEMBER 31, 1995 OPTION VALUES

	SHARES ACQUIRED UPON EXERCISE OF OPTIONS DURING FISCAL 1995(1)		NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTION AT DECEMBER 31, 1995(1)		VALUE OF UNEXERCISED IN-THE-MONEY OPTION AT DECEMBER 31, 1995(1)	
NAME	NUMBER	VALUE REALIZED	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Dr. Ramesh C. Trivedi................	--	--	--	--	--	--
Dr. Wendy Shelton-Paul...............	--	--	5,407	8,110	--	--
Michael J. Tomczak...................	--	--	10,202	3,409	--	--

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(1) Gives effect to the cancellation of options granted pursuant to the Company's 1991 Stock Option Plan and the granting of replacement options in February 1996 pursuant to the Company's 1995 Stock Option Plan. See "Management -- Stock Option Plan" and "Certain Transactions."

REPRICING OF OPTIONS

NAME	REPRICE/ REGRANT DATE	NUMBER OF SECURITIES UNDERLYING OPTIONS REPRICED OR AMENDED	MARKET PRICE OF STOCK AT TIME OF REPRICING OR AMENDMENT	EXERCISE PRICE OF STOCK AT TIME OF REPRICING OR AMENDMENT	NEW EXERCISE PRICE	LENGTH OF ORIGINAL OPTION TERM REMAINING AT DATE OF REPRICING OR AMENDMENT
Wendy Shelton-Paul..........	2/16/96	67,587	$.888	$4.88	$.07	9.25 years
Michael J. Tomczak..........	2/16/96	43,932	$.888	$4.88	$.07	9.25 years
Michael J. Tomczak..........	2/16/96	6,759	$.888	$7.84	$.07	8 years
Michael J. Tomczak..........	2/16/96	13,308	$.888	$7.84	$.07	6.5 years
Michael J. Tomczak..........	2/16/96	4,056	$.888	$3.33	$.07	6 years

The Compensation Committee of the Board of Directors approved the replacement of these options to Dr. Shelton-Paul and Mr. Tomczak, and options to other employees of the Company, at an exercise price of $.07 per share, having concluded that the principal purpose of the Company's stock option program (i.e., to provide an equity incentive to employees to remain in the employment of the Company and to work diligently in its best interests) would not be achieved for those employees holding options exercisable above the market price of the Common Stock. In connection with the granting of these replacement options participating option holders agreed not to exercise any option for a period of six months from the date of such regrant.

STOCK OPTION PLAN

On December 13, 1995, the Board of Directors adopted, and stockholders approved, the 1995 Stock Option Plan (the "Plan"). The Plan is to be administered by the Board of Directors or a committee thereof. The Plan is currently administered by the Compensation Committee of the Board of Directors. Pursuant to the Plan, as initially adopted, stock purchase rights and/or options to acquire an aggregate of 1,249,070 shares of Common Stock may be granted to directors, employees (including officers) and consultants of the Company ("Plan participants").

As of September 16, 1996, there were outstanding options to purchase an aggregate of 927,745 shares granted pursuant to the Plan and options to purchase an aggregate of 21,325 shares granted pursuant to the Company's 1991 Stock Option Plan, which was terminated in December 1995. At September 16, 1996,

options to purchase an aggregate 159,878 shares of Common Stock were available for grant under the Plan. No stock purchase rights have been granted pursuant to the Plan. See Note 6 to notes to Consolidated Financial Statements.

The Plan authorizes the issuance of incentive stock options ("ISOs"), as defined in Section 422A of the Internal Revenue Code of 1986, non-qualified stock options ("NQSOs", and together with ISOs, "options") and stock purchase rights ("SPRs"). Consultants and directors who are not also employees of the Company are eligible for grants of only NQSOs and/or SPRs. The exercise price of each ISO may not be less than 100% of the fair market value of the Common Stock at the time of grant, except that in the case of a grant to an employee who owns 10% or more of the outstanding stock of the Company or a subsidiary or parent of the Company (a "10% Stockholder"), the exercise price may not be less than 110% of the fair market value on the date of grant. The aggregate fair market value of the shares covered by ISOs granted under the Plan that become exercisable by a Plan participant for the first time in any calendar year is subject to a $100,000 limitation. The exercise price of each NQSO is determined by the Board, or committee thereof, in its discretion, provided that the exercise price of a NQSO is not less than 85% of the fair market value of the Common Stock on the date of grant. The Board, or Committee thereof, shall determine the term of the Options and SPRs; provided, however, that in no event may an Option have a term of more than ten (10) years (no more than five (5) years with respect to ISOs granted to a 10% Stockholder). Any Option which is granted shall be vested and exercisable at such time as determined by the Board, or committee thereof, but in no event at a rate less than 20% per year. A recipient of an SPR must exercise such right within the period, not to exceed thirty (30) days from the date of grant, determined by the Board, or committee thereof. The Board, or committee thereof, may reserve to the Company upon the grant of an SPR, an option to repurchase upon a plan participant's termination of employment, any stock acquired upon his exercise of the SPR at the SPR exercise price. Any such repurchase option shall lapse at a rate of not less than 20% per year commencing on the date of the plan participant's purchase. Options and SPRs granted under the Plan are not transferable, other than by will or by the laws of descent and distribution. No stock options or SPRs may be granted under the Plan after December 12, 2005.

Subject to the provisions of the Plan, the Board, or committee thereof, has the authority to determine the individuals to whom the stock options or SPRs are to be granted, the number of shares to be covered by each option or SPR, the exercise price, the type of option, the exercise period, the restrictions, if any, on the exercise of the option or SPR, the terms for the payment of the exercise price and other terms and conditions. Payments by holders of options or SPRs upon exercise of an option may be made (as determined by the Board or a committee thereof) in cash or such other form of payment as may be permitted under the Plan, including without limitation, by promissory note or by delivery of shares of Common Stock.

In February 1996, the Compensation Committee of the Board of Directors authorized the grant of options to purchase an aggregate of 242,746 shares of Common Stock, at an exercise price of $0.07 per share, to certain officers, directors and employees of the Company pursuant to the Company's 1995 Stock Option Plan, including options to purchase 67,587 shares granted to Dr. Wendy Shelton-Paul, Vice President of Medical Affairs of the Company, and options to purchase 68,055 shares granted to Michael J. Tomczak, Vice President and Chief Financial Officer of the Company. These options were issued in replacement of options previously granted pursuant to the Company's 1991 Stock Option Plan, with exercise prices ranging from $3.33 to $7.84 per share, surrendered for cancellation.

INDEMNIFICATION OF OFFICERS AND DIRECTORS AND LIMITATION ON DIRECTOR LIABILITY

Article VI of the Company's by-laws provides that a director or officer shall be indemnified against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement (provided such settlement is approved in advance by the Company) in connection with certain actions, suits or proceedings, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation--a "derivative action") if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. A similar standard of care is applicable in the case of derivative actions, except that indemnification only extends to expenses (including attorneys' fees)

incurred in connection with the defense or settlement of such an action, except that no person who has been adjudged to be liable to the Company shall be entitled to indemnification unless a court determines that despite such adjudication of liability, but in view of all of the circumstances of the case, the person seeking indemnification is fairly and reasonably entitled to the indemnified for such expenses as the court deems proper.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Article 11 of the Company's certificate of incorporation eliminates the personal liability of the Company's directors to the Company or its stockholders for monetary damages for breach of their fiduciary duties as a director to the fullest extent provided by Delaware law. Section 102(b)(7) of the Delaware General Corporation Law ("DGCL") provides for the elimination of such personal liability, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL or (iv) for any transaction from which the director derived any improper personal benefit.

CERTAIN TRANSACTIONS

TRANSACTIONS WITH FOUNDERS

In connection with the formation of the Company, the Company sold 38,880 shares, 20,935 shares, 5,441 shares and 2,332 shares to Howard A. Paul, William Bargar, Brent Mittelstadt and Peter Kazanzides (collectively the "Founders"), respectively, for a purchase price of $0.07 per share. Mr. Paul served as the Chief Executive Officer and President of the Company from inception until his death in February 1993. Messrs. Kazanzides and Mittelstadt are key employees of the Company, and Mr. Bargar serves as a consultant to the Company. See "Management."

INITIAL TRANSACTIONS WITH IBM

In connection with the formation of the Company and pursuant to a Loan and Warrant Purchase Agreement dated as of February 6, 1991 (the "IBM Loan Agreement"), the Company granted IBM a warrant to purchase 67,587 shares of Common Stock, at an exercise price of $0.07 per share, originally exercisable until February 6, 1998. The expiration date of the warrant was extended until December 31, 2000 in connection with the recapitalization of the Company in December 1995, described below. In addition, pursuant to the IBM Loan Agreement, during 1991 the Company borrowed an aggregate of $3,000,000 from IBM in consideration for the Company's 9.25% Convertible Subordinated Loan Note in the principal amount of $3,000,000 (the "IBM Note"). The IBM Note was convertible into shares of Series A Preferred Stock at a conversion price of $33.29 per share.

In connection with the IBM loan transaction, the Company entered into a Stockholders' Agreement with the Founders and IBM dated February 6, 1991 (the "Stockholders' Agreement"). Pursuant to the Stockholders' Agreement, IBM has the right to nominate a member of the Board of Directors of the Company (and the stockholders agreed to vote their shares for such nominee) and to have a non-voting observer attend meetings of the Board of Directors. In addition, the Stockholders' Agreement grants IBM a right of first refusal with respect to proposed transfers of Founder's shares to a "Competitor" (as defined). The Stockholders' Agreement also restricts transfers of Founder's shares other than to the Company, IBM or to a third party approved by IBM in writing. The foregoing restriction will terminate on February 6, 1998, or earlier upon consummation of (i) an initial underwritten firm commitment public offering of the Common Stock resulting in gross proceeds of at least $15 million, or (ii) the acquisition of the Company, whether by merger, acquisition of all or substantially all of its assets, or acquisition of substantially all of its voting securities.

Pursuant to a License Agreement, dated February 6, 1991, IBM granted the Company a non-exclusive, worldwide royalty-free license to the underlying software code for the ROBODOC System.

SERIES B PREFERRED STOCK FINANCING

Pursuant to a Stock Purchase Agreement dated as of April 10, 1992, Sutter Health and The John N. Kapoor Trust (the "Kapoor Trust") each purchased 30,482 shares of the Company's Series B Preferred Stock, or a total of 60,964 shares, for a purchase price of $4,000,370 ($65.62 per share). The Series B Preferred Stock was convertible into shares of Common Stock at a conversion price of $65.62 per share.

SERIES C PREFERRED STOCK FINANCING

Pursuant to a Stock Purchase Agreement dated as of November 13, 1992, Sutter Health and Keystone Financial Corporation ("Keystone") purchased 89,604 and 12,801 shares, respectively, for a total of 102,405 shares, of the Company's Series C Preferred Stock, for a purchase price of $7,000,002 and $1,000,000, respectively ($78.12 per share). The Series C Preferred Stock was convertible into shares of Common Stock at a conversion price of $78.12 per share.

DECEMBER 1995 RECAPITALIZATION

Pursuant to a Series D Preferred Stock and Warrant Purchase Agreement (the "1995 Stock Purchase Agreement") dated as of December 21, 1995, the Company effected the recapitalization described below.

The Company effected a one-for-five reverse stock split of its capital stock, and all outstanding shares of Series B and Series C Preferred Stock were converted into shares of Common Stock. Upon conversion of the Series B Preferred Stock, the Company issued 30,482 shares of Common Stock to each of Sutter Health and the Kapoor Trust, or a total of 60,964 shares. In addition, the Company issued 8,955 shares of Common Stock to each of Sutter Health and the Kapoor Trust, or a total of 17,910 shares, in exchange for the cancellation of

all accumulated dividends on the Series B Preferred Stock. Upon conversion of the Series C Preferred Stock, the Company issued 89,604 shares of Common Stock to Sutter Health and 12,801 shares of Common Stock to Keystone, or a total of 102,405 shares. In addition, the Company issued 19,512 shares of Common Stock to Sutter Health and 3,169 shares of Common Stock to Keystone, or a total of 22,681 shares, in exchange for the cancellation of all accumulated dividends on the Series C Preferred Stock.

As part of the recapitalization, IBM received a warrant to purchase 126,895 shares of Common Stock, at an exercise price of $0.01 per share, which expires on December 31, 2005, in exchange for the cancellation of the IBM Note in the principal amount of $3,000,000 and accrued interest thereon of $1,224,373. In addition, the expiration date of the warrant issued to IBM in connection with the formation of the Company was extended until December 31, 2000.

Pursuant to the 1995 Stock Purchase Agreement, EJ Financial Investments V, L.P. ("EJ Financial") purchased 693,195 shares of Series D Preferred Stock for an aggregate purchase price of $666,667 ($0.96 per share), and IBM purchased a warrant to purchase 1,386,390 shares of Series D Preferred Stock, exercisable at any time prior to December 31, 2005, at an exercise price of $0.01 per share, for an aggregate purchase price of $1,333,333 ($0.96 per warrant). In addition, EJ received an option to purchase an additional 346,597 shares of Series D Preferred Stock, on the same terms it purchased the Series D Preferred Stock and IBM received an option to purchase warrants to purchase an additional 693,194 shares of Series D Preferred Stock, on the same terms it purchased the Series D Warrants (the options granted to EJ Financial and IBM being hereinafter referred to collectively as the "Standby Options"). On February 19, 1996, each of EJ Financial and IBM exercised its Standby Option, as required by the terms thereof, since the Company was unable to obtain alternative financing on substantially the same terms as the Standby Options prior to the expiration thereof.

As part of the recapitalization of the Company, Sutter Health, Sutter Health Venture Partners and Keystone received warrants to purchase 390,888 shares, 11,899 shares and 43,300 shares, of Common Stock, respectively, at an exercise price of $0.74 per share, in consideration for their consent to the terms of the recapitalization, including the sale of the Series D Preferred Stock. Sutter Health, Sutter Health Venture Partners and Keystone received additional warrants to purchase 121,686 shares, 3,705 shares and 13,481 shares, respectively, of Common Stock, at an exercise price of $0.74 per share, in connection with the exercise by EJ Financial and IBM of the Standby Options. On August 25, 1996, Sutter Health and Sutter Health Venture Partners agreed to amend these warrants, to include a provision allowing for a cashless exercise. According to the terms of the cashless exercise, the Company agreed to issue to Sutter Health and Sutter Health Venture Partners fewer shares of Common Stock, 63,200 and 1,924 shares respectively, as consideration for not requiring the cash exercise payment of $0.74 per share. As a result Sutter Health and Sutter Health Venture Partners received 449,374 and 13,680 shares of Common Stock, respectively. The warrants owned by Keystone were not exercised and expired on August 30, 1996.

In connection with the recapitalization of the Company, the Company granted stockholders who did not purchase Series D Preferred Stock or warrants to purchase Series D Preferred Stock rights to purchase Series D Preferred Stock on the same terms and conditions as those shares purchased under the 1995 Stock Purchase Agreement, which rights expired unexercised on March 5, 1996.

REGRANT OF LOWER-EXERCISE PRICE OPTIONS TO REPLACE PRIOR GRANTS

In February 1996, the Compensation Committee of the Board of Directors authorized the grant of options to purchase an aggregate of 242,736 shares of Common Stock, at an exercise price of $0.07 per share, to certain officers, directors, and employees of the Company pursuant to the Company's 1995 Stock Option Plan, including options to purchase 67,587 shares granted to Dr. Wendy Shelton-Paul, Vice President of Medical Affairs of the Company, and options to purchase 68,055 shares granted to Michael J. Tomczak, Vice President and Chief Financial Officer of the Company. These options were issued in replacement of options previously granted pursuant to the Company's 1991 Stock Option Plan, with exercise prices ranging from $3.33 to $7.84 per share, surrendered for cancellation. See the table captioned "Repricing of Options" under "Management -- Stock Options."

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information concerning the beneficial ownership of the Company's Common Stock immediately prior to and after the Offering by (i) each stockholder known by the Company to be a beneficial owner of more than five percent of the outstanding Common Stock, (ii) each director of the Company and each executive officer listed in the Compensation Table under the caption "Management -- Summary Compensation Table" and (iii) all directors and officers as a group. The information set forth in the table gives effect to the automatic conversion of the outstanding shares of Series D Preferred Stock into 1,039,792 shares of Common Stock upon consummation of the sale of 1,500,000 shares of Common Stock and 1,500,000 Warrants in the Offering.

NAME	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1)	PERCENTAGE OF COMMON STOCK BENEFICIALLY OWNED(1)	
		BEFORE OFFERING(2)	AFTER OFFERING(3)
International Business Machines Corporation.... Old Orchard Road Armonk, NY 10504	2,274,066(5)	56.14%(6)	40.97%
EJ Financial Investments V, L.P................ 225 East Deer Path Road Suite 250 Lake Forest, IL 60045	1,039,792(7)	58.52%	31.73%
Sutter Health and Sutter Health Venture Partners, L.P................................ One Capitol Mall Sacramento, CA 95814	611,607(8)	34.42%	18.66%
Ramesh Trivedi(4)..............................	139,967(9)	7.30%(10)	3.79%
John N. Kapoor.................................	1,039,792(11)	58.52%	31.73%
James J. McGroddy..............................	--	--	--
Paul A.H. Pankow...............................	789(12)	0.04%(13)	0.02%
Wendy Shelton-Paul(4)..........................	74,927(14)	4.13%(15)	2.26%
Mike Tomczak(4)................................	60,083(16)	3.27%(17)	1.80%
All directors and officers as a group (5 persons)....................................	1,315,558(18)	65.33%(19)	37.44%

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(1) Unless otherwise indicated, each person has sole investment and voting power with respect to the shares indicated, subject to community property laws, where applicable. For purposes of computing the percentage of outstanding shares held by each person or group of persons named above on September 1, 1996, any security which such person or group of persons has the right to acquire within 60 days after such date is deemed to be outstanding for the purpose of computing the percentage ownership for such person or persons, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(2) Except as otherwise stated, calculated on the basis of 1,776,864 shares of Common Stock issued and outstanding.

(3) Gives effect to the issuance of the Shares in the Offering.

(4) Address is c/o the Company, 829 West Stadium Lane, Sacramento, California 95834.

(5) Includes warrants to purchase 2,079,584 shares of Common Stock at an exercise price of $0.01 per share exercisable until December 31, 2005, warrants to purchase 67,587 shares of Common Stock at an exercise price of $0.07 per share exercisable until December 31, 2000, and warrants to purchase 126,895 shares of Common Stock at an exercise price of $0.01 per share exercisable until December 31, 2005, all of which warrants are presently exercisable.

(6) Calculated on the basis of 4,050,930 shares of Common Stock issued and outstanding.

(7) Represents shares of Common Stock issuable upon the automatic conversion of the Series D Preferred Stock at the closing of this Offering.

(8) Includes 593,538 shares of Common Stock owned by Sutter Health and 18,069 shares of Common Stock beneficially owned by Sutter Health Venture Partners I, L.P. ("Sutter Partners"), an affiliate of Sutter Health.

(9) Represents shares issuable upon the exercise of stock options exercisable within 60 days, at an exercise price of $0.07 per share.

(10) Calculated on the basis of 1,916,831 shares of Common Stock issued and outstanding.

(11) Represents shares of Common Stock owned by EJ Financial Investments V, L.P., a limited partnership of which Mr. Kapoor is the managing general partner. Mr. Kapoor disclaims beneficial ownership of such shares.

(12) Represents shares issuable upon exercise of stock options exercisable within 60 days, at an exercise price of $2.07.

(13) Calculated on the basis of 1,777,653 shares of Common Stock issued and outstanding.

(14) Includes 36,047 shares issuable upon exercise of stock options exercisable within 60 days, at an exercise price of $0.07 per share.

(15) Calculated based upon 1,812,911 shares of Common Stock issued and outstanding.

(16) Represents shares issuable upon exercise of stock options exercisable within 60 days, at an exercise price of $0.07 per share.

(17) Calculated based upon 1,836,947 shares of Common Stock issued and outstanding.

(18) Includes 236,886 shares of Common Stock issuable upon exercise of options exercisable within 60 days.

(19) Calculated based upon 2,013,750 shares of Common Stock issued and outstanding.

DESCRIPTION OF SECURITIES

On the Effective Date, the authorized capital stock of the Company will consist of 15,000,000 shares of Common Stock, $0.01 par value per share, 5,750,000 shares of Series D Preferred Stock, $0.01 par value per share, and 1,000,000 shares of "blank check" Preferred Stock, par value $0.01 per share. On the Effective Date, 737,072 shares of Common Stock will be issued and outstanding and 1,039,792 shares of Series D Preferred Stock will be issued and outstanding. All of the issued outstanding shares of Series D Preferred Stock will be automatically converted into shares of Common Stock at the Closing of this Offering.

The following are brief descriptions of the securities offered hereby and other securities of the Company. The rights of the holders of shares of the Company's capital stock are established by the Company's certificate of incorporation, as amended, the Company's by-laws and Delaware law. The following statements do not purport to be complete or give full effect to statutory or common law, and are subject in all respects to the applicable provisions of the certificate of incorporation, by-laws and state law.

COMMON STOCK

Holders of the Common Stock are entitled to one vote per share, to receive dividends when, as and if declared by the Board of Directors and to share ratably in the assets of the Company legally available for distribution to holders of Common Stock in the event of the liquidation, dissolution or winding up of the Company. Holders of the Common Stock do not have subscription, redemption, conversion or preemptive rights.

Each share of Common Stock is entitled to one vote on any matter submitted to the holders, except that holders are entitled to cumulate their votes in the election of Directors. In other words, a stockholder may give one nominee a number of votes equal to the number of Directors to be elected, multiplied by the number of votes to which the stockholder's shares are normally entitled, or he may distribute his votes among as many candidates as he sees fit. The candidates receiving the highest number of votes shall be elected. If a stockholder gives notice at the meeting prior to the voting, of such stockholder's intention to cumulate his votes, all stockholders may cumulate their votes for candidates in nomination. On all other matters which may properly come before the meeting, each share has one vote. The Board is empowered to fill any vacancies on the board created by the resignation of Directors. Except as otherwise required by the DGCL, all stockholder action (other than the election of the Directors, who are elected by a plurality vote) is subject to approval by a majority of the shares of Common Stock present at a stockholders' meeting at which a quorum (a majority of the issued and outstanding shares of the Common Stock) is present in person or by proxy, or by written consent pursuant to Delaware law.

All shares of Common Stock outstanding are fully paid and non-assessable, and the shares of Common Stock offered hereby and shares of Common Stock issuable upon exercise of the Warrants, when issued upon payment of the purchase price set forth on the cover page of this Prospectus or payment of the exercise price specified in the Warrants, as the case may be, will be fully paid and non-assessable.

The Board of Directors is authorized to issue additional shares of Common Stock within the limits authorized by the Company's certificate of incorporation, as amended, without further stockholder action. The Company has agreed with the Underwriter that it will not issue any securities, including but not limited to shares of Common Stock, for a period of 24 months following the Effective Date, except as disclosed in or contemplated by this Prospectus, without the prior written consent of the Representative.

WARRANTS

The Warrants offered hereby will be issued in registered form under a Warrant Agreement (the "Warrant Agreement") between the Company and American Stock Transfer and Trust Company, as Warrant Agent (the "Warrant Agent"). The following summary of the provisions of the Warrants is qualified in its entirety by reference to the Warrant Agreement, a copy of which is filed as an exhibit to the registration statement of which this Prospectus forms a part.

Each Warrant will be separately transferable and will entitle the registered holder thereof to purchase one share of Common Stock at $7.00 per share (subject to adjustment as described below) for a period of four years commencing , 1997 [12 months after the Effective Date] (or earlier upon notice of redemption as provided below) and ending , 2001 (five years after the Effective Date). The exercise price and the number of shares of Common Stock issuable upon the exercise of each Warrant are subject to adjustment in the event of a stock split, stock dividend, recapitalization, merger, consolidation or certain other events. A holder of Warrants may exercise such Warrants by surrendering the certificate evidencing such Warrants to the Warrant Agent, together with the form of election to purchase on the reverse side of such certificate attached thereto properly completed and executed and the payment of the exercise price and any transfer tax. If less than all of the Warrants evidenced by a Warrant certificate are exercised, a new certificate will be issued for the remaining number of Warrants.

The Company has authorized and reserved for issuance a number of shares of Common Stock sufficient to provide for the exercise of the Warrants. When issued, each share of Common Stock will be fully paid and nonassessable. Holders of Warrants will not have any voting or other rights as stockholders of the Company unless and until Warrants are exercised and shares issued pursuant thereto.

The Warrants may be redeemed by the Company, at a price of $.10 per Warrant, upon not less than 30 days prior written notice at any time commencing 12 months after the Effective Date (or earlier with the prior written consent of the Representative), provided the average of the closing bid quotations of the Common Stock, during the period of twenty (20) consecutive trading days ending on the third day prior to the date upon which the notice of redemption is given, as reported on The Nasdaq SmallCap Market (or if the Common Stock is not quoted thereon, the closing sale price of the Common Stock on the Nasdaq National Market or other principal securities exchange upon which the Common Stock is then quoted or listed, or such other reporting system that provides closing sale prices for the Common Stock), has been at least 150% of the then exercise price of the Warrants (initially, $10.50 per share). The Warrants will be exercisable until the close of business on the day immediately preceding the date fixed for the redemption of the Warrants in the notice of redemption.

Commencing one year after the Effective Date and until the expiration of the exercise period of the Warrants, the Company will pay the Representative a fee of 5% of the exercise price of each Warrant exercised, provided (i) the market price of the Common Stock on the date the Warrant was exercised was greater than the Warrant exercise price on that date, (ii) the exercise price of the Warrant was solicited by a member of the NASD, (iii) the Warrant was not held in a discretionary account, (iv) the disclosure of compensation arrangements was made both at the time of the Offering and at the time of exercise of the Warrant, (v) the solicitation of the exercise of the Warrant was not a violation of Rule 10b-6 under the Exchange Act and (vi) the Representative is designated in writing as the soliciting NASD member. Unless granted an exemption from Rule 10b-6 under the Exchange Act by the Commission, the Representative and any other soliciting broker/dealers will be prohibited from engaging in any market making activities or solicited brokerage activities with regard to the Company's securities during the periods prescribed by exemption (xi) to Rule 10b-6 before the solicitation of the exercise of any Warrant until the later of the termination of such solicitation activity or the termination of any right the Representative and any other soliciting broker/dealer may have to receive a fee for the solicitation of the exercise of the Warrants.

For a holder of a Warrant to exercise the Warrant, there must be a current registration statement on file with the Securities and Exchange Commission and various state securities commissions. The Company will be required to file post-effective amendments to the registration statement when events require such amendments and to take appropriate action under state securities laws. While it is the Company's intention to file post-effective amendments when necessary and to take appropriate action under state securities laws, there can be no assurance that the Company will file all post-effective amendments required to maintain the effectiveness of the registration statement or that the Company will take all appropriate action under state securities laws. If the registration statement is not kept current for any reason, the Warrants will not be exercisable, and holders thereof may be deprived of value.

OPTIONS AND WARRANTS

Options. On the Effective Date, there will be outstanding options to purchase an aggregate of 949,070 shares of Common Stock, at exercise prices ranging from $0.07 to $7.84, which expire at various dates from February 4, 2002 to July 8, 2006. See "Management -- Stock Option Plan."

Warrants. On the Effective Date, there will be outstanding warrants to purchase an aggregate of 2,274,066 shares of Common Stock, including the Series D Warrants, at exercise prices ranging from $0.01 to $0.07, which expire at various dates through December 31, 2005.

PREFERRED STOCK

At the Closing of this Offering, all of the Company's outstanding Series D Preferred Stock will be automatically converted into 1,039,792 shares of Common Stock.

On the Effective Date, the Company will be authorized to issue up to 1,000,000 shares of Preferred Stock (in addition to the Series D Preferred Stock) with such designations, rights and preferences as may be determined from time to time by the Board of Directors. Accordingly, the Board of Directors is empowered, without further stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights that could decrease the amount of earnings and assets available for distribution to holders of Common Stock or adversely affect the voting power or other rights of the holders of the Company's Common Stock. In the event of issuance, the Preferred Stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of the Company. The Company has no present intention to issue any shares of its Preferred Stock, and following the Closing, no shares of Preferred Stock will be outstanding. The Company has agreed with the Underwriter that it will not issue any shares of Preferred Stock, or any options, warrants or rights to purchase Preferred Stock, for a period of 24 months after the Effective Date, without the prior written consent of the Representative.

STATUTORY PROVISIONS AFFECTING STOCKHOLDERS

Following the consummation of this Offering, the Company will be subject to Section 203 of the Delaware General Corporation Law, the State of Delaware's "business combination" statute. In general, such statute prohibits a publicly held Delaware corporation from engaging in various "business combination" transactions with any "interested stockholder" for a period of three years after the date of the transaction in which the person became an "interested stockholder," unless (i) the transaction in which the interested stockholder obtained such status or the "business combination" is approved by the Board of Directors prior to the date the interested stockholder obtained such status; (ii) upon consummation of the transaction which resulted in the stockholder becoming an "interested stockholder," the "interested stockholder" owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned by (a) persons who are directors and officers and (b) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (iii) on or subsequent to such date the "business combination" is approved by the Board of Directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the "interested stockholder." A "business combination" includes mergers, asset sales and other transactions resulting in financial benefit to a stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years, did own) 15% or more of a corporation's voting stock. The statute could prohibit or delay mergers or other takeover or change in control attempts with respect to the Company and, accordingly, may discourage attempts to acquire the Company.

REGISTRATION RIGHTS

Pursuant to a Registration Rights Agreement dated as of December 21, 1995 entered into in connection with the 1995 Stock Purchase Agreement and the recapitalization of the Company effected thereby, the Company granted certain registration rights to IBM, the Kapoor Trust, EJ Financial, Sutter Health Venture

Partners I, L.P., and Keystone (collectively, the "Rights Holders"), with respect to shares of Common Stock issued or issuable to the Rights Holders in certain financing transactions, including shares issuable upon exercise of warrants or the conversion of the Series D Preferred Stock (collectively, "Registrable Shares").

If the Company proposes to register any of its securities under the Securities Act (other than in connection with an employee benefit plan or pursuant to a merger, exchange offer or other acquisition transaction requiring registration under the Securities Act), whether for its own account or for the account of another holder of Company securities, the Rights Holders are entitled to include Registrable Shares owned by them in any such registration. If any such registration is an underwritten registration, the Company is required to include that portion of the Registrable Shares that each Rights Holder proposes to sell representing an aggregate of 25% of the offering (or in the case of an initial public offering, an aggregate of 15% of such offering) before inclusion of other shares. If, after taking into account shares offered by the Company and other holders of registration rights, the Underwriters determine that additional Registrable Shares can be sold, the balance of the Registrable Shares will be included pro rata in the registration.

At any time after the earlier of (i) December 31, 1996 or (ii) six months after the effective date of the first registration statement for a public offering of securities of the Company, Rights Holders holding at least 35% of the aggregate Registrable Shares and securities convertible into Registrable Shares also have the right to require the Company to prepare and file on two occasions a registration statement with respect to the Registrable Shares. However, the Company is not required to effect a registration (x) with respect to less than 35% of the aggregate Registrable Shares and shares convertible into Registrable Shares, unless the aggregate offering price (net of underwriting discounts and commissions), would exceed $7,500,000 or (y) if the Company delivers an opinion reasonably acceptable to counsel for the Rights Holders that the Registrable Shares may be sold without registration under Rule 144 under the Securities Act without any limitation with respect to offerees or the size of the transaction. The Registered Holders have agreed not to exercise their registration rights for a period of 18 months following the Effective Date.

In addition, the Company has granted the holders of the Underwriters' Warrants (including the securities issuable upon exercise thereof) certain registration rights with respect to the shares of Common Stock and Warrants issuable upon the exercise thereof. The Underwriters have agreed not to exercise such registration rights for a period of 18 months following the Effective Date, or until such earlier date as the Company gives holders of the Warrants written notice of the redemption of the Warrants. See "Underwriting."

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this Offering, the Company will have 3,276,864 shares of Common Stock outstanding, of which only the 1,500,000 shares of Common Stock offered hereby will be transferable without restriction under the Securities Act. The remaining 1,776,864 shares, issued in private transactions, will be "restricted securities" (as that term is defined in Rule 144 promulgated under the Securities Act) which may be publicly sold only if registered under the Securities Act or if sold in accordance with an applicable exemption from registration, such as Rule 144. In general, under Rule 144 as currently in effect, subject to the satisfaction of certain other conditions, a person, including an affiliate of the Company, who has beneficially owned restricted securities for at least two years, is entitled to sell (together with any person with whom such individual is required to aggregate sales), within any three-month period, a number of shares that does not exceed the greater of 1% of the total number of outstanding shares of the same class, or, if the Common Stock is quoted on Nasdaq or a national securities exchange, the average weekly trading volume during the four calendar weeks preceding the sale. A person who has not been an affiliate of the Company for at least three months, and who has beneficially owned restricted securities for at least three years is entitled to sell such restricted securities under Rule 144 without regard to any of the limitations described above. Officers, directors and the other existing securityholders of the Company owning or having rights to acquire in the aggregate 4,981,931 shares of Common Stock constituting restricted securities, have entered into agreements with the Underwriters not to sell or otherwise dispose of any shares of Common Stock (other than shares purchased in open market transactions) for a period of 18 months following the Effective Date, without the prior written consent of the Representative. Following expiration of the term of the Lock-Up Agreements, 1,313,444 shares and 463,420 shares subject to the Lock-Up Agreements will become eligible for resale

pursuant to Rule 144 commencing in the second and third quarters of 1998, respectively, subject to the volume limitations and compliance with the other provisions of Rule 144. In addition securityholders of the Company owning or having rights to acquire in the aggregate 3,980,872 shares of Common Stock granted certain registration rights with respect to those shares have agreed that they will not exercise such registration rights for a period of 18 months following the Effective Date. See "Description of Securities -- Registration Rights." and Certain Transactions."

As a result of this Offering, an additional 1,500,000 shares of Common Stock (1,725,000 if the Over-Allotment Option is fully exercised) will be subject to issuance pursuant to the exercise of the Warrants offered hereby.

As of July 1, 1996, there were 22 record holders of the Common Stock.

DIVIDEND POLICY

Since its inception, the Company has not paid any dividends on its Common Stock and it does not anticipate paying such dividends in the foreseeable future. The Company intends to retain earnings, if any, to finance its operations.

REPORTS TO STOCKHOLDERS

The Company intends to furnish its stockholders with annual reports containing financial statements audited and reported upon by its independent certified public accountants after the end of each fiscal year, and will make available such other periodic reports as the Company may deem to be appropriate or as may be required by law. The Company's fiscal year end is December 31. The Company has filed a Registration Statement on Form 8-A with the Commission to register under, and be subject to the reporting requirements of, the Exchange Act.

TRANSFER AGENT AND WARRANT AGENT

The Company has engaged American Stock Transfer and Trust Company to act as Transfer Agent for the Company's Common Stock and Warrant Agent for the Warrants.

UNDERWRITING

Subject to the terms and conditions of the underwriting agreement between the Company and the Underwriters (the "Underwriting Agreement"), the Company has agreed to sell to the Underwriters named below, for whom Rickel & Associates, Inc. is acting as representative (in such capacity, the "Representative"), and the Underwriters have severally, and not jointly, agreed to purchase, the number of securities set forth opposite their respective names below.

UNDERWRITERS	NUMBER
Rickel & Associates, Inc.	1,000,000
Aegis Capital Corp.	500,000

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent. The Underwriters are committed to purchase all of the above securities if any are purchased.

The Representative has advised the Company that the Underwriters propose initially to offer the 1,500,000 shares of Common Stock and 1,500,000 Warrants to the public at the initial public offering prices set forth on the cover page of this Prospectus and that it may allow to selected dealers who are members of the NASD concessions not in excess of $ per share of Common Stock and $ per Warrant, of which not more than $ per share of Common Stock and $ per Warrant may be re-allowed to certain other dealers. After the Offering, the offering price and other selling terms may be changed by the Representative.

The Underwriting Agreement provides further that the Representative will receive a non-accountable expense allowance of 2.75% of the gross proceeds of the Offering, of which $50,000 has been paid by the Company to date. The Company also has agreed to pay all expenses in connection with qualifying the shares of Common Stock and the Warrants offered hereby for sale under the laws of such states as the Representative may designate, including expenses of counsel retained for such purpose by the Underwriters.

Pursuant to the Underwriters' Over-Allotment Option, which is exercisable for a period of 45 days after the closing of the Offering, the Underwriters may purchase up to 15% of the total number of shares of Common Stock and Warrants offered hereby, solely to cover over-allotments.

The Company has agreed to sell to the Underwriters, for nominal consideration, the Underwriters' Warrants to purchase 150,000 shares of Common Stock and 150,000 Warrants. The Underwriters' Warrants will not be exercisable for a period of one year after the date of this Prospectus. Thereafter, for a period of four years, the Underwriters' Warrants will be exercisable at an amount equal to 165% above the offering price of the Common Stock and Warrants sold in this offering. The Underwriters' Warrants are not transferable for a period of one year after the date of this Prospectus, except to officers of the Underwriters, members of the selling group and their officers and partners. The Company also has granted certain demand and "piggyback" registration rights to the holders of the Underwriters' Warrants.

For the life of the Underwriters' Warrants, the holders thereof are given, at nominal cost, the opportunity to profit from a rise in the market price of the Common Stock with a resulting dilution in the interest of other stockholders. Further, such holders may be expected to exercise the Underwriters' Warrants at a time when the Company would in all likelihood be able to obtain equity capital on terms more favorable than those provided in the Underwriters' Warrants.

The Company has agreed, for a period of 24 months after the Effective Date, not to issue any shares of Common Stock, preferred stock or any warrants, options or other rights to purchase Common Stock or preferred stock without the prior written consent of the Representative. Notwithstanding the foregoing, the Company may issue shares of Common Stock upon exercise of any warrants or convertible securities outstanding on the date hereof or to be outstanding upon closing of the Offering as described herein. Subject to certain exceptions, all of the Company's existing securityholders have agreed not to sell or otherwise dispose of any shares of Common Stock for a period of up to 18 months following the Effective Date, without the prior written consent of the Representative. See "Shares Eligible for Future Sale."

The Underwriting Agreement provides for reciprocal indemnification between the Company and the Underwriters against liabilities in connection with the Offering, including liabilities under the Securities Act.

The Company has agreed that upon closing of the Offering it will, for a period of not less than three years, engage a designee of the Representative as advisor to the Board. In addition and in lieu of the Representative's right to designate an advisor, the Company has agreed, if requested by the Representative, during such three-year period, to nominate and use its best efforts to cause the election of a designee of the Representative as a director of the Company. The Representative has not yet designated any such person.

The Underwriters intend to act as market makers for the Common Stock and the Warrants after the closing of the Offering.

Commencing one year after the date of this Prospectus and until the expiration of the exercise period of the Warrants, the Company will pay the Representative a fee of 5% of the exercise price of each Warrant exercised, provided (i) the market price of the Common Stock on the date the Warrant was exercised was greater than the Warrant exercise price on that date, (ii) the exercise price of the Warrant was solicited by a member of the NASD, (iii) the Warrant was not held in a discretionary account, (iv) the disclosure of compensation arrangements was made both at the time of the Offering and at the time of exercise of the Warrant, (v) the solicitation of the exercise of the Warrant was not a violation of Rule 10b-6 under the Exchange Act and (vi) the Representative is designated in writing as the soliciting NASD member. Unless granted an exemption from Rule 10b-6 under the Exchange Act by the Commission, the Representative and any other soliciting broker/dealers will be prohibited from engaging in any market making activities or solicited brokerage activities with regard to the Company's securities during the periods prescribed by exemption (xi) to Rule 10b-6 before the solicitation of the exercise of any Warrant until the later of the termination of such solicitation activity or the termination of any right the Representative and any other soliciting broker/dealer may have to receive a fee for the solicitation of the exercise of the Warrants.

The Company has agreed to retain the Representative as a consultant at an annual fee of $35,000 for a 12-month period commencing on the closing of the Offering. The entire fee ($35,000) is payable at the closing of the Offering. Pursuant to this agreement, the Representative will be obligated to provide general financial advisory services to the Company on an as-needed basis with respect to possible future financing or acquisitions by the Company and related matters. The agreement does not require the Representative to provide any minimum number of hours of consulting services to the Company.

The initial public offering prices of the shares of Common Stock and the Warrants offered hereby and the initial exercise price and the other terms of the Warrants have been determined by negotiation between the Company and the Underwriters and do not necessarily bear any direct relationship to the Company's assets, earnings, book value per share or other generally accepted criteria of value. Factors considered in determining the offering prices of the shares of Common Stock and Warrants and the exercise price of the Warrants included the business in which the Company is engaged, the Company's financial condition, an assessment of the Company's management, the general condition of the securities markets and the demand for similar securities of comparable companies.

The Underwriters or members of the selling group may, at their option, charge a customary ticket charge to purchasers in the Offering.

LEGAL MATTERS

The validity of the securities offered hereby will be passed upon for the Company by Snow Becker Krauss P.C., 605 Third Avenue, New York, New York 10158-0125. Parker Chapin Flattau & Klimpl, LLP, 1211 Avenue of the Americas, New York, New York 10036 has acted as counsel to the Underwriters in connection with this Offering.

EXPERTS

The consolidated financial statements of the Company at December 31, 1995 and for each of the two years in the period ended December 31, 1995, appearing in this Prospectus and Registration Statement, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of said firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission a Registration Statement on Form SB-2 under the Securities Act with respect to the securities offered hereby. This Prospectus does not contain all the information set forth in the Registration Statement and the exhibits thereto as permitted by the Rules and Regulations of the Commission. For further information with respect to the Company and such securities, reference is made to the Registration Statement and to the exhibits filed therewith. Statements contained in this Prospectus as to the contents of any contracts or other documents referred to herein are not necessarily complete and where such contract or other document is an exhibit to the Registration Statement, each such statement is qualified in all respects by the provisions of such exhibit to which reference is made for a full statement of the provisions thereof. The Registration Statement, including exhibits filed therewith, may be inspected, without charge, at the principal office of the Commission located at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549 and at the Commission's regional offices located at Seven World Trade Center, Suite 1300, New York, New York 10048, and at 500 West Madison Street, Suite 1400 Chicago, Illinois 60661-2511. Copies of all or any part of the Registration Statement (including the exhibits thereto) also may be obtained from the Public Reference Section of the Commission at the Commission's principal office in Washington, D.C., at the Commission's prescribed rates. Electronic registration statements made through the Electronic Data Gathering Analysis and Retrieval system are publicly available through the Commission's web site at http://www.sec.gov.

INTEGRATED SURGICAL SYSTEMS, INC.

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Integrated Surgical Systems, Inc.

We have audited the accompanying consolidated balance sheet of Integrated Surgical Systems, Inc. as of December 31, 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 1994 and 1995. 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 generally accepted auditing standards. 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, 1995, and the consolidated results of its operations and its cash flows for the years ended December 31, 1994 and 1995 in conformity with generally accepted accounting principles.

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. This condition raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 1. The financial statements do not include any adjustments to reflect the possible future effects on 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
January 29, 1996

INTEGRATED SURGICAL SYSTEMS, INC.,

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 1995	JUNE 30, 1996	PRO FORMA STOCKHOLDERS' EQUITY JUNE 30, 1996
		(UNAUDITED)	
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,339,823	$ 1,549,309	
Accounts receivable	50,807	153,790	
Inventory	746,972	713,987	
Other current assets	144,417	143,632	
Total current assets	3,282,019	2,560,718	
Net property and equipment	430,851	273,193	
Other assets	14,259	14,042	
	$ 3,727,129	$ 2,847,953	
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Note payable	$ 274,498	$ 67,037	
Accounts payable	209,405	166,316	
Accrued payroll and related expenses	39,600	59,252	
Customer deposits	469,991	--	
Accrued product retrofit costs	160,000	150,348	
Other current liabilities	301,117	382,097	
Total current liabilities	1,454,611	825,050	
Commitments and contingencies (Notes 1 and 8)			
Stockholders' equity:			
Convertible preferred stock, $0.01 par value, 5,750,000 shares authorized; 693,195 and 1,039,792 shares issued and outstanding at December 31, 1995 and June 30, 1996, respectively (no shares pro forma); liquidation preference value of $666,667 at December 31, 1995 ($1,000,000 at June 30, 1996)	6,932	10,398	$ --
Common stock, $0.01 par value, 15,000,000 shares authorized; 273,946 and 274,018 shares issued and outstanding at December 31, 1995 and June 30, 1996, respectively (1,313,810 shares pro forma)	2,739	2,740	13,138
Additional paid-in capital	17,909,532	19,634,990	19,634,990
Deferred stock compensation	--	(482,384)	(482,384)
Accumulated translation adjustment	5,297	259	259
Accumulated deficit	(15,651,982)	(17,143,100)	(17,143,100)
Total stockholders' equity	2,272,518	2,022,903	$ 2,022,903
	$ 3,727,129	$ 2,847,953	

See accompanying notes.

INTEGRATED SURGICAL SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1994	1995	1995	1996
			(UNAUDITED)	
Net sales	$ 289,047	$ 174,521	$ 76,289	$ 1,064,206
Cost of sales	203,856	70,179	30,147	458,483
	85,191	104,342	46,142	605,723
Operating expenses:				
Selling, general and administrative	1,973,816	1,668,947	932,629	887,283
Research and development	2,719,771	2,361,125	1,073,636	977,616
Stock compensation	--	--	--	246,524
	4,693,587	4,030,072	2,006,265	2,111,423
Other income (expense):				
Interest income	74,956	107,306	76,757	38,723
Interest expense	(281,650)	(287,792)	(147,590)	--
Other	(14,508)	55,801	63,906	(20,958)
Loss before provision for income taxes	(4,829,598)	(4,050,415)	(1,967,050)	(1,487,935)
Provision for income taxes	10,787	3,113	3,242	3,183
Net loss	(4,840,385)	(4,053,528)	(1,970,292)	(1,491,118)
Preferred stock dividends	(956,574)	(936,325)	(478,287)	--
Net loss applicable to common stockholders	$(5,796,959)	$(4,989,853)	$(2,448,579)	$(1,491,118)
Net loss per common and common share equivalent	$ (1.35)	$ (1.16)	$ (0.57)	$ (0.33)
Shares used in per share calculations	4,291,444	4,298,268	4,292,288	4,497,070

See accompanying notes.

INTEGRATED SURGICAL SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	CONVERTIBLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	DEFERRED STOCK COMPENSATION	ACCUMULATED TRANSLATION ADJUSTMENT	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	SHARES	AMOUNT					
Balance at December 31, 1993	163,369	$ 1,634	67,652	$ 676	$11,736,912	$ --	$ --	$ (6,758,069)	$ 4,981,153
Sale of common stock	--	--	1,553	15	11,349	--	--	--	11,364
Net loss	--	--	--	--	--	--	--	(4,840,385)	(4,840,385)
Translation adjustment	--	--	--	--	--	--	1,754	--	1,754
Balance at December 31, 1994	163,369	1,634	69,205	691	11,748,261	--	1,754	(11,598,454)	153,886
Sale of common stock	--	--	781	8	2,585	--	--	--	2,593
Conversion of note payable into a warrant to purchase common stock	--	--	--	--	4,224,373	--	--	--	4,224,373
Conversion of Series B and Series C preferred stock into common stock	(163,369)	(1,634)	163,369	1,634	--	--	--	--	--
Conversion of accumulated dividends preferred stock into common stock	--	--	40,591	406	(406)	--	--	--	--
Sale of Series D convertible preferred stock and a warrant to purchase Series D preferred stock	693,195	6,932	--	--	1,934,719	--	--	--	1,941,651
Net loss	--	--	--	--	--	--	--	(4,053,528)	(4,053,528)
Translation adjustment	--	--	--	--	--	--	3,543	--	3,543
Balance at December 31, 1995	693,195	6,932	273,946	2,739	17,909,532	--	5,297	(15,651,982)	2,272,518
Sale of common stock (unaudited)	--	--	72	1	16	--	--	--	17
Sale of Series D convertible preferred stock and a warrant to purchase Series D preferred stock (unaudited)	346,597	3,466	--	--	996,534	--	--	--	1,000,000
Deferred stock compensation (unaudited)	--	--	--	--	728,908	(728,908)	--	--	--
Stock compensation expense (unaudited)	--	--	--	--	--	246,524	--	--	246,524
Net loss (unaudited)	--	--	--	--	--	--	--	(1,491,118)	(1,491,118)
Translation adjustment (unaudited)	--	--	--	--	--	--	(5,038)	--	(5,038)
Balance at June 30, 1996 (unaudited)	1,039,792	$10,398	274,018	$2,740	$19,634,990	$ (482,384)	$ 259	$(17,143,100)	$ 2,022,903

See accompanying notes.

INTEGRATED SURGICAL SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	YEARS ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1994	1995	1995	1996
			(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$(4,840,385)	$(4,053,528)	$(1,970,292)	$(1,491,118)
Adjustments to reconcile net loss to net cash used in operating activities:				
Loss on short-term investments	37,402	--	--	--
Issuance of common stock for non-cash items	9,540	--	--	--
Depreciation	261,056	288,344	141,945	134,412
Stock compensation	--	--	--	246,524
Changes in operating assets and liabilities:				
Short-term investments	2,985,437	--	--	--
Accounts receivable	202,641	(30,326)	(5,523)	(102,983)
Inventory	184,277	137,625	(22,063)	96,985
Other current assets	(96,747)	850	(28,893)	785
Note payable	--	20,701	28,392	(207,461)
Accounts payable	15,717	(42,058)	101,458	(43,089)
Accrued payroll and related expenses	113,296	(222,896)	(123,206)	19,652
Customer deposits	471,874	(1,883)	(1,879)	(469,991)
Accrued product retrofit costs	274,680	(114,680)	(73,236)	(9,652)
Accrued interest	277,500	286,645	138,756	--
Other current liabilities	(68,460)	219,344	6,256	80,980
Translation adjustment	1,754	3,543	3,557	(5,038)
Net cash used in operating activities	(170,418)	(3,508,319)	(1,804,728)	(1,749,994)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(476,071)	(121,008)	(62,607)	(40,754)
Decrease (increase) in other assets	(4,234)	1,035	97	217
Net cash used in investing activities	(480,305)	(119,973)	(62,510)	(40,537)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from convertible preferred stock	--	1,941,651	--	1,000,000
Proceeds from common stock	1,824	2,593	2,588	17
Net cash provided by financing activities	1,824	1,944,244	2,588	1,000,017
Net decrease in cash and cash equivalents	(648,899)	(1,684,048)	(1,864,650)	(790,514)
Cash and cash equivalents at beginning of period	4,672,770	4,023,871	4,023,871	2,339,823
Cash and cash equivalents at end of period	$ 4,023,871	$ 2,339,823	$ 2,159,221	$ 1,549,309

See accompanying notes.

INTEGRATED SURGICAL SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1995
(INFORMATION WITH RESPECT TO JUNE 30, 1996 AND
THE SIX MONTHS ENDED JUNE 30, 1995 AND 1996 IS UNAUDITED)

1. DESCRIPTION OF BUSINESS AND FINANCING REQUIREMENTS

Integrated Surgical Systems, Inc. was incorporated on October 1, 1990 as a Delaware corporation and was a development stage enterprise through the year ended December 31, 1995. The Company develops, manufactures, markets and services image-directed, robotic products for surgical applications. The Company's principal product is the ROBODOC(R) Surgical Assistant System ("ROBODOC System"), a computer-controlled surgical robot, and the Company's ORTHODOC(R) Presurgical Planner, consisting of a computer workstation that utilizes the Company's proprietary software for pre-operative surgical planning. The first application for the ROBODOC System has been directed at cementless primary total hip replacement surgery.

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 purchases and licenses products and technology from Integrated Surgical Systems, Inc. for distribution in Europe and other markets.

The Company has not yet generated significant revenue and has funded its operations primarily through the issuance of debt and sale of equity. Accordingly, the Company's ability to accomplish its business strategy and to ultimately achieve profitable operations is dependent upon its ability to raise additional financing. The Company's management is exploring several funding options and expects to raise additional capital during 1996 (Note 10). Ultimately, however, the Company will need to achieve profitable operations in order to continue as a going concern. The Company incurred a net loss of $4,053,528 for the year ended December 31, 1995 and a net loss of $1,491,118 for the six months ended June 30, 1996. The Company has an accumulated deficit of $15,651,982 and $17,143,100 as of December 31, 1995 and June 30, 1996, respectively.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

2. SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

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

FOREIGN CURRENCY TRANSLATION

The financial position and results of operations of Integrated Surgical Systems BV are measured using the subsidiary's local currency (Guilders). The subsidiary's balance sheet accounts are translated at the current 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 gains and losses were not material during the years ended December 31, 1994 and 1995 and the six months ended June 30, 1995 and 1996.

REVENUE RECOGNITION

Revenues from sales without significant Company obligations beyond delivery are recognized upon delivery of the products. Revenues pursuant to agreements which include significant Company obligations

2. SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

REVENUE RECOGNITION -- (CONTINUED)

beyond delivery are deferred until the Company's remaining obligations are insignificant. Revenues are recognized net of any deferrals for estimated future liabilities under contractual product warranty provisions. Estimated future product retrofit costs for ROBODOC Systems sold for clinical trials have been accrued in the accompanying financial statements. Future retrofit costs are those expected to be required to update ROBODOC Systems 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 revenue over the term of the agreement as the related activities are conducted. Research and development costs are expensed as incurred.

CONCENTRATION OF CREDIT RISK

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

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist primarily of certificates of deposits, banker's acceptances and U.S. Government securities.

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.

FAIR VALUES OF FINANCIAL INSTRUMENTS

Effective January 1, 1995, the Company adopted Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" ("SFAS No. 107"). The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values. Active markets for the Company's other financial instruments that are subject to the fair value disclosure requirements of SFAS No. 107, which consist of privately-issued notes payable, do not exist and there are no quoted market prices for

INTEGRATED SURGICAL SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

FAIR VALUES OF FINANCIAL INSTRUMENTS -- (CONTINUED)

these notes. 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.

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 of the ROBODOC System.

Inventory consists of the following:

	DECEMBER 31, 1995	JUNE 30, 1996 (UNAUDITED)
Raw materials	$381,756	$ 445,177
Work-in process	306,828	202,956
Finished goods	58,388	65,854
	$746,972	$ 713,987

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

Except as noted below, net loss per share is based on the weighted average number of shares of common stock outstanding during the period. Common stock issuable upon the conversion of convertible preferred stock and note payable and upon the exercise of common stock warrants and stock options have been excluded from the computation because their inclusion would be anti-dilutive. Pursuant to the Securities and Exchange Commission Staff Accounting Bulletins, common and common equivalent shares issued by the Company at prices below the initial public offering price during the 12 month period prior to the offering have been included in the calculation as if they were outstanding for all periods presented (using the treasury stock method at an assumed initial public offering price of $6.00 per share). As described in Note 6, common stock was issued on December 21, 1995 in connection with the conversion of preferred stock and accumulated dividends. Net loss per share for the year ended December 31, 1995 would have been ($0.91) per share had the conversion occurred on January 1, 1995.

SIGNIFICANT CUSTOMERS AND FOREIGN SALES

During the year ended December 31, 1994, the Company recognized 87% of its revenues from one customer. During the year ended December 31, 1995, the Company recognized 95% of its revenues from one customer. Foreign sales were approximately $27,000 and $165,000 for the years ended December 31, 1994 and December 31, 1995, respectively. During the six months ended June 30, 1995 and 1996, the Company recognized 92% and 53% of its revenues from one customer, respectively. Foreign sales for the six months ended June 30, 1995 and 1996 were $72,073 and $1,064,066, respectively.

INTEGRATED SURGICAL SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

RECLASSIFICATIONS

Certain amounts reported in prior years financial statements have been reclassified to conform with the 1995 and 1996 presentation.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	DECEMBER 31, 1995	JUNE 30, 1996 (UNAUDITED)
ROBODOC System equipment	$ 552,660	$ 338,303
Other equipment	738,215	778,183
Furniture and fixtures	40,040	40,040
Leasehold improvements	80,866	86,816
	1,411,781	1,243,342
Less accumulated depreciation	(980,930)	(970,149)
	$ 430,851	$ 273,193

4. REVERSE STOCK SPLIT

On December 20, 1995, as part of a recapitalization and preferred stock sale described in Note 6, the stockholders authorized a one-for-five reverse split of all capital stock. All references in the accompanying financial statements to the number of capital shares and per-share amounts have been retroactively restated to reflect the reverse stock split (Note 10).

5. NOTES PAYABLE

During 1994, the Company issued a $237,184 short-term note payable to a vendor in exchange for inventory. Additional inventory purchases of $20,701 were added to the outstanding balance during 1995. Simple interest on the note payable accrues at 7% per annum. As partial payment for the interest obligation, the Company issued 676 shares of its common stock to the vendor during the year ended December 31, 1994, with an estimated fair value of $7.84 per share. The outstanding principal balance of the note and the remaining interest obligation which was due on September 30, 1995 was not paid due to the Company's limited cash flow at that time and, as a result, the note payable is in default. The Company is currently negotiating with the vendor to extend the terms of the note payable; however, there is no assurance that such negotiations will be successful or that the vendor will not pursue legal action against the Company. The Company does not believe the outcome of the matter will have a material adverse impact on its financial position or results of operations. Subsequent to December 31, 1995, the Company began making payment on the note payable, and as of June 30, 1996, the unpaid balance of the note payable was $67,037. The Company intends to pay the remaining balance in September 1996.

A long-term note payable was entered into between the Company and a large corporation, a representative of which is a member of the Company's Board of Directors. Simple interest on the note payable accrued at 9.25% per annum. On December 20, 1995, the long-term note payable and accrued interest totaling $4,224,373 was converted into a warrant to purchase 126,895 shares of the Company's common stock at $0.01 per share which is currently exercisable and expires on December 31, 2005.

INTEGRATED SURGICAL SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. NOTES PAYABLE -- (CONTINUED)

In conjunction with the note agreement, the Company also entered into a License Agreement with this corporation whereby the corporation granted the Company the rights to the technology underlying the ROBODOC System at the time of the Company's incorporation. In consideration for this License Agreement, the Company issued to the corporation a warrant to purchase 67,587 shares of the Company's common stock at a price of $0.07 per share. This warrant expires on December 31, 2000 and has not been exercised as of June 30, 1996.

6. STOCKHOLDERS' EQUITY

COMMON STOCK

As of December 31, 1995 the Company has reserved a total of 5,836,747 shares of common stock pursuant to outstanding warrants, options and convertible preferred stock.

CONVERTIBLE PREFERRED STOCK

On December 20, 1995, all outstanding shares of Series B and Series C preferred stock were converted into 60,964 and 102,405 shares of common stock, respectively. Also on that date, all accumulated and unpaid dividends on Series B and Series C were converted into 17,910 and 22,681 shares of the Company's common stock, respectively.

The Company entered into a Series D preferred stock and warrant agreement during 1995. Under the terms of this agreement, the Company received $2 million in proceeds at the first closing which occurred on December 21, 1995, and granted an option to purchase additional Series D stock and a warrant to purchase Series D Stock as described below. At the first closing, the Company sold 693,195 shares of Series D preferred stock for $0.96 per share. It also sold for $1,333,333 a warrant to purchase 1,386,390 shares of Series D at $0.01 per share. The warrant expires on December 31, 2005 and has not been exercised as of June 30, 1996. The purchasers received an option to purchase an additional 346,597 shares of Series D preferred stock and a warrant to purchase an additional 693,194 shares of Series D preferred stock, all with the same terms as in the first closing.

On February 19, 1996, the option holder exercised the option and the Company sold 346,597 shares of Series D preferred stock for $0.96 per share. The Company also sold a warrant for $666,667 to purchase 693,194 shares of Series D at $0.01 per share.

Series B and Series C preferred stockholders who did not purchase Series D stock were issued warrants to purchase an aggregate of 446,087 shares of the Company's common stock at a price of $0.74 per share in consideration for their consent to the terms of the recapitalization and Series D stock sale. The Company granted another warrant to purchase an additional 138,872 shares of common stock at $0.74 per share in conjunction with the second closing of the Series D preferred stock described above. These warrants may be exercised only under certain conditions including the closing of a registered public offering in which the Company would have a pre-money market valuation of at least $10,000,000 (Note 10), the sale of the Company for consideration at least equal to $10,000,000, or in certain circumstances when the Company s valuation exceeds $10,000,000. These warrants expire on the earlier of 30 days after a notice of a proposed exercise event or December 31, 2005. On August 25, 1996, certain holders of these warrants entered into amended warrant agreements with the Company which included a provision allowing for a cashless exercise. Under the terms of the cashless exercise, these warrant holders accepted 65,124 fewer shares as consideration for not being required to make the cash exercise payment of $0.74 per share. This resulted in these warrant holders receiving 463,054 shares of Common Stock upon their exercise on August 25, 1996. The remaining warrant holder allowed its warrants, representing 56,781 shares of Common Stock, to expire unexercised on August 30, 1996.

INTEGRATED SURGICAL SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

6. STOCKHOLDERS' EQUITY -- (CONTINUED)
CONVERTIBLE PREFERRED STOCK -- (CONTINUED)

As part of the Series D offering, the Company offered to all stockholders who did not purchase Series D stock or the Series D warrant ("non-participating stockholder(s)") the right to purchase Series D stock with the same terms and conditions as the December 1995 offering. The Company has reserved 753,589 shares of Series D stock for this offering. Each non-participating stockholder will be allowed to purchase a number of shares based upon current ownership in relation to other non-participating stockholders. This offer expired in March 1996.

The holders of Series D convertible preferred stock have the following per share liquidation preferences and conversion rates:

Liquidation preference	$0.96
Conversion rate	$0.96

The holders of convertible preferred stock have participating rights to receive dividends when and as declared on the shares of common stock by the Board of Directors. No dividends have been declared as of June 30, 1996.

Each share of the convertible preferred stock is convertible into common stock at the conversion rate described above divided by the "Conversion Price" subject to certain anti-dilution adjustments. At December 31, 1995 and June 30, 1996, the Conversion Price was $0.96 per share for Series D, making each share of convertible preferred stock convertible into common stock on a one-for-one basis. Automatic conversion of shares will occur in the event of a firm underwritten public offering resulting in aggregate gross cash proceeds to the Company of at least $7,500,000 (Note 10).

Holders of the Company's convertible preferred stock vote as if their shares have been converted to common stock. In addition, preferred shares are subject to certain transfer restrictions and are entitled to certain registration rights.

Whenever the Company proposes to issue, deliver, or sell certain "Voting Securities," the holder of the warrant resulting from the conversion of the long-term note payable (Note 5) has the right of first offer to purchase such Voting Securities. Subsequently, the holders of convertible preferred stock are entitled to purchase an amount of such Voting Securities which would result in the preferred stockholder retaining its percentage interest in the total voting power of the Company in effect prior to such issuance. These shares may be purchased at a price per share equal to the selling price of the Voting Securities. The anti-dilution rights granted to the holders of convertible preferred stock terminate in the event the stockholder holds less than 337,933 shares of convertible preferred stock.

STOCK OPTION PLANS

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"). Certain employees of the Company will surrender their options under the 1991 Plan in return for new and additional options granted under the 1995 Plan. 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. 1,109,020 shares of the Company's common stock have been reserved for issuance under the Plans. Options granted generally have a term of five 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

INTEGRATED SURGICAL SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

6. STOCKHOLDERS' EQUITY -- (CONTINUED)

STOCK OPTION PLANS -- (CONTINUED)

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.

The following summarizes activity under the Plans for the years ended December 31, 1994 and 1995 and the six months ended June 30, 1996:

Outstanding at December 31, 1993	46,465
Granted (at $7.84 per share)	11,415
Canceled (at $3.33 to $7.84 per share)	(4,513)
Exercised (at $3.33 and $7.84 per share)	(335)
Outstanding at December 31, 1994	53,032
Granted (at $4.88 per share)	32,713
Canceled (at $3.33 to $7.84 per share)	(9,439)
Exercised (at $3.33 per share)	(781)
Outstanding at December 31, 1995 (at $3.33 to $7.84 per share)	75,525
Granted (at $0.07 per share) (unaudited)	899,637
Canceled (at $3.33 to $7.84 per share) (unaudited)	(58,523)
Exercised (at $0.25 per share) (unaudited)	(72)
Outstanding at June 30, 1996 (at $0.07 to $7.84 per share) (unaudited)	916,567

Of the options outstanding at December 31, 1995, options to purchase 46,453 shares of common stock were immediately exercisable at prices ranging from $3.33 to $7.84 per share. Of the options outstanding at June 30, 1996, options to purchase 319,134 shares of common stock were immediately exercisable at prices ranging from $0.07 to $7.84 per share. A total of 1,033,495 and 192,381 shares were still available for grant under the Plan at December 31, 1995 and June 30, 1996, respectively.

During the six months ended June 30, 1996, the Company recorded deferred stock compensation of $728,908 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. Compensation expense of $246,524 was recorded during the six months ended June 30, 1996 relating to these stock options, and the remaining $482,384 will be amortized into expense in future periods.

7. INCOME TAXES

The income tax provisions for the years ended December 31, 1994 and 1995 and the six months ended June 30, 1995 and 1996 are comprised of currently payable state franchise taxes and currently payable foreign income taxes.

INTEGRATED SURGICAL SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

7. INCOME TAXES -- (CONTINUED)

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, 1994 and 1995 are as follows:

	1994	1995
Deferred tax assets:		
Net operating loss carryover	$ 4,759,000	$ 2,200,000
Research and development credit	404,000	--
Capitalized research and development	566,000	16,000
Accrued product retrofit costs	88,000	95,000
Inventory	--	97,000
Other	178,000	104,000
	5,995,000	2,512,000
Less: Valuation allowance	(5,995,000)	(2,512,000)
Net deferred taxes	$ --	$ --

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,	
	1994	1995
Federal benefit expected at statutory rates	$(1,642,063)	$(1,377,000)
Net operating loss with no current benefit	1,642,063	1,377,000
State franchise taxes	4,532	3,046
Foreign income taxes	6,255	67
	$ 10,787	$ 3,113

In connection with the Company's Series D preferred stock sale (Note 6) a change of ownership (as defined in Section 382 of the Internal Revenue Code of 1986, as amended) occurred. As a result of this change, the Company's federal and state net operating loss carryforwards generated through December 21, 1995 (approximately $13,500,000 and $4,500,000, respectively) will be subject to a total annual limitation in the amount of approximately $400,000. Except for the amounts described below, the Company expects that the carryforward amounts will not be utilized prior to the expiration of the carryforward periods.

As a consequence of the limitation, the Company has at December 31, 1995 a net operating loss carryover of approximately $6,000,000 for federal income tax purposes which expires between 2005 and 2009, and net operating loss carryforward of approximately $2,000,000 for state income tax purposes which expires between 1997 and 1999.

The Company paid $10,787 and $5,280 for income and franchise taxes during the years ended December 31, 1994 and 1995, respectively.

8. COMMITMENTS

The Company leases its facilities under two non-cancelable operating leases. One of the leases has an escalation clause of 5% per annum and has a term of approximately five years. The Company has the right to terminate the lease at the end of the third year. The fee associated with this cancellation privilege is 50% of the unamortized portion of the total tenant improvements (which is expected to be approximately $32,000). The

INTEGRATED SURGICAL SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

8. COMMITMENTS -- (CONTINUED)

Company's other facility does not have an escalation clause and has a term of approximately 3 years. Future payments under non-cancelable facility operating leases are approximately as follows:

1996	$114,000
1997	86,000
1998	44,000

Aggregate rental expense under these leases amounted to $136,880 and $135,980 during the years ended December 31, 1994 and 1995, respectively.

Future minimum payments under non-cancelable equipment operating leases are approximately $10,000 per year through the year ended December 31, 2000. Rental expense for these non-cancelable leases during the years ended December 31, 1994 and 1995 was approximately $11,000 and $14,000, respectively.

9. 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. The grant will be 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. The Company received $19,409 in proceeds under this grant during the year ended December 31, 1995 and $93,099 during the six months ended June 30, 1996.

10. SUBSEQUENT EVENTS

On September 16, 1996, the Board of Directors approved, subject to stockholder approval, a one-for-1.479586 reverse split of the Company's common stock. The reverse stock split is expected to become effective prior to the closing of the Company's proposed initial public offering. All references in the accompanying financial statements to the number of capital shares and per-share amounts have been retroactively restated to reflect the reverse split.

If the Company's initial public offering is consummated and results in aggregate gross cash proceeds to the Company of at least $7,500,000, all of the Series D convertible preferred stock outstanding as of the closing date will automatically be converted into an aggregate of approximately 1,039,792 shares of common stock, based on the shares of Series D outstanding at June 30, 1996. Unaudited pro forma stockholders' equity at June 30, 1996, as adjusted for the conversion of preferred stock, is disclosed on the consolidated balance sheets.

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[PHOTO] [PHOTO]

The ROBODOC(R) Surgical Assistant System. Pictured on the left is the ORTHODOC(R) Presurgical Planner. The computer controlled surgical robot is seen on the right.

[PHOTO]

ORTHODOC's software reduces image distortion caused by the metal in an existing hip implant, allowing the surgeon to visualize the bone, the cement, and the implant clearly. The surgery can now be planned in 3-D and frequent complications can be avoided.

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PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Article VI of the Registrant's by-laws provides that a director or officer shall be indemnified against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement (provided such settlement is approved in advance by the Registrant) in connection with certain actions, suits or proceedings, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation--a "derivative action") if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. A similar standard of care is applicable in the case of derivative actions, except that indemnification only extends to expenses (including attorneys' fees) incurred in connection with the defense or settlement of such an action, except that no person who has been adjudged to be liable to the Registrant shall be entitled to indemnification unless a court determines that despite such adjudication of liability but in view of all of the circumstances of the case, the person seeking indemnification is fairly and reasonably entitled to be indemnified for such expenses as the court deems proper.

Article 6.5 of the Registrant's by-laws further provides that directors and officers are entitled to be paid by the Registrant the expenses incurred in defending the proceedings specified above in advance of their final disposition, provided that such payment will only be made upon delivery to the Registrant by the indemnified party of an undertaking to repay all amounts so advanced if it is ultimately determined that the person receiving such payments is not entitled to be indemnified.

Article 6.4 of the Registrant's by-laws provides that a person indemnified under Article VI of the by-laws may contest any determination that a director, officer, employee or agent has not met the applicable standard of conduct set forth in the by-laws by petitioning a court of competent jurisdiction.

Article 6.6 of the Registrant's by-laws provides that the right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in the Article will not be exclusive of any other right which any person may have or acquire under the by-laws, or any statute or agreement, or otherwise.

Finally, Article 6.7 of the Registrant's by-laws provides that the Registrant may maintain insurance, at its expense, to reimburse itself and directors and officers of the Registrant and of its direct and indirect subsidiaries against any expense, liability or loss, whether or not the Registrant would have the power to indemnify such persons against such expense, liability or loss under the provisions of Article VI of the by-laws. The Registrant has applied for such insurance, and expects to have such insurance in effect on the date this Registration Statement is declared effective by the Securities and Exchange Commission.

Article 11 of the Registrant's certificate of incorporation eliminates the personal liability of the Registrant's directors to the Registrant or its stockholders for monetary damages for breach of their fiduciary duties as a director to the fullest extent provided by Delaware law. Section 102(b)(7) of the DGCL provides for the elimination off such personal liability, except for liability (i) for any breach of the director's duty of loyalty to the Registrant or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL or (iv) for any transaction from which the director derived any improper personal benefit.

Reference is made to Section of the Underwriting Agreement between the Registrant, Rickel & Associates, Inc. and Aegis Capital Corp. (the "Underwriters"), filed as Exhibit 1.1 to this Registration Statement, which provides for indemnification by the Underwriters of the Registrant and the directors and officers of the Registrant under certain limited circumstances.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Securities Act") may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing

provisions, the Registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the expenses (other than underwriting discounts and commissions) which will be paid by the Registrant in connection with the issuance and distribution of the securities being registered hereby. With the exception of the SEC registration fee and the NASD filing fee, all amounts indicated are estimates.

SEC Registration fee	$ 8,674.91
NASD filing fee	3,015.72
NASDAQ filing fee	10,000.00
Representative's expense allowance	251,625.00
Representatives's consulting fee	35,000.00
Directors' and Officers' liability insurance	180,000.00
Printing expenses (other than stock certificates)	80,000.00
Printing and engraving of stock and warrant certificates	3,000.00
Legal fees and expenses (other than blue sky)	100,000.00
Accounting fees and expenses	70,000.00
Blue sky fees and expenses (including legal and filing fees)	50,000.00
Transfer Agent and Warrant Agent fees and expenses	3,500.00
Miscellaneous	5,184.37
Total	$800,000.00

ITEM 26. RECENT SALE OF UNREGISTERED SECURITIES

During the past three years, the Registrant has sold securities to a limited number of persons, as described below. Except as indicated, there were no underwriters involved in the transactions and there were no underwriting discounts or commissions paid in connection therewith. The purchasers of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the certificates for the securities issued in such transactions. All purchasers of securities in each such transaction had adequate access to information about the Registrant.

1. On December 20, 1995, as part of a recapitalization, the Registrant issued 30,482 shares of Common Stock to each of Sutter Health and the John N. Kapoor Trust (the "Kapoor Trust") upon conversion of the Series B Preferred Stock. The issuance of these shares was exempt from registration under Section 3(a)(9) of the Securities Act.

2. On December 20, 1995, as part of a recapitalization, the Registrant issued 8,955 shares of Common Stock to each of Sutter Health and the Kapoor Trust in consideration for the cancellation of all accumulated dividends on the Series B Preferred Stock. The issuance of these shares was exempt from registration under Section 4(2) of the Securities Act.

3. On December 20, 1995, as part of a recapitalization, the Registrant issued 89,604 shares of Common Stock to Sutter Health and 12,801 shares of Common Stock to Keystone Financial Corporation ("Keystone") upon conversion of the Series C Preferred Stock. The issuance of these shares was exempt from registration under Section 3(a)(9) of the Securities Act.

4. On December 20, 1995, as part of a recapitalization, the Registrant issued 19,512 shares of Common Stock to Sutter Health and 3,169 shares of Common Stock to Keystone in consideration for the cancellation of all accumulated dividends on the Series C Preferred Stock. The issuance of these shares was exempt from registration under Section 4(2) of the Securities Act.

5. On December 21, 1995, as part of a recapitalization, the Registrant issued a warrant to purchase 126,895 shares of Common Stock, at an exercise price of $0.02 per share, to International Business Machines Corporation ("IBM") in exchange for the cancellation of the Company's promissory note in the principal amount of $3,000,000 and accrued interest thereon. The issuance of this warrant was exempt from registration under Section 4(2) of the Securities Act.

6. On December 21, 1995, as part of a recapitalization, the Registrant issued 693,195 shares of Series D Preferred Stock to EJ Financial Investments V, L.P. ("EJ Financial") for an aggregate purchase price of $666,667 ($0.96 per share). In addition, EJ Financial received an option to purchase an additional 346,597 shares of Series D Preferred Stock on the same terms and conditions as it purchased the Series D Preferred Stock, which option was exercised on February 19, 1996. The issuance of these securities was exempt from registration under Section 4(2) of the Securities Act.

7. On December 21, 1995, as part of a recapitalization, the Registrant issued a warrant to purchase 1,386,390 shares of Series D Preferred Stock (the "Series D Warrants") to IBM, at an exercise price of $0.01 per share, for an aggregate purchase price of $1,333,333 ($0.96 per warrant). In addition, IBM received an option to purchase Series D Warrants to purchase an additional 693,194 shares of Series D Preferred Stock on the same terms and conditions as it purchased the Series D Warrants, which option was exercised on February 19, 1996. The issuance of these securities was exempt from registration under Section 4(2) of the Securities Act.

8. On December 21, 1995, as part of a recapitalization, the Registrant issued warrants to purchase 390,888 shares, 11,899 shares and 43,300 shares of Common Stock to Sutter Health, Sutter Health Venture Partners L.P. and Keystone, respectively, at an exercise price of $0.74 per share, in consideration for their consent to the terms of the recapitalization. The issuance of these warrants was exempt from registration under Section 4(2) of the Securities Act.

9. On December 21, 1995, as part of a recapitalization, the Registrant issued warrants to purchase 121,686 shares, 3,705 shares and 13,481 shares of Common Stock to Sutter Health, Sutter Health Venture Partners L.P. and Keystone, respectively, at an exercise price of $0.74 per share, in connection with the exercise of certain options by EJ Financial and IBM. The issuance of these warrants was exempt from registration under Section 4(2) of the Securities Act.

10. From July 24, 1993 through December 31, 1994, the Registrant granted options to purchase an aggregate of 11,415 shares of Common Stock to employees of the Registrant pursuant to the Registrant's employee stock option plans, at an exercise price of $7.84 per share. The grant of these options was exempt from registration under Rule 701 of the Securities Act.

11. From January 1, 1995 through December 31, 1995, the Registrant granted options to purchase an aggregate of 32,713 shares of Common Stock to employees of the Registrant pursuant to the Registrant's employee stock option plans, at an exercise price of $4.88 per share. The grant of these options was exempt from registration under Rule 701 of the Securities Act.

12. From January 1, 1996 through September 16, 1996, the Registrant granted options to purchase an aggregate of 941,545 shares of Common Stock to employees of the Registrant pursuant to the Registrant's employee stock option plans. Of these options, options to purchase 899,637 shares were granted at an exercise price of $0.07 per share, options to purchase 21,631 shares were granted at an exercise price of $2.07 per share, and options to purchase 20,277 were granted at an exercise price of $5.92 per share. The grant of these options was exempt from registration under Rule 701 of the Securities Act.

13. From January 1, 1993 through December 31, 1994, the Registrant issued and sold an aggregate of 399 shares of Common Stock to two employees of the Registrant upon exercise of stock options granted pursuant to the Registrant's employee stock option plans. Of such shares, 241 were issued at an exercise price of $3.33 per share and 158 were issued at an exercise price of $7.84 per share. The issuance and sale of these shares was exempt from registration under Rule 701 of the Securities Act.

14. From January 1, 1995 through December 31, 1995, the Registrant issued and sold an aggregate of 781 shares of Common Stock to three employees of the Registrant upon exercise of stock options granted pursuant to the Registrant's employee stock option plans, at an exercise price of $3.33 per share. The issuance and sale of these shares was exempt from registration pursuant to Rule 701 promulgated under the Securities Act.

15. From January 1, 1996 through July 30, 1996, the Registrant issued and sold an aggregate of 72 shares of Common Stock to two employees of the Registrant upon exercise of stock option granted pursuant to the Registrant's employee stock option plans. Of such shares, 17 shares were issued at an exercise price of $0.07 per share and 55 shares were issued at an exercise price of $0.31 per share. The issuance and sale of these shares was exempt from registration pursuant to Rule 701 promulgated under the Securities Act.

16. On June 17, 1994, the Registrant issued 390 shares of Common Stock to a former employee of the Registrant and 152 shares of Common Stock to his attorney, in connection with the termination of the employee's employment. These shares were valued at $7.84 per share. The issuance of the shares was exempt from registration pursuant to Rule 504 promulgated under the Securities Act.

17. On November 23, 1994, the Registrant issued 676 shares of Common Stock to a supplier of the Registrant in payment of accrued interest on note payable. The issuance of the shares was exempt from registration under Section 4(2) of the Securities Act.

18. On August 25, 1996, the Company issued 449,374 and 13,680 shares of Common Stock to Sutter Health and Sutter Health Venture Partners, respectively, at an exercise price of $0.74 per share. The issuance of these securities was exempt from Registration under Section 4(2) of the Securities Act.

ITEM 27. EXHIBITS

*	1.1	-- Form of Underwriting Agreement, as revised.
	3.1	-- Form of Certificate of Incorporation of the Company, as amended.
	3.2	-- By-laws of the Company.
*	4.1	-- Form of Underwriters' Warrants, as revised.
*	4.2	-- Form of Public Warrant Agreement, as revised.
*	4.3	-- Specimen Common Stock Certificate.
	4.4	-- Specimen Warrant Certificate (included as Exhibit A to Exhibit 4.2 herein).
	4.5	-- Form of Series D Preferred Stock Certificate.
	4.6	-- Form of Consulting Agreement between the Company and Rickel & Associates, Inc.
	4.7	-- Common Stock Purchase Warrant issued by the Company to International Business Machines Corporation ("IBM"), dated February 6, 1991, as amended (included as Exhibit J to Exhibit 10.5 herein).
*	4.8	-- Stockholders' Agreement between the Founders of the Company and IBM, dated February 6, 1991, as amended.
	4.9	-- Common Stock Purchase Warrant issued by the Company to IBM, dated December 21, 1995 (included as Exhibit I to Exhibit 10.5 herein).
	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).
	4.11	-- Warrant issued by the Company 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).

4.12	-- Registration Rights Agreement among the Company, 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).
4.13	-- 1995 Stock Option Plan, as amended.
4.14	-- Series D Preferred Stock Purchase Warrant issued by the Company to IBM, dated February 29, 1996.
* 4.15	-- Form of Lock-up Agreement.
* 5.1	-- Opinion of Snow Becker Krauss P.C.
*10.1	-- Loan and Warrant Purchase Agreement between the Company and IBM, dated as of February 6, 1991.
10.2	-- License Agreement between the Company and IBM, dated February 6, 1991.
*10.3	-- Series B Preferred Stock Purchase Agreement among the Company, Sutter Health and The John N. Kapoor Trust, dated as of April 10, 1992.
*10.4	-- Series C Preferred Stock Purchase Agreement among the Company, Sutter Health and Keystone, dated as of November 13, 1992, as amended December 13, 1995.
10.5	-- Series D Preferred Stock and Warrant Purchase Agreement among the Company, IBM and EJ Financial, dated December 21, 1995.
10.6	-- Investors Agreement among the Company, 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 Company and Ramesh Trivedi, dated December 8, 1995.
*10.8	-- License Agreement between the Company and IBM, dated February 4, 1991.
*10.9	-- Agreement for the Purchase and Use of Sankyo Industrial Products between the Company and Sankyo Seiki (American) Inc. dated November 1, 1992.
11.1	-- Statement of Computation of earnings per share.
21.1	-- Subsidiaries of the Company.
*23.1	-- Consent of Snow Becker Krauss P.C. (to be included in Exhibit 5.1 to this Registration Statement).
*23.2	-- Consent of Ernst & Young LLP, independent auditors, is included in Part II of this Registration Statement.
24.1	-- Power of Attorney (included on the signature page of this Registration Statement).
*27.1	-- Financial Data Schedule.

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* Filed with Amendment No. 1.

ITEM 28. UNDERTAKINGS

(A) RULE 415 OFFERING

The undersigned small business issuer hereby undertakes that it will:

(1) File, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by section 10(a)(3) of the Securities Act.

(ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information set forth in the registrant statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any

deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) Include any additional or changed material information on the plan of distribution.

(2) For determining any liability under the Securities Act, treat each post-effective amendment as a new registration statement relating to the securities offered, and the offering of such securities at that time to be the initial bona fide offering thereof.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(D) EQUITY OFFERINGS BY NON-REPORTING SMALL BUSINESS ISSUERS

The undersigned small business issuer hereby undertakes that it will provide the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

(E) REQUEST FOR ACCELERATION OF EFFECTIVE DATE

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Securities Act") may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the small business issuer of the expenses incurred or paid by a director, officer, or controlling person of the small business issuer in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the small business issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(F) RULE 430A OFFERING

(1) For determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the small business issuer under Rule 424(b)(1) or (4) or 497(h) under the Securities Act as part of this registration statement as of the time the Commission declared it effective.

(2) For determining any liability under the Securities Act, treat each post-effect amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THE REGISTRANT CERTIFIES THAT IT HAS REASONABLE GROUNDS TO BELIEVE THAT IT MEETS ALL OF THE REQUIREMENT FOR FILING ON FORM SB-2 AND HAS DULY CAUSED THIS AMENDMENT TO THE REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF SACRAMENTO IN THE STATE OF CALIFORNIA ON SEPTEMBER 20, 1996.

INTEGRATED SURGICAL SYSTEMS, INC.

By: /s/ RAMESH C. TRIVEDI Ramesh C. Trivedi Chief Executive Officer and President (Principal Executive Officer)	By: /s/ MICHAEL J. TOMCZAK Michael J. Tomczak Chief Financial Officer (Principal Financial and Accounting Officer)

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1993, THIS AMENDMENT TO THE REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS ON SEPTEMBER   , 1996, IN THE CAPACITIES INDICATED.

SIGNATURE	TITLE
/s/ RAMESH C. TRIVEDI Ramesh C. Trivedi	Chief Executive Officer, President, and Director (Principal Executive Officer)
/s/ MICHAEL J. TOMCZAK Michael J. Tomczak	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
* James C. McGroddy	Chairman of the Board of Directors
* Wendy Shelton-Paul	Director
* John N. Kapoor	Director
* Paul A.H. Pankow	Director
*/s/ RAMESH C. TRIVEDI By: Ramesh C. Trivedi (Attorney-in-fact)	

EXHIBIT INDEX

	EXHIBIT NUMBER		DESCRIPTION	SEQUENTIALLY NUMBERED PAGED
*	1.1	--	Form of Underwriting Agreement, as revised............................	
	3.1	--	Form of Certificate of Incorporation of the Company, as amended........	
	3.2	--	By-laws of the Company..	
*	4.1	--	Form of Underwriters' Warrants, as revised............................	
*	4.2	--	Form of Public Warrant Agreement, as revised..........................	
*	4.3	--	Specimen Common Stock Certificate.....................................	
	4.4	--	Specimen Warrant Certificate (included as Exhibit A to Exhibit 4.2 herein)..	
	4.5	--	Form of Series D Preferred Stock Certificate..........................	
	4.6	--	Form of Consulting Agreement between the Company and Rickel & Associates, Inc..	
	4.7	--	Common Stock Purchase Warrant issued by the Company to International Business Machines Corporation ("IBM"), dated February 6, 1991, as amended (included as Exhibit J to Exhibit 10.5 herein)................	
*	4.8	--	Stockholders' Agreement between the Founders of the Company and IBM, dated February 6, 1991, as amended...................................	
	4.9	--	Common Stock Purchase Warrant issued by the Company to IBM, dated December 21, 1995 (included as Exhibit I to Exhibit 10.5 herein).......	
	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)..	
	4.11	--	Warrant issued by the Company 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)................................	
	4.12	--	Registration Rights Agreement among the Company, 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)...................	
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	10.6	--	Investors Agreement among the Company, 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)...................	

EXHIBIT NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGED
10.7	-- Employment Agreement between the Company and Ramesh Trivedi, dated December 8, 1995	
*10.8	-- License Agreement between the Company and IBM, dated February 4, 1991	
*10.9	-- Agreement for the Purchase and Use of Sankyo Industrial Products between the Company and Sankyo Seiki (American) Inc. dated November 1, 1992	
11.1	-- Statement of Computation of earnings per share	
21.1	-- Subsidiaries of the Company	
*23.1	-- Consent of Snow Becker Krauss P.C. (to be included in Exhibit 5.1 to this Registration Statement)	
*23.2	-- Consent of Ernst & Young LLP, independent auditors, is included in Part II of this Registration Statement	
24.1	-- Power of Attorney (included on the signature page of this Registration Statement)	
*27.1	-- Financial Data Schedule	

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* Filed with Amendment No. 1.

Exhibit 1.1

INTEGRATED SURGICAL SYSTEMS, INC.

1,500,000 Shares of Common Stock
and
1,500,000 Redeemable Common Stock Purchase Warrants

UNDERWRITING AGREEMENT

________ __, 1996

Rickel & Associates, Inc.
as Representative and Co-Manager
875 Third Avenue
New York, New York 10022

Aegis Capital Corp.
as Underwriter and Co-Manager
70 East Sunrise Highway
Valley Stream, New York 11581

Gentlemen:

Integrated Surgical Systems, Inc., a Delaware corporation (the "Company"), hereby confirms its agreement with Rickel & Associates, Inc. ("Rickel") and Aegis Capital Corp. ("Aegis" and, collectively with Rickel, the "Underwriters") as set forth below.

The Company proposes to issue and sell to the Underwriters, for whom Rickel is acting as representative (the "Representative"), an aggregate of (i) 1,500,000 shares (the "Firm Shares") of the Company's common stock, par value $.01 per share (the "Common Stock") and (ii) 1,500,000 redeemable warrants to purchase Common Stock (the "Firm Warrants"), in the amounts set forth on Schedule I attached hereto. The Company also proposes to grant to the Representative an option to purchase (i) up to an additional 225,000 shares of Common Stock and (ii) up to an additional 225,000 redeemable warrants to purchase Common Stock, as provided in section 2(c) of this agreement. Any and all shares of Common Stock to be purchased pursuant to such option are referred to herein as the "Option Shares," and the Firm Shares and any Option Shares are collectively referred to herein as the "Shares." Any and all redeemable warrants to purchase Common Stock to be purchased

pursuant to such option are referred to herein as the "Option Warrants," and the Firm Warrants and any Option Warrants are collectively referred to herein as the "Warrants." Any shares of Common Stock issuable upon the exercise of any Warrants are referred to herein as "Warrant Shares." The Firm Shares and the Firm Warrants are collectively referred to herein as the "Firm Securities"; the Option Shares and the Option Warrants are collectively referred to herein as the "Option Securities;" and the Firm Securities, the Option Securities and the Warrant Shares are collectively referred to herein as the "Securities."

Pursuant to an agreement to be entered into among the Company, the Underwriters and [name of warrant and transfer agent] (the "Warrant Agreement"), each Warrant will be exercisable during the period commencing on the first anniversary of the effective date of the Registration Statement (as hereinafter defined) (the "Effective Date") and expiring on the fifth anniversary thereof, subject to prior redemption by the Company (as described below), at an initial exercise price (subject to adjustment as set forth in the Warrant Agreement) equal to $7.00 per share. The Warrants will be redeemable at a price of $.10 per Warrant, commencing on the first anniversary of the Effective Date and prior to their expiration, upon not less than 30 days prior written notice to the holders of the Warrants, provided the average closing bid quotations of Common Stock as reported on The Nasdaq Stock Market if traded thereon, or if not traded thereon, the average closing sale price if listed on a national or regional securities exchange (or other reporting system that provides last sales prices), shall have been at least 150% of the then current Warrant exercise price (initially $10.50 per share, subject to adjustment), for a period of 20 consecutive trading days ending on the third day prior to the date on which the Company gives notice of redemption, subject to the right of the holder to exercise such Warrants prior to redemption.

1. Representations and Warranties of the Company. The Company represents and warrants to, and agrees with, the Underwriters that:

(a) A registration statement on Form SB-2 (File No. 333- 9207) with respect to the Securities and the Underwriters' Warrant Securities (as hereinafter defined), including a prospectus subject to completion, has been filed by the Company with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933 (the "Act"), and one or more amendments to that registration statement may have been so filed. Copies of such registration statement and of each amendment heretofore filed by the Company with the Commission have been delivered to each of the Underwriters. After the execution of this agreement, the Company will file with the Commission either (i) if the registration statement, as it may have been amended, has been declared by the Commission to be effective under the Act, a prospectus in the form most recently included in that registration statement (or, if an amendment thereto shall have been filed, in such amendment), with such changes or insertions as are required by Rule 430A under the Act or permitted by Rule 424(b) under the Act and as have been provided

to and approved by the Underwriters prior to the execution of this agreement, or (ii) if that registration statement, as it may have been amended, has not been declared by the Commission to be effective under the Act, an amendment to that registration statement, including a form of prospectus, a copy of which amendment has been furnished to and approved by the Underwriters prior to the execution of this agreement. As used in this agreement, the term "Registration Statement" means that registration statement, as amended at the time it was or is declared effective, and any amendment thereto that was or is thereafter declared effective, including all financial schedules and exhibits thereto and any information omitted therefrom pursuant to Rule 430A under the Act and included in the Prospectus (as hereinafter defined); the term "Preliminary Prospectus" means each prospectus subject to completion filed with that registration statement or any amendment thereto (including the prospectus subject to completion, if any, included in the Registration Statement at the time it was or is declared effective); and the term "Prospectus" means the prospectus first filed with the Commission pursuant to Rule 424(b) under the Act or, if no prospectus is so filed pursuant to Rule 424(b), the prospectus included in the Registration Statement. The Company has caused to be delivered to each of the Underwriters copies of each Preliminary Prospectus and has consented to the use of those copies for the purposes permitted by the Act.

(b) The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus. When each Preliminary Prospectus and each amendment and each supplement thereto was filed with the Commission it (i) contained all statements required to be stated therein, in accordance with, and complied with the requirements of, the Act and the rules and regulations of the Commission thereunder and (ii) did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. When the Registration Statement was or is declared effective, it (i) contained or will contain all statements required to be stated therein in accordance with, and complied or will comply with the requirements of, the Act and the rules and regulations of the Commission thereunder and (ii) did not or will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading. When the Prospectus and each amendment or supplement thereto is filed with the Commission pursuant to Rule 424(b) (or, if the Prospectus or such amendment or supplement is not required so to be filed, when the Registration Statement containing such Prospectus or amendment or supplement thereto was or is declared effective) and on the Firm Closing Date and any Option Closing Date (as each such term is hereinafter defined), the Prospectus, as amended or supplemented at any such time, (i) contained or will contain all statements required to be stated therein in accordance with, and complied or will comply with the requirements of, the Act and the rules and regulations of the Commission thereunder and (ii) did not or will not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The foregoing provisions of this paragraph (b) do not apply to statements

or omissions made in any Preliminary Prospectus, the Registration Statement or the Prospectus or any amendment or supplement thereto in reliance upon and in conformity with written information furnished to the Company by the Underwriters specifically for use therein.

(c) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the state of Delaware and is duly qualified or authorized to transact business as a foreign corporation and is in good standing in each jurisdiction where the ownership or leasing of its property or the conduct of its business requires such qualification or authorization.

(d) The Company has full corporate power and authority to own or lease its property and conduct its business as now being conducted and as proposed to be conducted as described in the Registration Statement and the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(e) The Company does not own, directly or indirectly, any capital stock of any corporation, any interest in any partnership or limited liability company or any other equity interest or participation in any other person.

(f) The Company has an authorized, issued and outstanding capitalization as set forth in the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus). All of the issued shares of capital stock of the Company have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights. There are no outstanding options, warrants or other rights granted by the Company to purchase shares of its Common Stock or other securities, other than as described in the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus). The Shares and the Warrant Shares have been duly authorized, and the Warrant Shares have been duly reserved for issuance, by all necessary corporate action on the part of the Company and, when the Shares are issued and delivered to and paid for by the Underwriters pursuant to this agreement and the Warrant Shares are issued and delivered to and paid for by the holders of Warrants upon exercise of the Warrants in accordance with the terms thereof, the Shares and the Warrant Shares will be validly issued, fully paid, nonassessable and free of preemptive rights and will conform to the description thereof in the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus). No holder of outstanding securities of the Company is entitled as such to any preemptive or other right to subscribe for any of the Securities, and no person is entitled to have securities registered by the Company under the Registration Statement or otherwise under the Act other than as described in the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(g) The capital stock of the Company conforms to the description thereof contained in the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(h) Since the inception of the Company on October 1, 1990 all issuances of securities of the Company were effected pursuant to valid private offerings exempt from registration pursuant to section 4(2) of the Act. Since the inception of the Company, no compensation was paid to or on behalf of any member of the National Association of Securities Dealers, Inc. ("NASD"), or any affiliate or employee thereof, in connection with any such private offering, except as previously disclosed in writing to the Underwriters.

(i) The financial statements of the Company included in the Registration Statement and the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus) fairly present the financial position of the Company as of the dates indicated and the results of operations of the Company for the periods specified. Such financial statements have been prepared in accordance with generally accepted accounting principles, consistently applied. The financial data set forth under the caption "Summary Financial Information" in the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus) fairly present, on the basis stated in the Prospectus (or such Preliminary Prospectus), the information included therein.

(j) Ernst & Young, LLP who have audited certain financial statements of the Company and delivered their report with respect to the financial statements included in the Registration Statement and the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus), are independent auditors with respect to the Company as required by the Act and the applicable rules and regulations thereunder.

(k) Since the respective dates as of which information is given in the Registration Statement and the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus), (i) except as otherwise contemplated therein, there has been no material adverse change in the business, operations, condition (financial or otherwise), earnings or prospects of the Company, whether or not arising in the ordinary course of business, (ii) except as otherwise stated therein, there have been no transactions entered into by the Company and no commitments made by the Company that, individually or in the aggregate, are material with respect to the Company, (iii) there has not been any change in the capital stock or indebtedness of the Company, and (iv) there has been no dividend or distribution of any kind declared, paid or made by the Company in respect of any class of its capital stock.

(l) The Company has full corporate power and authority to enter into and perform its obligations under this agreement and the Underwriters'

Warrant Agreement (as hereinafter defined). The execution and delivery of this agreement and the Underwriters' Warrant Agreement have been duly authorized by all necessary corporate action on the part of the Company and this agreement and the Underwriters' Warrant Agreement have each been duly executed and delivered by the Company and each is a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law), and except as rights to indemnity and contribution under this agreement may be limited by applicable law. The issuance, offering and sale by the Company to the Underwriters of the Securities pursuant to this agreement or the Underwriters' Securities pursuant to the Underwriters' Warrant Agreement, the compliance by the Company with the provisions of this agreement and the Underwriters' Warrant Agreement, and the consummation of the other transactions contemplated in this agreement and the Underwriters' Warrant Agreement do not (i) require the consent, approval, authorization, registration or qualification of or with any court or governmental or regulatory authority, except such as have been obtained, such as may be required under state securities or blue sky laws and, if the registration statement filed with respect to the Securities (as amended) is not effective under the Act as of the time of execution hereof, such as may be required (and shall be obtained as provided in this agreement) under the Act, or (ii) conflict with or result in a breach or violation of, or constitute a default under, any contract, indenture, mortgage, deed of trust, loan agreement, note, lease or other agreement or instrument to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary or any of its property is bound or subject, or the certificate of incorporation or by-laws of the Company or any Subsidiary, or any statute or any rule, regulation, judgment, decree, or order of any court or other governmental or regulatory authority or any arbitrator applicable to the Company or any Subsidiary.

(m) No legal or governmental proceedings are pending to which the Company or any Subsidiary is a party or to which the property of the Company is subject and no such proceedings have been threatened against the Company or with respect to any of its property, except such as are described in the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus). No contract or other document is required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement that is not described therein (and, if the Prospectus is not in existence, in the most recent Preliminary Prospectus) or filed as required.

(n) The Company is not in (i) violation of its certificate of incorporation or by-laws, (ii) violation in any material respect of any law, statute, regulation, ordinance, rule, order, judgment or decree of any court or any governmental or regulatory authority applicable to the Company, or (iii) default in any material respect in the

performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan agreement, note, lease or other agreement or instrument to which the Company is a party or by which it or any of its property may be bound or subject.

(o) The Company currently owns or possesses adequate rights to use all intellectual property, including all U.S. and foreign patents, trademarks, service marks, trade names, copyrights, inventions, know-how, trade secrets, proprietary technologies, processes and substances, or applications or licenses therefor, that are described in the Prospectus (and if the Prospectus is not in existence, the most recent Preliminary Prospectus), and any other rights or interests in items of intellectual property as are necessary for the conduct of the business now conducted or proposed to be conducted by it as described in the Prospectus (or, such Preliminary Prospectus); and, except as disclosed in the Prospectus (and such Preliminary Prospectus), the Company is not aware of the granting of any patent rights to, or the filing of applications therefor by, others, nor is the Company aware of, nor has the Company received notice of, infringement of or conflict with asserted rights of others with respect to any of the foregoing. All such intellectual property rights and interests are (i) valid and enforceable and (ii) to the best knowledge of the Company, not being infringed by any third parties.

(p) The Company possesses adequate licenses, orders, authorizations, approvals, certificates or permits issued by the appropriate federal, state or foreign regulatory agencies or bodies necessary to conduct its business as described in the Registration Statement and the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus), and, except as disclosed in the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus), there are no pending or, to the best knowledge of the Company, threatened, proceedings relating to the revocation or modification of any such license, order, authorization, approval, certificate or permit.

(q) The Company has good and marketable title to all of the properties and assets reflected in the Company's financial statements or as described in the Registration Statement and the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus), subject to no lien, mortgage, pledge, charge or encumbrance of any kind, except those reflected in such financial statements or as described in the Registration Statement and the Prospectus (and such Preliminary Prospectus). The Company occupies its leased properties under valid and enforceable leases conforming to the description thereof set forth in the Registration Statement and the Prospectus (and such Preliminary Prospectus).

(r) The Company is not subject to registration as an "investment company" under the Investment Company Act of 1940.

(s) The Company has obtained and delivered to the Representative the agreements (the "Lock-up Agreements") with respect to all outstanding shares of Common Stock or preferred stock to the effect that, among other things, each such person (i) will not, commencing on the Effective Date and continuing for periods of 18 months (as applicable) thereafter, directly or indirectly, sell, offer or contract to sell or grant any option to purchase, transfer, assign or pledge, or otherwise encumber, or dispose of any shares of Common Stock or preferred stock or any securities convertible into or exercisable for Common Stock or preferred stock now or hereafter owned by such person without the prior written consent of the Representative, and (ii) will comply with any additional restriction or condition on the disposition of such Common Stock or preferred stock which may be required to qualify the offering of the Securities in any state in accordance with the blue sky or securities laws of such state.

(t) No labor dispute with the employees of the Company exists, is threatened or, to the best of the Company's knowledge, is imminent that could result in a material adverse change in the condition (financial or otherwise), business, prospects, net worth or results of operations of the Company, except as described in or contemplated by the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(u) The Company is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which it is engaged; the Company has not been refused any insurance coverage sought or applied for; and the Company has no reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not materially and adversely affect the condition (financial or otherwise), business, prospects, net worth or results of operations of the Company, except as described in or contemplated by the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(v) The Underwriters' Warrants will conform to the description thereof in the Registration Statement and in the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus) and, when sold to and paid for by the Underwriters in accordance with the Underwriters' Warrant Agreement, will have been duly authorized and validly issued and will constitute valid and binding obligations of the Company entitled to the benefits of the Underwriters' Warrant Agreement. The Underwriters' Warrant Shares (as hereinafter defined) and the Underwriters' Warrant Shares (as hereinafter defined) have been duly authorized and reserved for issuance upon exercise of the Underwriters' Warrants and the Underwriters' Warrant (as hereinafter defined), respectively, by all necessary corporate action on the part of the Company and, when issued and delivered and paid for upon such exercise in accordance

with the terms of the Underwriters' Warrant Agreement and the Underwriters' Warrants, respectively, will be validly issued, fully paid, nonassessable and free of preemptive rights and will conform to the description thereof in the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(w) No person has acted as a finder in connection with, or is entitled to any commission, fee or other compensation or payment for services as a finder for or for originating, or introducing the parties to, the transactions contemplated herein and the Company will indemnify the Underwriters with respect to any claim for finder's fees in connection herewith. Except as set forth in the Registration Statement and the Prospectus (and, if the Prospectus is not in existence, the most recent Preliminary Prospectus), the Company has no management or financial consulting agreement with anyone. No promoter, officer, director or stockholder of the Company is, directly or indirectly, affiliated or associated with an NASD member, no securities of the Company have been acquired by an NASD member except as has been previously disclosed in writing to the Representative.

2. Purchase, Sale and Delivery of the Securities and the Warrant Securities.

(a) On the basis of the representations, warranties, agreements and covenants herein contained and subject to the terms and conditions herein set forth, the Company agrees to issue and sell to the Underwriters, and the Underwriters severally agree to purchase from the Company, the Firm Shares at a purchase price of $5.43 per share and the Firm Warrants at a purchase price of $.0905 per warrant. The obligations of the Underwriters under this agreement are several and not joint.

(b) Certificates in definitive form for the Firm Securities that the Underwriters have agreed to purchase hereunder, and in such denomination or denominations and registered in such name or names as the Underwriters request upon notice to the Company at least 48 hours prior to the Firm Closing Date, shall be delivered by or on behalf of the Company to the Representative, against payment by or on behalf of the Underwriter of the purchase prices therefor by certified or official bank check or checks drawn upon or by a New York Clearing House bank and payable in next-day funds to the order of the Company. Such delivery of and payment for the Firm Securities shall be made at the offices of Counsel for the Representative, 1211 Avenue of the Americas, New York, New York (the "Representative's Office") at 9:30 A.M., New York time, on ___________, 1996, or at such other place, time or date as the Underwriters and the Company may agree upon, such time and date of delivery against payment being herein referred to as the "Firm Closing Date." The Company will make such certificates for the Firm Securities available for checking and packaging by the Underwriters,

at the Representative's option, at the offices in New York, New York of the Company's transfer agent and registrar or Counsel for the Representative's Office at least 24 hours prior to the Firm Closing Date.

(c) For the purpose of covering any over-allotments in connection with the distribution and sale of the Firm Securities as contemplated by the Prospectus, the Company hereby grants to the Representative an option to purchase any or all of the Option Securities. The purchase price to be paid for any of the Option Securities shall be the same price per share or warrant as the price per share or warrant for the Firm Securities set forth above in paragraph (a) of this section 2. The option granted hereby may be exercised as to all or any part of the Option Securities from time to time within 45 calendar days after the Firm Closing Date. The Representative shall not be under any obligation to purchase any of the Option Securities prior to the exercise of such option. The Representative may from time to time exercise the option granted hereby by giving notice in writing or by telephone (confirmed in writing) to the Company setting forth the aggregate number of Option Securities as to which the Representative is then exercising the option and the date and time for delivery of and payment for such Option Securities. Any such date of delivery shall be determined by the Representative but shall not be earlier than two business days or later than three business days after such exercise of the option and, in any event, shall not be earlier than the Firm Closing Date. The time and date set forth in such notice, or such other time on such other date as the Representative and the Company may agree upon, is herein called the "Option Closing Date" with respect to such Option Securities. Upon exercise of the option as provided herein, the Company shall become obligated to sell to the Representative, and, subject to the terms and conditions herein set forth, the Underwriters shall become obligated to purchase from the Company, the Option Securities as to which the Representative is then exercising its option. If the option is exercised as to all or any portion of the Option Securities, certificates in definitive form for such Option Securities, and payment therefor, shall be delivered on the related Option Closing Date in the manner, and upon the terms and conditions, set forth in paragraph (b) of this section 2, except that reference therein to the Firm Securities and the Firm Closing Date shall be deemed, for purposes of this paragraph (c), to refer to such Option Securities and Option Closing Date, respectively.

(d) On the Firm Closing Date, the Company will further issue and sell to the Underwriters or, at the direction of the Underwriters, to bona fide officers of the Underwriters, for an aggregate purchase price of $10, warrants to purchase Common Stock and redeemable warrants to purchase Common Stock (the "Underwriters' Warrants") entitling the holders thereof to purchase an aggregate of 150,000 shares of Common Stock and 150,000 redeemable warrants to purchase Common Stock for a period of four years, such period to commence on the first anniversary of the Effective Date of such Underwriters' Warrants, the Company shall issue such warrants to purchase 40,000 shares of Common

Stock and 40,000 redeemable Warrants to Aegis and its designees subject to Aegis' fulfillment of its obligations as Underwriter and Co-Manager under this agreement. The Underwriters' Warrants shall be exercisable at a price equal to 165% of the initial public offering price per share and warrant, respectively and shall contain terms and provisions more fully described herein below and as set forth more particularly in the warrant agreement relating to the Underwriters' Warrants to be executed by the Company on the Effective Date (the "Underwriters' Warrant Agreement"), including, but not limited to, (i) customary anti-dilution provisions in the event of stock dividends, split mergers, sales of all or substantially all of the Company's assets, sales of stock below then prevailing market or exercise prices and other events, and (ii) prohibitions of mergers, consolidations or other reorganizations of or by the Company or the taking by the Company of other action during the five-year period following the Effective Date unless adequate provision is made to preserve, in substance, the rights and powers incidental to the Underwriters' Warrants. As provided in the Underwriters' Warrant Agreement, the Underwriters may designate that the Underwriters' Warrants be issued in varying amounts directly to bona fide officers of the Underwriters. As further provided, no sale, transfer, assignment, pledge or hypothecation of the Underwriters' Warrants shall be made for a period of 12 months from the Effective Date, except (i) by operation of law or reorganization of the Company, or (ii) to the Underwriters and bona fide partners, directors and officers of the Underwriters and selling group members. The shares of Common Stock issuable upon exercise of the Underwriters' Warrants are referred to herein as the "Underwriters' Warrant Shares"; the warrants issuable upon exercise of the Underwriters' Warrants are referred to herein as the "Underwriters' Warrants"; the shares of Common Stock issuable upon exercise of the Underwriters' Warrants are referred to herein as the "Underwriters' Warrant Shares"; and the Underwriters' Warrant Shares, the Underwriters' Warrants and the Underwriters' Warrant Shares are collectively referred to herein as the "Underwriters' Securities."

3. Offering by the Underwriters. The Underwriters propose to offer the Firm Shares for sale to the public upon the terms set forth in the Prospectus.

4. Covenants of the Company. The Company covenants and agrees with the Underwriters that:

(a) The Company will use its best efforts to cause the Registration Statement, if not effective at the time of execution of this agreement, to become effective as promptly as possible. If required, the Company will file the Prospectus and any amendment or supplement thereto with the Commission in the manner and within the time period required by Rule 424(b) under the Act. During any time when a prospectus relating to the

Securities is required to be delivered under the Act, the Company (i) will comply with all requirements imposed upon it by the Act and the rules and regulations of the Commission thereunder to the extent necessary to permit the continuance of sales of or dealings in the Securities in accordance with the provisions hereof and of the Prospectus, as then amended or supplemented, and (ii) will not file with the Commission any prospectus or amendment referred to in the first sentence of section 1(a) hereof, any amendment or supplement to such prospectus or any amendment to the Registration Statement as to which the Underwriters shall not previously have been advised and furnished with a copy for a reasonable period of time prior to the proposed filing and as to which filing the Representative shall not have given its consent. The Company will prepare and file with the Commission, in accordance with the rules and regulations of the Commission, promptly upon request by the Underwriters or counsel to the Underwriters, any amendments to the Registration Statement or amendments or supplements to the Prospectus that may be necessary or advisable in connection with the distribution of the Shares by the Underwriters, and will use its best efforts to cause any such amendment to the Registration Statement to be declared effective by the Commission as promptly as possible. The Company will advise the Underwriters, promptly after receiving notice thereof, of the time when the Registration Statement or any amendment thereto has been filed or declared effective or the Prospectus or any amendment or supplement thereto has been filed and will provide evidence satisfactory to the Underwriters of each such filing or effectiveness.

(b) The Company will advise the Underwriters, promptly after receiving notice or obtaining knowledge thereof, of (i) the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, (ii) the suspension of the qualification of any Securities for offering or sale in any jurisdiction, (iii) the institution, threat or contemplation of any proceeding for any such purpose or (iv) any request made by the Commission for amending the Registration Statement, for amending or supplementing the Prospectus or for additional information. The Company will use its best efforts to prevent the issuance of any such stop order and, if any such stop order is issued, to obtain the withdrawal thereof as promptly as possible.

(c) The Company will, in cooperation with counsel to the Underwriters, arrange for the qualification of the Securities for offering and sale under the blue sky or securities laws of such jurisdictions as the Underwriters may designate and will continue such qualifications in effect for as long as may be necessary to complete the distribution of the Securities.

(d) If, at any time when a prospectus relating to the Securities is required to be delivered under the Act, any event occurs as a result of which the Prospectus, as then amended or supplemented, would include any untrue statement of a

material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if for any other reason it is necessary at any time to amend or supplement the Prospectus to comply with the Act or the rules or regulations of the Commission thereunder, the Company will promptly notify the Underwriters thereof and, subject to section 4(a) hereof, will prepare and file with the Commission, at the Company's expense, an amendment to the Registration Statement or an amendment or supplement to the Prospectus that corrects such statement or omission or effects such compliance.

(e) So long as any warrants are outstanding, the Company shall use its best efforts to cause post-effective amendments to the Registration Statement to become effective in compliance with the Act and without any lapse of time between the effectiveness of any such post-effective amendments and cause a copy of each Prospectus, as then amended, to be delivered to each holder of record of a Warrant and to furnish to the Underwriters and any dealer as many copies of each such Prospectus as the Underwriters or dealer may reasonably request. The Company shall not call for redemption of the Warrants unless a registration statement covering the securities underlying the Warrants has been declared effective by the Commission and remains current at least until the date fixed for redemption. In addition, for so long as any Warrant is outstanding, the Company will promptly notify the Underwriters of any material change in the business, financial condition or prospects of the Company. So long as any of the Warrants remain outstanding, the Company will timely deliver and supply to its Warrant agent sufficient copies of the Company's current Prospectus, as will enable such Warrant agent to deliver a copy of such Prospectus to any Warrant or other holder where such Prospectus delivery is by law required to be made.

(f) The Company will, without charge, provide to the Underwriters and to counsel for the Underwriters (i) as many signed copies of the registration statement originally filed with respect to the Securities and each amendment thereto (in each case including exhibits thereto) as the Underwriters may reasonably request, (ii) as many conformed copies of such registration statement and each amendment thereto (in each case without exhibits thereto) as the Underwriters may reasonably request and (iii) so long as a prospectus relating to the Securities is required to be delivered under the Act, as many copies of each Preliminary Prospectus or the Prospectus or any amendment or supplement thereto as the Underwriters may reasonably request. The Company will timely file, and will provide or cause to be provided to the Underwriters and counsel to the Underwriters a copy of the report on Form SR required to be filed by the Company pursuant to Rule 463 under the Act.

(g) The Company, as soon as practicable, will make generally available to its security holders and to the Underwriters an earnings statement

of the Company that satisfies the provisions of section 11(a) of the Act and Rule 158 thereunder.

(h) The Company will reserve and keep available for issuance that maximum number of its authorized but unissued shares of Common Stock which are issuable upon exercise of the Warrants and issuable upon exercise of the Underwriters' Warrants (including the underlying securities) outstanding from time to time.

(i) The Company will apply the net proceeds from the sale of the Securities as set forth under "Use of Proceeds" in the Prospectus.

(j) The Company will not, without the prior written consent of the Representative, directly or indirectly offer, agree to sell, sell, grant any option to purchase or otherwise dispose (or announce any offer, agreement to sell, sale, grant of any option to purchase or other disposition) of any shares of Common Stock, preferred stock or any securities convertible into, or exchangeable or exercisable for, shares of Common Stock or preferred stock for a period of 24 months after the Effective Date, except (i) the Shares and Warrants issued pursuant to this agreement, (ii) the Warrant Shares issuable upon exercise of the Warrants, (iii) the Underwriters' Warrants, (iv) the Underwriters' Warrant Shares and Underwriters' Warrants issuable upon the exercise of the Underwriters' Warrants, (v) the Underwriters' Warrant Shares issuable upon exercise of the Underwriters' Warrants, and (vi) up to a maximum of ________ shares of Common Stock issuable upon the exercise of options granted under the Company's Stock Option Plan.

(k) Prior to the Closing Date or the Option Closing Date (if any), the Company will not, directly or indirectly, without prior written consent of the Representative, which shall not be unreasonably withheld or delayed, issue any press release or other public announcement or hold any press conference with respect to the Company or its activities with respect to the Offering (other than trade releases issued in the ordinary course of the Company's business consistent with past practices with respect to the Company's operations).

(l) If, at the time that the Registration Statement becomes effective, any information shall have been omitted therefrom in reliance upon Rule 430A under the Act, then immediately following the execution of this agreement, the Company will prepare, and file or transmit for filing with the Commission in accordance with Rule 430A and Rule 424(b) under the Act, copies of the Prospectus including the information omitted in reliance on Rule 430A, or, if required by such Rule 430A, a post-effective amendment to the Registration Statement (including an amended Prospectus), containing all information so omitted.

(m) The Company will cause the Securities to be included in The Nasdaq Small Cap Market, the Boston and Pacific Stock Exchanges on the Effective Date and to maintain such listings thereafter. The Company will file with Nasdaq Small Cap Market, the Boston and Pacific Stock Exchanges all documents and notices that are required by _______ of companies with securities that are traded on the Nasdaq Small Cap Market, the Boston and Pacific Stock Exchanges.

(n) During the period of five years from the Firm Closing Date, the Company will, as promptly as possible, (i) not to exceed 90 days, after each annual fiscal period render and distribute reports to its stockholders which will include audited statements of its operations and changes of financial position during such period and its audited balance sheet as of the end of such period, as to which statements the Company's independent certified public accountants shall have rendered an opinion and (ii) not to exceed 45 days, after each of the first three quarterly fiscal periods render and distribute reports to its stockholders which will include unaudited statements of its operations and changes in financial position during such period and year-to-date period and its unaudited balance sheet as of the end of such period.

(o) During a period of three years commencing with the Firm Closing Date, the Company will furnish to the Underwriters, at the Company's expense, copies of all periodic and special reports furnished to stockholders of the Company and of all information, documents and reports filed with the Commission.

(p) The Company has appointed _________________________ _____________ as transfer agent for the Common Stock and warrant agent for the Warrants, subject to the Closing. The Company will not change or terminate such appointment for a period of three years from the Firm Closing Date without first obtaining the written consent of the Representative. For a period of three years after the Effective Date, the Company shall cause the transfer agent and warrant agent to deliver promptly to the Underwriters a duplicate copy of the daily transfer sheets relating to trading of the Securities. The Company shall also provide to the Underwriters, promptly upon their request, up to four times in any calendar year, copies of DTC or equivalent transfer sheets.

(q) During the period of 180 days after the date of this agreement, the Company will not at any time, directly or indirectly, take any action designed to or that will constitute, or that might reasonably be expected to cause or result in, the stabilization of the price of the Common Stock to facilitate the sale or resale of any of the Shares.

(r) The Company will not take any action to facilitate the sale of any shares of Common Stock pursuant to Rule 144 under the Act if any such sale would violate any of the terms of the Lock-up Agreements.

(s) Prior to the 90th day after the Firm Closing Date, the Company will provide the Representative and its designees with four bound volumes of the transaction documents relating to the Registration Statement and the closing(s) hereunder, in form and substance reasonably satisfactory to the Underwriters.

(t) The Company shall consult with the Underwriters prior to the distribution to third parties of any financial information news releases or other publicity regarding the Company, its business, or any terms of this offering and the Underwriters will consult with the Company prior to the issuance of any research report or recommendation concerning the Company's securities. Copies of all documents that the Company or its public relations firm intend to distribute will be provided to the Underwriters for review prior to such distribution.

(u) The Company and the Underwriters will advise each other immediately in writing as to any investigation, proceeding, order, event or other circumstance, or any threat thereof, by or relating to the Commission or any other governmental authority, that could impair or prevent this offering. Except as required by law or as otherwise mutually agreed in writing, neither the Company nor the Underwriters will acquiesce in such circumstances and each will actively defend any proceedings or orders in that connection.

(v) The Company will, for a period of no less than three years commencing immediately after the Effective Date, engage a designee by the Representative as advisor (the "Advisor") to the Company's Board of Directors, who shall attend meetings of the Board, receive all notices and other correspondence and communications sent by the Company to its Board of Directors and receive compensation equal to that of other non-officer directors; provided, that in lieu of the Representative's right to designate an Advisor, the Representative shall have the right during such three-year period, in its sole discretion, to designate one person for election as a director of the Company and the Company will utilize its best efforts to obtain the election of such person who shall be entitled to receive the same compensation, expense reimbursements and other benefits as set forth above. In addition, such Advisor shall be entitled to receive reimbursement for all costs incurred in attending such meetings including, but not limited to, food, lodging and transportation. The Company, during said three-year period, shall schedule no less than four formal meetings (at least one of which shall be "in person" and the others may be held telephonically) of its Board of Directors in each such year at which meetings such Advisor shall be permitted to attend (in person, for each meeting held "in person") as set forth herein; said meetings shall be held quarterly each year and advance notice of such meetings identical to the notice given to directors shall be given to the Advisor. The Company and its principal stockholders shall, during such three year period, give the Representative timely prior written notice of any proposed acquisitions, mergers, reorganizations or other similar transactions. The Company shall indemnify and hold the Underwriters and such Advisor or director harmless

against any and all claims, actions, damages, costs and expenses, and judgments arising solely out of the attendance and participation of such Advisor or director at any such meeting described herein, and, if the Company maintains a liability insurance policy affording coverage for the acts of its officers and directors, it shall, if possible, include such Advisor or director as an insured under such policy.

(w) The Company shall first submit to the Underwriters certificates representing the Securities for approval prior to printing, and shall, as promptly as possible, after filing the Registration Statement with the Commission, obtain CUSIP numbers for the Securities.

(x) The Company shall engage the Underwriters' counsel to provide the Underwriters, at the closing of any sale of Securities hereunder and quarterly thereafter, with an opinion, setting forth those states in which the Common Stock and Warrants may be traded in non-issuer transactions under the blue sky or securities laws of the 50 states. The Company shall pay such counsel a one-time fee of $7,500 for such opinions at the closing of the sale of the Firm Securities

(y) The Company will prepare and file a registration statement with the Commission pursuant to section 12(g) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and will use its best efforts to have such registration statement declared effective by the Commission on an accelerated basis on the day after the Effective Date. For this purpose the Company shall prepare and file with the Commission a General Form of Registration of Securities (Form 8-A or Form 10).

(z) For so long as the Securities are registered under the 1934 Act, the Company will hold an annual meeting of stockholders for the election of directors within 180 days after the end of each of the Company's fiscal years and within 150 days after the end of each of the Company's fiscal years will provide the Company's stockholders with the audited financial statements of the Company as of the end of the fiscal year just completed prior thereto. Such financial statements shall be those required by Rule 14a-3 under the 1934 Act and shall be included in an annual report pursuant to the requirements of such Rule.

(aa) Prior to the Effective Date, the Company shall obtain key-person life insurance in the minimum amount of $1,000,000 on Ramesh Trivedi on such terms and conditions as are reasonably satisfactory to the Representative, assuming such coverage is available on commercially reasonable terms.

(bb) Ramesh Trivedi, Ph.D. shall be President and Chief Executive Officer of the Company on the Closing Dates.

5. Expenses.

(a) The Company shall pay all costs and expenses incident to the performance of its obligations under this agreement, whether or not the transactions contemplated hereby are consummated or this agreement is terminated pursuant to section 10 hereof, including all costs and expenses incident to (i) the preparation, printing and filing or other production of documents with respect to the transactions, including any costs of printing the registration statement originally filed with respect to the Securities and any amendment thereto, any Preliminary Prospectus and the Prospectus and any amendment or supplement thereto, this agreement, the selected dealer agreement and the other agreements and documents governing the underwriting arrangements and any blue sky memoranda, (ii) all reasonable and necessary arrangements relating to the delivery to the Underwriters of copies of the foregoing documents, (iii) the fees and disbursements of the counsel, the accountants and any other experts or advisors retained by the Company, (iv) the preparation, issuance and delivery to the Underwriters of any certificates evidencing the Securities, including transfer agent's, warrant agent's and registrar's fees or any transfer or other taxes payable thereon, (v) the qualification of the Securities under state blue sky or securities laws, including filing fees and fees and disbursements of counsel for the Underwriters relating thereto (such counsel fees not to exceed $35,000, $15,000 of which shall be due and payable upon the commencement of blue sky filing, together with the related filing fees) and any fees and disbursements of local counsel, if any, retained for such purpose, (vi) the filing fees of the Commission and the NASD relating to the Securities, (vii) the inclusion of the Securities on the Nasdaq Small Cap Market, Boston and Pacific Stock Exchange and in the Standard and Poor's Corporation Descriptions Manual, (viii) any "road shows" or other meetings with prospective investors in the Securities, including transportation, accommodation, meal, conference room, audio-visual presentation and similar expenses of the Underwriters or their representatives or designees (other than as shall have been specifically approved by the Representative to be paid for by the Underwriters) and (ix) the placing of "tombstone advertisements" in publications selected by the Representative and the manufacture of prospectus memorabilia. In addition to the foregoing, the Company shall reimburse the Underwriters for their expenses on the basis of a non-accountable expense allowance in the amount of 2.75% of the gross offering proceeds to be received by the Company, $50,000 of which has been paid by the Company to the Underwriters. The Underwriters hereby acknowledge receipt of such $50,000, which shall be credited against the non-accountable expense allowance to be paid by the Company. The unpaid portion of the expense allowance, based on the gross proceeds from the sale of the Firm Securities, shall be deducted from the funds to be paid by the Underwriters in payment for the

Firm Securities, pursuant to section 2 of this agreement, on the Firm Closing Date. To the extent any Option Securities are sold, any remaining non-accountable expense allowance based on the gross proceeds from the sale of the Option Securities shall be deducted from the funds to be paid by the Underwriters in payment for the Option Securities, pursuant to section 2 of this agreement, on the Option Closing Date. The Company warrants, represents and agrees that all such payments and reimbursements will be promptly and fully made.

(b) Notwithstanding any other provision of this agreement, if the offering of the Securities contemplated hereby is terminated for any reason, the Company agrees that, in addition to the Company paying its own expenses as described in subparagraph (a) above, (i) the Company shall reimburse the Underwriters only for their actual accountable out-of-pocket expenses (in addition to blue sky legal fees and expenses referred to in subparagraph (a) above), and (ii) the Underwriters shall be entitled to retain the non-accountable expense allowance paid by the Company pursuant to subparagraph (a) above; provided, however, that the amount retained pursuant to this clause (ii) shall not exceed the Underwriters' expenses on an accountable basis to the date of such cancellation and that all unaccounted for amounts shall be refunded to the Company. Such expenses shall include, but are not to be limited to, fees for the services and time of counsel for the Underwriters to the extent not covered by clause (i) above, plus any additional expenses and fees, including, but not limited to, travel expenses, postage expenses, "ticket" charge, duplication expenses, long-distance telephone expenses, and other expenses incurred by the Underwriters in connection with the proposed offering.

6. Warrant Solicitation Fee. The Company agrees to pay the Representative a fee of five percent (5%) of the aggregate exercise price of the Warrants if (i) the market price of the Common stock is greater than the exercise price of the Warrants on the date of exercise; (ii) the exercise of the Warrants is solicited by a member of the NASD; (iii) the Warrants are not held in a discretionary account; (iv) the disclosure of compensation arrangements is made both at the time of this offering and at the time of the exercise of the Warrant; and (v) the solicitation of the Warrant exercise is not in violation of Rule 10b-6 under the 1934 Act. The Company agrees not to solicit the exercise of any Warrant other than through the Representative and will not authorize any other dealer to engage in such solicitation without the prior written consent of the Representative which will not be unreasonably withheld. The Warrant solicitation fee will not be paid in a non-solicited transaction. Any request for exercise will be presumed to be unsolicited unless the customer states in writing that the transaction was solicited and designates in writing the broker/dealer to receive compensation for the exercise. No Warrant solicitation by the Representative will occur for a period of 12 months after the Effective Date.

7. Conditions of the Underwriters' Obligations. The obligations of the Underwriters to purchase and pay for the Firm Shares shall be subject, in the Representative's sole discretion, to the accuracy of the representations and warranties of the Company contained herein as of the date hereof and as of the Firm Closing Date as if made on and as of the Firm Closing Date, to the accuracy of the statements of the Company's officers made pursuant to the provisions hereof, to the performance by the Company of its covenants and agreements hereunder and to the following additional conditions:

(a) If the registration statement, as heretofore amended, has not been declared effective as of the time of execution hereof, the registration statement, as heretofore amended or as amended by an amendment thereto to be filed prior to the Firm Closing Date, shall have been declared effective not later than 11 A.M., New York time, on the date on which the amendment to such registration statement containing information regarding the initial public offering price of the Shares has been filed with the Commission, or such later time and date as shall have been consented to by the Representative; if required, the Prospectus and any amendment or supplement thereto shall have been filed with the Commission in the manner and within the time period required by Rule 424(b) under the Act; no stop order suspending the effectiveness of the Registration Statement shall have been issued, and no proceedings for that purpose shall have been instituted or threatened or, to the knowledge of the Company or the Underwriters, shall be contemplated by the Commission; and the Company shall have complied with any request of the Commission for additional information (to be included in the Registration Statement or the Prospectus or otherwise).

(b) The Underwriters shall have received an opinions, dated the Firm Closing Date, of Snow Becker & Krauss P.C., counsel to the Company, to the effect that:

(1) the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the state of its incorporation and is duly qualified to transact business as a foreign corporation and is in good standing under the laws of each other jurisdiction in which its ownership or leasing of any properties or the conduct of its business requires such qualification;

(2) the Company and each Subsidiary has full corporate power and authority to own or lease its property and conduct its business as now being conducted and as proposed to be conducted, in each case as described in the Registration Statement and the Prospectus, and the Company has full corporate power and authority to enter into this agreement and the Underwriters' Warrant Agreement and to carry out all the terms and provisions hereof and thereof to be carried out by it;

(3) there are no outstanding options, warrants or other rights granted by the Company to purchase shares of its Common Stock, preferred stock or other securities other than as described in the Prospectus; the Shares have been duly authorized and the Warrant Shares, the Underwriters' Warrant Shares and the Underwriters' Warrant Shares have been duly reserved for issuance by all necessary corporate action on the part of the Company and, when issued and delivered to and paid for by the Underwriters pursuant to this agreement, as to the Shares, the holders of the Warrants pursuant to the terms thereof, as to the Warrant Shares, the Underwriters pursuant to the Underwriters' Warrants, as to the Underwriters' Warrant Shares, pursuant to the Underwriters' Warrants, as to the Underwriters' Warrant Shares, will be validly issued, fully paid, nonassessable and free of preemptive rights and will conform to the description thereof in the Prospectus; no holder of outstanding securities of the Company is entitled as such to any preemptive or other right to subscribe for any of the Shares, the Warrant Shares, the Underwriters' Warrant Shares or the Underwriters' Warrant Shares; and no person is entitled to have securities registered by the Company under the Registration Statement or otherwise under the Act other than as described in the Prospectus;

(4) the Shares have been approved for inclusion in the Nasdaq SmallCap Market, Boston and Pacific Stock Exchanges;

(5) the execution and delivery of this agreement and the Underwriters' Warrant Agreement have been duly authorized by all necessary corporate action on the part of the Company and this agreement and the Underwriters' Warrant Agreement have been duly executed and delivered by the Company, and each is a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other similar laws affecting creditors' rights generally and to general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law) and except as rights to indemnity and contribution under this agreement and the Underwriters' Warrant Agreement may be limited by applicable law;

(6) the Underwriters' Warrants conform to the description thereof in the Registration Statement and in the Prospectus and are duly authorized and validly issued and constitute valid and binding obligations of the Company entitled to the benefits of the Underwriters' Warrant Agreement;

(7) the statements set forth under the heading "Description of Capital Stock" in the Prospectus, insofar as those statements purport to summarize the terms of the capital stock and warrants of the Company, provide a fair summary of such terms; the statements in the Prospectus, insofar as those statements constitute matters of

law or legal conclusions, or summaries of the contracts and agreements referred to therein, constitute a fair summary of those matters, legal conclusions, contracts and agreements and include all material terms thereof, as applicable;

(8) none of (A) the execution and delivery of this agreement and the Underwriters' Warrant Agreement, (B) the issuance, offering and sale by the Company to the Underwriters of the Securities pursuant to this agreement and the Underwriters' Warrant Securities pursuant to the Underwriters' Warrant Agreement, nor (C) the compliance by the Company with the other provisions of this agreement and the Underwriters' Warrant Agreement and the consummation of the transactions contemplated hereby and thereby, (1) requires the consent, approval, authorization, registration or qualification of or with any court or governmental authority, except such as have been obtained and such as may be required under state blue sky or securities laws, or (2) conflicts with or results in a breach or violation of, or constitutes a default under, any contract, indenture, mortgage, deed of trust, loan agreement, note, lease or other agreement or instrument to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary or any of its property is bound or subject, of which such counsel is aware after reasonable inquiry, or the certificate of incorporation or by-laws of the Company or any Subsidiary, or any material statute or any judgment, decree, order, rule or regulation of any court or other governmental or regulatory authority applicable to the Company or any Subsidiary;

(9) to the best of such counsel's knowledge, (A) no legal or governmental proceedings are pending to which the Company or any Subsidiary is a party or to which the property of the Company or any Subsidiary is subject and (B) no contract or other document is required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement that is not described therein or filed as required;

(10) the Company and each Subsidiary possesses adequate licenses, orders, authorizations, approvals, certificates or permits issued by the appropriate federal, state or foreign regulatory agencies or bodies necessary to conduct its business as described in the Registration Statement and the Prospectus, and, to the best of such counsel's knowledge after due inquiry, there are no pending or threatened proceedings relating to the revocation or modification of any such license, order, authorization, approval, certificate or permit, except as disclosed in the Registration Statement and the Prospectus.

(11) the Registration Statement is effective under the Act; any required filing of the Prospectus pursuant to Rule 424(b) has been made in the manner and within the time period required by Rule 424(b); and no stop order suspending the effectiveness of the Registration Statement or any amendment thereto has been issued, and

no proceedings for that purpose have been instituted or threatened or, to the best knowledge of such counsel, are contemplated by the Commission;

(12) the registration statement originally filed with respect to the Shares and each amendment thereto and the Prospectus (in each case, other than the financial statements and schedules and other financial and statistical information contained therein, as to which such counsel need express no opinion) comply as to form in all material respects with the applicable requirements of the Act and the rules and regulations of the Commission thereunder; and

(13) the Company is not subject to registration as an "investment company" under the Investment Company Act of 1940.

[Also patent, regulatory or other special counsel opinions]

Such counsel shall also state that such counsel has participated in the preparation of the Registration Statement and the Prospectus and that nothing has come to such counsel's attention that has caused them to believe that the Registration Statement, at the time it became effective (including the information deemed to be a part of the Registration Statement at the time of effectiveness pursuant to Rule 430A(b), if applicable), contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus, as of its date or as of the Firm Closing Date, contained an untrue statement of material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering any such opinion, such counsel may rely, as to matters of fact, to the extent such counsel deems proper, on certificates of responsible officers of the Company and public officials, copies of which certificates will be provided to the Underwriters, and, as to matters of the laws of certain jurisdictions, on the opinions of other counsel to the Company, which opinions shall also be delivered to the Underwriters, in form and substance acceptable to the Representative, if such other counsel expressly authorize such reliance and counsel to the Company expressly states in their opinion that such counsel's and the Underwriters' reliance upon such opinion is justified.

References to the Registration Statement and the Prospectus in this paragraph (b) shall include any amendment or supplement thereto at the date of such opinion.

(c) The Underwriters shall have received from Ernst & Young LLP a letter dated the Effective Date and a letter dated the Firm Closing Date, in form and substance satisfactory to the Underwriters, to the effect that (i) they are independent auditors with respect to the Company within the meaning of the Act and

the applicable rules and regulations thereunder; (ii) in their opinion, the financial statements audited by them and included in the Registration Statement and the Prospectus comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations thereunder; (iii) based upon procedures set forth in detail in such letter, nothing has come to their attention which causes them to believe that (A) the unaudited financial statements as of June 30, 1996 included in the Registration Statement was not determined on a basis substantially consistent with that used in determining the corresponding amounts in the audited financial statements as of December 31, 1995 included in the Registration Statement or (B) at a specified date not more than five days prior to the date of this agreement, there has been any change in the capital stock of the Company, any increase in the long-term debt of the Company or decrease in net sale as compared with the amounts shown in the June 30, 1996 balance sheet included in the Registration Statement or as of the date of the most recent financial statements made available by the Company there has been any change in the capital stock of the Company, any increase in the long-term debt of the Company or any decrease in net sales, working capital or net assets as compared with the amounts shown in the June 30, 1996 balance sheet included in the Registration Statement or, during the period from June 30, 1996 through date of the most recent financial statement made available by the company, there were any decreases, as compared with the corresponding period in the preceding year, in revenues, or any increase in net loss of the Company, except in all instances for changes, increases or decreases which the Registration Statement and the Prospectus disclose have occurred or may occur; and (iv) in addition to the audit referred to in their opinion and the limited procedures referred to in clause (iii) above, they have carried out certain specified procedures, not constituting an audit, with respect to certain amounts, percentages and financial information (including the summary of consolidated financial information and secured financial information) which are included in the Registration Statement and Prospectus and which are specified by the Underwriters, and have found such amounts, percentages and financial information to be in agreement with the relevant accounting, financial and other records of the Company identified in such letter. References to the Registration Statement and the Prospectus in this paragraph (c) with respect to the letter referred to above shall include any amendment or supplement thereto at the date of such letter.

(d) The representations and warranties of the Company contained in this agreement shall be true and correct as if made on and as of the Firm Closing Date; the Registration Statement shall not include any untrue statement of a material fact or omit to state any material fact required to be stated therein necessary to make the statements therein not misleading, and the Prospectus, as amended or supplemented as of the Firm Closing Date, shall not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and the Company shall have performed all covenants and agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the Firm Closing Date.

(e) No stop order suspending the effectiveness of the Registration Statement or any amendment thereto shall have been issued, and no proceedings for that purpose shall have been instituted or threatened or contemplated by the Commission.

(f) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, there shall not have been any material adverse change, or any development involving a prospective material adverse change, in the business, operations, condition (financial or otherwise), earnings or prospects of the Company, except in each case as described in or contemplated by the Prospectus (exclusive of any amendment or supplement thereto).

(g) The Underwriters shall have received a certificate, dated the Firm Closing Date, of the Chief Executive Officer and the Secretary of the Company to the effect set forth in subparagraphs (d) through (f) above.

(h) The Common Stock shall be qualified in such jurisdictions as the Underwriters may reasonably request pursuant to section 4(c), and each such qualification shall be in effect and not subject to any stop order or other proceeding on the Firm Closing Date.

(i) The Company shall have executed and delivered to the Underwriters the Underwriters' Warrant Agreement and a certificate or certificates evidencing the Underwriters' Warrants, in each case in a form acceptable to the Underwriters.

(j) On or before the Firm Closing Date, the Underwriters and counsel for the Underwriters shall have received such further certificates, documents, letters or other information as they may have reasonably requested from the Company.

All opinions, certificates, letters and documents delivered pursuant to this agreement will comply with the provisions hereof only if they are reasonably satisfactory in all material respects to the Underwriters and counsel for the Underwriters. The Company shall furnish to the Underwriters such conformed copies of such opinions, certificates, letters and documents in such quantities as the Underwriters and counsel for the Underwriters shall reasonably request.

The respective obligations of the Underwriters to purchase and pay for any Option Securities shall be subject, in its discretion, to each of the foregoing conditions to purchase the Firm Securities, except that all references to the Firm Securities and the Firm Closing Date shall be deemed to refer to such Option Securities and the related Option Closing Date, respectively.

8. Indemnification and Contribution.

(a) The Company agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of section 15 of the Act or section 20 of the 1934 Act against any losses, claims, damages, amounts paid in settlement or liabilities, joint or several, to which such Underwriter or such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon:

(1) any breach of any representation or warranty of the Company contained in section 1 of this agreement,

(2) any untrue statement or alleged untrue statement of any material fact contained in (A) the Registration Statement originally filed with respect to the Securities or any amendment thereto, any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto or (B) any application or other document, or any amendment or supplement thereto, executed by the Company or based upon written information furnished by or on behalf of the Company filed in any jurisdiction in order to qualify the Securities under the Blue Sky or securities laws thereof or filed with the Commission or any securities association or securities exchange (each an "Application"), or

(3) the omission or alleged omission to state in such Registration Statement or any amendment thereto, any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or any Application a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse, as incurred, the Underwriter and such controlling person for any legal or other expenses reasonably incurred by the Underwriter or such controlling person in connection with investigating, defending against or appearing as a third-party witness in connection with any loss, claim, damage, liability, action, investigation, litigation or proceeding; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement or any amendment thereto, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, or any Application in reliance upon and in conformity with written information furnished to the Company by any Underwriter specifically for use therein. This indemnity agreement will be in addition to any liability which the Company may otherwise have. The Company will not, without the prior written consent of the Underwriter, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder (whether or not any Underwriter or any person who controls any Underwriter within the meaning of section 15 of the Act or section 20 of the 1934 Act is a party to such claim, action, suit or proceeding), unless such settlement,

compromise or consent includes an unconditional release of the Underwriter and each such controlling person from all liability arising out of such claim, action, suit or proceeding.

(b) Each Underwriter will indemnify and hold harmless the Company, each of its directors, each of its officers who signed the Registration Statement and each person, if any, who controls the Company within the meaning of section 15 of the Act or section 20 of the Exchange Act against, any losses, claims, damages or liabilities to which the Company or any such director, officer or controlling person may become subject under the Act or otherwise, but only insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment thereto, any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or any Application, or (ii) the omission or the alleged omission to state therein a material fact required to be stated in the Registration Statement or any amendment thereto, any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or any Application, or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use therein; and, subject to the limitation set forth immediately preceding this clause, will reimburse, as incurred, any legal or other expenses reasonably incurred by the Company or any such director, officer or controlling person in connection with investigating or defending any such loss, claim, damage, liability or any action in respect thereof. This indemnity agreement will be in addition to any liability which the Underwriter may otherwise have.

(c) Promptly after receipt by an indemnified party under this section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this section 8, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this section 8. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party; provided, however, that if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be one or more legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnifying party shall not have the right to direct the defense of such action on behalf of such indemnified party or parties and such indemnified party or parties shall have the right to select separate counsel to defend such action on behalf of such indemnified party or parties. After notice from the

indemnifying party to such indemnified party of its election so to assume the defense thereof and approval by such indemnified party of counsel appointed to defend such action, the indemnifying party will not be liable to such indemnified party under this section 8 for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such indemnified party in connection with the defense thereof, unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the next preceding sentence or (ii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party. After such notice from the indemnifying party to such indemnified party, the indemnifying party will not be liable for the costs and expenses of any settlement of such action effected by such indemnified party without the consent of the indemnifying party.

(d) In circumstances in which the indemnity agreement provided for in the preceding paragraphs of this section 8 is unavailable or insufficient to hold harmless an indemnified party in respect of any losses, claims, damages or liabilities (or actions in respect thereof), each indemnifying party, in order to provide for just and equitable contribution, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect (i) the relative benefits received by the indemnifying party or parties on the one hand and the indemnified party on the other from the offering of the Securities or (ii) if the allocation provided by the foregoing clause (i) is not permitted by applicable law, not only such relative benefits but also the relative fault of the indemnifying party or parties on the one hand and the indemnified party on the other in connection with the statements or omissions or alleged statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof). The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriter. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriters, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission, and the other equitable considerations appropriate in the circumstances. The Company and the Underwriters agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the first sentence of this paragraph (d). Notwithstanding any other provision of this paragraph (d), no Underwriter shall be obligated to make contributions hereunder that in the aggregate exceed the total public offering price of the Shares purchased by such Underwriter under this agreement, less the aggregate amount of any damages that such Underwriter has otherwise been required to pay in respect of the same or any substantially similar claim, and no person guilty of fraudulent misrepresentation

(within the meaning of section 11(f) of the Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. For purposes of this paragraph (d), each person, if any, who controls an Underwriter within the meaning of section 15 of the Act or section 20 of the 1934 Act shall have the same rights to contribution as the Underwriter, and each director of the Company, each officer of the Company who signed the Registration Statement and each person, if any, who controls the Company within the meaning of section 15 of the Act or section 20 of the 1934 Act, shall have the same rights to contribution as the Company.

9. Substitution of Underwriters.

If any Underwriter shall for any reason not permitted hereunder cancel its obligations to purchase the Firm Securities hereunder, or shall fail to take up and pay for the number of Firm Securities set forth opposite names in Schedule I hereto upon tender of such Firm Securities in accordance with the terms hereof, then:

(a) If the aggregate number of Firm Securities which such Underwriter or Underwriters agreed but failed to purchase does not exceed 10% of the total number of Firm Securities, the other Underwriter shall be obligated to purchase the Firm Securities which such defaulting Underwriter agreed but failed to purchase.

(b) If any Underwriter so defaults and the agreed number of Firm Securities with respect to which such default or defaults occurs is more than 10% of the total number of Firm Securities, the remaining Underwriter shall have the right to take up and pay for the Firm Securities which the defaulting Underwriter agreed but failed to purchase. If such remaining Underwriter does not, at the Firm Closing Date, take up and pay for the Firm Securities which the defaulting Underwriter agreed but failed to purchase, the time for delivery of the Firm Securities shall be extended to the next business day to allow the remaining Underwriter the privilege of substituting within twenty-four hours (including nonbusiness hours) another Underwriter or Underwriters satisfactory to the Company. If no such Underwriter or Underwriters shall have been substituted as aforesaid, within such twenty-four hour period, the time of delivery of the Firm Securities may, at the option of the Company, be again extended to the next following business day, if necessary, to allow the Company the privilege of finding within twenty-four hours (including nonbusiness hours) another Underwriter or Underwriters to purchase the Firm Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase. If it shall be arranged for the remaining Underwriter or substituted Underwriters to take up the Firm Securities of the defaulting Underwriter as provided in this section, (i) the Company or the Representative shall have the right to postpone the time of delivery for a period of not more than seven business days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other document or arrangements, and the Company agrees promptly to file any amendments to the Registration Statement or supplements to the Prospectus which may thereby be made necessary, and (ii)

the respective numbers of Firm Securities to be purchased by the remaining Underwriters or substituted Underwriters shall be taken as the basis of the underwriting obligation for all purposes of this agreement.

If in the event of a default by any Underwriter and the remaining Underwriter shall not take up and pay for all the Firm Securities agreed to be purchased by the defaulting Underwriter or substitute another underwriter or underwriters as aforesaid, the Company shall not find or shall not elect to seek another underwriter or underwriters for such Firm Securities as aforesaid, then this Agreement shall terminate.

If, following exercise of the option provided in Section 3(c) hereof, any Underwriter or Underwriters shall for any reason not permitted hereunder cancel their obligations to purchase Option Securities at the Option Closing Date, or shall fail to take up and pay for the number of Option Securities, which it became obligated to purchase at the Option Closing Date upon tender of such Option Securities in accordance with the terms hereof, then the remaining Underwriters or substituted Underwriters may take up and pay for the Option Units of the defaulting Underwriters in the manner provided in Section 11(b) hereof. If the remaining Underwriters or substituted Underwriters shall not take up and pay for all such Option Securities, the Underwriters shall be entitled to purchase the number of Option Securities for which there is no default or, at their election, the option shall terminate, the exercise thereof shall be of no effect.

As used in this Agreement, the term "Underwriter" includes any person substituted for an Underwriter under this Section. In the event of termination, there shall be no liability on the part of any nondefaulting Underwriter to the Company, provided that the provisions of this Section 11 shall not in any event affect the liability of any defaulting Underwriter to the Company arising out of such default.

10. Survival. The respective representations, warranties, agreements, covenants, indemnities and other statements of the Company, any of its officers or directors and the Underwriters set forth in this agreement or made by or on behalf of them, respectively, pursuant to this agreement shall remain in full force and effect, regardless of (i) any investigation made by or on behalf of the Company, any of its officers or directors, any Underwriter or any controlling person referred to in section 8 hereof and (ii) delivery of and payment for the Securities. The respective agreements, covenants, indemnities and other statements set forth in sections 5 and 8 hereof shall remain in full force and effect, regardless of any termination or cancellation of this agreement.

11. Termination.

(a) This agreement may be terminated with respect to the Firm Securities or any Option Shares in the sole discretion of the Representative by notice to the Company given prior to the Firm Closing Date or the related Option Closing

Date, respectively, in the event that the Company shall have failed, refused or been unable to perform all obligations and satisfy all conditions on its part to be performed or satisfied hereunder at or prior thereto or if at or prior to the Firm Closing Date or such Option Closing Date, respectively,

(1) the Company sustains a loss by reason of explosion, fire, flood, accident or other calamity, which, in the opinion of the Underwriters, substantially affects the value of the properties of the Company or which materially interferes with the operation of the business of the Company regardless of whether such loss shall have been insured; there shall have been any material adverse change, or any development involving a prospective material adverse change (including, without limitation, a change in management or control of the Company), in the business, operations, condition (financial or otherwise), earnings or prospects of the Company, except in each case as described in or contemplated by the Prospectus (exclusive of any amendment or supplement thereto);

(2) any action, suit or proceeding shall be threatened, instituted or pending, at law or in equity, against the Company, by any person or by any federal, state, foreign or other governmental or regulatory commission, board or agency wherein any unfavorable result or decision could materially adversely affect the business, operations, condition (financial or otherwise), earnings or prospects of the Company;

(3) trading in the Common Stock or Warrants shall have been suspended by the Commission or the NASD, or trading in securities generally on the New York Stock Exchange shall have been suspended or minimum or maximum prices shall have been established on either such exchange or quotation system;

(4) a banking moratorium shall have been declared by New York or United States authorities; or

(5) there shall have been (A) an outbreak of hostilities between the United States and any foreign power (or, in the case of any ongoing hostilities, a material escalation thereof), (B) an outbreak of any other insurrection or armed conflict involving the United States or (C) any other calamity or crisis or material change in financial, political or economic conditions, having an effect on the financial markets that, in any case referred to in this clause (5), in the sole judgment of the Representative makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Securities as contemplated by the Registration Statement; or

(6) the Company's counsel or independent public accountants are unable to deliver any opinion, report or certificate relating to this offering which is qualified in any material respect (other than, in the case of this accountant's audit report, qualification with respect to the viability of the Company as a going concern).

(b) Termination of this agreement pursuant to this section 11 shall be without liability of any party to any other party except as provided in section 5(b) and section 8 hereof.

12. Information Supplied by the Underwriters. The statements set forth in the last paragraph on the front cover page and in the third paragraph under the heading "Underwriting" in any Preliminary Prospectus or the Prospectus (to the extent such statements relate to the Underwriters) constitute the only information furnished by the Underwriters to the Company for the purposes of sections 1(b) and 8(b) hereof. The Underwriters confirm that such statements (to such extent) are correct.

13. Notices. All notice hereunder to or upon either party hereto shall be deemed to have been duly given for all purposes if in writing and (i) delivered in person or by messenger or an overnight courier service against receipt, or (ii) send by certified or registered mail, postage paid, return receipt requested, or (iii) sent by telegram, facsimile, telex or similar means, provided that a written copy thereof is sent on the same day by postage paid first-class mail, to such party at the following address:

To the Company at: 829 West Stadium Lane
Sacramento, California 95834
Attn: Dr. Ramesh C. Trivedi
Fax: (916) 646-4075

To Rickel: 875 Third Avenue
New York, New York 10022
Attn: Corporate Finance Department
Fax: (212) 754-9646

To Aegis: 70 East Sunrise Highway
Valley Stream, New York 11581
Attn: [ ]
Fax: (516) 872-1155

or such other address as either party hereto may at any time, or from time to time, direct by notice given to the other party in accordance with this section. The date of giving of any such notice shall be, in the case of clause (i), the date of the receipt; in the case of clause (ii), five business days after such notice or demand is sent; and, in the cas of clause (iii), the business day next following the date such notice is sent.

14. Amendment. Except as otherwise provided herein, no amendment of this agreement shall be valid or effective, unless in writing and signed by or on behalf of the parties hereto.

15. Waiver. No course of dealing or omission or delay on the part of either party hereto in asserting or exercising any right hereunder shall constitute or operate as a waiver of any such right. No waiver of any provision hereof shall be effective, unless in writing and signed by or on behalf of the party to be charged therewith. No waiver shall be deemed a continuing waiver or waiver in respect of any other or subsequent breach or default, unless expressly so stated in writing.

16. Applicable Law. This agreement shall be governed by, and interpreted and enforced in accordance with, the laws of the State of New York without regard to principles of choice of law or conflict of laws.

17. Jurisdiction. Each of the parties hereto hereby irrevocably consents and submits to the exclusive jurisdiction of the Supreme Court of the State of New York and the United States District Court for the Southern District of New York in connection with any suit, action or other proceeding arising out of or relating to this agreement or the transactions contemplated hereby, waives any objection to venue in the County of New York, State of New York, or such District and agrees that service of any summons, complaint, notice or other process relating to such suit, action or other proceeding may be effected in the manner provided by clause (ii) of Section 13.

18. Remedies. In the event of any actual or prospective breach or default by either party hereto, the other party shall be entitled to equitable relief, including remedies in the nature of rescission, injunction and specific performance. All remedies hereunder are cumulative and not exclusive, and nothing herein shall be deemed to prohibit or limit either party from pursuing any other remedy or relief available at law or in equity for such actual or prospective breach or default, including the recovery of damages.

19. Attorneys' Fees. The prevailing party in any suit, action or other proceeding arising out of or relating to this agreement or the transactions contemplated hereby, shall be entitled to recover its costs and reasonable attorneys' fees.

20. Severability. The provisions hereof are severable and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable in any respect by a court of competent jurisdiction, the remaining provisions hereof shall not be affected, but shall, subject to the discretion of such court, remain in full force and effect, and any invalid or unenforceable provision shall be deemed, without further action on the part of the parties hereto, amended and limited to the extent necessary to render the same valid and enforceable.

21. Counterparts. This agreement may be executed in counterparts, each of which shall be deemed an original and which together shall constitute one and the same agreement.

22. Successors. This agreement shall inure to the benefit of and be binding upon the Underwriters, the Company and their respective successors and assigns. Nothing expressed or mentioned in this agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this agreement, or any provisions herein contained, this agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person except that (i) the indemnities of the Company contained in section 8 of this agreement shall also be for the benefit of any person or persons who control any Underwriter within the meaning of section 15 of the Act or section 20 of the Exchange Act and (ii) the indemnities of the Underwriters contained in section 8 of this agreement shall also be for the benefit of the directors of the Company, the officers of the Company who have signed the Registration Statement and any person or persons who control the Company within the meaning of section 15 of the Act or section 20 of the Exchange Act. No purchaser of Securities from the Underwriters shall be deemed a successor because of such purchase.

23. Titles and Captions. The titles and captions of the articles and sections of this agreement are for convenience of reference only and do not in any way define or interpret the intent of the parties or modify or otherwise affect any of the provisions hereof.

24. Grammatical Conventions. Whenever the context so requires, each pronoun or verb used herein shall be construed in the singular or the plural sense and each capitalized term defined herein and each pronoun used herein shall be construed in the masculine, feminine or neuter sense.

25. References. The terms "herein," "hereto," "hereof," "hereby," and "hereafter," and other terms of similar import, refer to this Agreement as a whole, and not to any Article, Section or other part hereof.

26. Entire Agreement. This Agreement embodies the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes any prior agreement, commitment or arrangement relating thereto.

If the foregoing correctly sets forth our understanding, please indicate your acceptance thereof in the space provided below for that purpose, whereupon this letter shall constitute an agreement binding the Company and the Underwriters.

Very truly yours,

INTEGRATED SURGICAL SYSTEMS, INC.

By:____
Name: Ramesh Trivedi
Title: President and Chief Executive Officer

The foregoing agreement is hereby confirmed and accepted as of the date first above written.

RICKEL & ASSOCIATES, INC.

By:___________________________
Name: Gregg Smith
Title: Managing Director

AEGIS CAPITAL CORP.

By:___________________________
Name:
Title:

Schedule I

Underwriter	Number of Shares	Number of Redeemable Warrants
Rickel & Associates, Inc.		
Aegis Capital Corp.		
Total:	1,500,000	1,500,000

Exhibit 4.1

NO SALE OR TRANSFER OF THIS WARRANT OR THE SECURITIES UNDERLYING THIS WARRANT MAY BE MADE UNTIL THE EFFECTIVENESS OF A REGISTRATION STATEMENT OR OF A POST-EFFECTIVE AMENDMENT THERETO UNDER THE SECURITIES ACT OF 1933 (THE "ACT"), COVERING THIS WARRANT OR THE SECURITIES UNDERLYING THIS WARRANT, OR UNTIL THE COMPANY RECEIVES AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY TO THE EFFECT THAT SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE ACT. TRANSFER OF THIS WARRANT IS RESTRICTED UNDER PARAGRAPH 2 BELOW.

UNDERWRITERS' WARRANT TO PURCHASE

COMMON STOCK AND REDEEMABLE WARRANTS

INTEGRATED SURGICAL SYSTEMS, INC.
(A DELAWARE CORPORATION)

Dated: _______ ___, 1996

THIS CERTIFIES THAT, for value received, Rickel & Associates, Inc. (the "Representative") and Aegis Capital Corp. ("Aegis") (collectively, the "Underwriters") or its registered assigns (the Underwriters and any such registered assign, a "Holder") are the owners of this warrant (the "Underwriters' Warrant") to purchase from Integrated Surgical Systems, Inc., a Delaware corporation (the "Company"), during the period and at the prices hereinafter specified, up to

150,000 shares of the Company's common stock, par value $.01 per share (the "Common Stock"), and up to 150,000 redeemable common stock purchase warrants (the "Warrants" and, together with the Common Stock, the "Securities"). Aegis may purchase up to a maximum of 40,000 Securities.

This Underwriters' Warrant is issued pursuant to an Underwriting Agreement dated _______ ___, 1996 between the Company and the Underwriters in connection with a public offering through the Underwriters (the "Public Offering") of (i) 1,500,000 shares of Common Stock and 1,500,000 warrants, and (ii) pursuant to this Underwriters' over-allotment option (the "Over-allotment Option") , an additional 225,000 shares of Common Stock and 225,000 warrants (collectively, the warrants to purchase such _________ shares and the warrants issuable upon exercisable upon exercise of this Warrant are called the "Warrants"). The Warrants will be issued pursuant to, and subject to the terms and conditions set forth in, an agreement between the Company, the Underwriters and American Stock Transfer & Trust Company (the "Warrant Agreement").

1. Exercise of the Underwriters' Warrant.

(a) The rights represented by this Underwriters' Warrant shall be exercisable at the prices and during the period specified below, upon the terms and subject to the conditions as set forth herein:
[/R]

(i) During the period from _______ ___, 1996 to _______ ___, 1997, inclusive, the Holder shall have no right to purchase any Securities hereunder.

(ii) Between _______ ___, 1997 and _______ ___, 2001, inclusive, the Holder shall have the option to purchase 150,000 shares of Common Stock and 150,000 Warrants hereunder at a price of $9.90 per share and $.165 per Warrant, respectively, the purchase price of the Common Stock and the Warrants being 165% of the public offering prices for the Securities set forth in the Prospectus forming a part of the registration statement on Form SB-2 (File No. 333-9207) of the Company, as amended (the "Registration Statement").

(iii) After _______ ___, 2001, the Holder shall have no right to purchase any Securities hereunder and this Underwriters' Warrant shall expire effective at 5:00 p.m., New York time on such date.

(b) The rights represented by this Underwriters' Warrant may be exercised at any time within the period above specified, in whole or in part, by (i) the surrender of this Underwriters' Warrant (with the purchase form at the end hereof properly executed) at the principal executive office of the Company (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company); (ii) payment to the Company of the exercise price then in effect for the number of shares of Common Stock and Warrants specified in the above-mentioned purchase form together with applicable stock transfer taxes, if any; and (iii) delivery to the Company of a duly executed agreement signed by the person(s) designated in the purchase form to the effect that such person(s) agree(s) to be bound by the provisions of Paragraph 5 and subparagraphs (b), (c) and (d) of Paragraph 6 hereof. This Underwriters' Warrant shall be deemed to have been exercised, in whole or in part to the extent specified, immediately prior to the close of business on the date this Underwriters' Warrant is surrendered

and payment is made in accordance with the foregoing provisions of this Paragraph 1, and the person or persons in whose name or names the certificates for the Securities shall be issuable upon such exercise shall become the holder or holders of record of such Common Stock and Warrants at that time and date. The Common Stock and Warrants so purchased shall be delivered to the Holder within a reasonable time, not exceeding ten business days, after the rights represented by this Underwriters' Warrant shall have been so exercised.

2. Restrictions on Transfer. This Underwriters' Warrant shall not be sold, transferred, assigned, pledged or hypothecated for a period of one year commencing on _______ ___, 1996, except that it may be transferred to successors of the Holder, and may be assigned in whole or in part to any person who is an officer of the Underwriters or a partner, officer of any other member of the selling group during such period. Any such assignment shall be effected by the Holder by (i) completing and executing the transfer form at the end hereof and (ii) surrendering this Underwriters' Warrant with such duly completed and executed transfer form for cancellation, accompanied by funds sufficient to pay any transfer tax, at the office or agency of the Company referred to in Paragraph 1 hereof, accompanied by a certificate (signed by a duly authorized representative of the Holder) , stating that each transferee is a permitted transferee under this Paragraph 2; whereupon the Company shall issue, in the name or names specified by the Holder, a new Underwriters' Warrant or Underwriters' Warrants of like tenor and representing in the aggregate rights to purchase the same number of Securities as are then purchasable hereunder. The Holder acknowledges that this Underwriters' Warrant may not be offered or sold except

pursuant to an effective registration statement under the Act or an opinion of counsel satisfactory to the Company that an exemption from registration under the Act is available.

3. Covenants of the Company.

(a) The Company covenants and agrees that all Common Stock issuable upon the exercise of this Underwriters' Warrant will, upon issuance thereof and payment therefor in accordance with the terms hereof, and all Common Stock issuable upon exercise of the Warrants underlying this Underwriters' Warrant will, upon the issuance thereof and payment therefor in accordance with the terms of the Warrant Agreement, be duly and validly issued, fully paid and nonassessable and no personal liability will attach to the Holder thereof by reason of being such a Holder, other than as set forth herein.

(b) The Company covenants and agrees that during the period within which this Underwriters' Warrant may be exercised, the Company will at all times have authorized and reserved a sufficient number of shares of Common Stock to provide for the exercise of this Underwriters' Warrant and the Warrants included therein.

(c) The Company covenants and agrees that for so long as the Securities shall be outstanding (unless the Securities shall no longer be registered under Paragraph 12(b) or 12(g) of the Securities Exchange Act of 1934) the Company shall use its best efforts to cause all shares of Common Stock issuable upon the exercise of the Underwriters' Warrant and the Warrants included therein, to be included on the Nasdaq Stock Market or listed on a national securities exchange.

4. No Rights as Stockholder. This Underwriters' Warrant shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company, either

at law or in equity, and the rights of the Holder are limited to those expressed in this Underwriters' Warrant and are not enforceable against the Company except to the extent set forth herein.

5. Registration Rights.

(a) During the period of four years from _______ ___, 1997, the Company shall advise the Holder, whether the Holder holds this Underwriters' Warrant or has exercised this Underwriters' Warrant and holds Common Stock and Warrants, or Common Stock underlying the Warrants (the "Warrant Shares") , by written notice at least 30 days prior to the filing of any post-effective amendment to the Registration Statement or of any new registration statement or post-effective amendment thereto under the Act, covering any securities of the Company, for its own account or for the account of others, and upon the request of the Holder made during such four-year period, include in any such post-effective amendment or registration statement such information as may be required to permit a public offering of any of the Common Stock or Warrants issuable hereunder, and/or the Warrant Shares (the "Registrable Securities"); provided, that this Paragraph 5(a) shall not apply to any registration statement filed pursuant to Paragraph 5(b) hereof or to registrations of shares in connection with an employee benefit plan or a merger, consolidation or other comparable acquisition or solely for registration of non-convertible debt or preferred equity securities of the Company; and provided, further, that, notwithstanding the foregoing, the Holder shall have no right to include any Registrable Securities in any new registration statement or post-effective amendment thereto unless as of the effective date thereof the Registration Statement (as it may hereafter be amended or supplemented) or any new registration statement under which the Registrable Securities are registered shall have ceased

to be effective or the prospectus contained in such Registration Statement shall have ceased to be current. The Company shall supply prospectuses in order to facilitate the public sale or other disposition of the Registrable Securities, use its best efforts to register and qualify any of the Registrable Securities for sale in such states in which the Common Stock and Warrants are offered and sold in the Public Offering as such Holder reasonably designates, furnish indemnification in the manner provided in Paragraph 6 hereof, and do any and all other acts and things which may be necessary to enable such Holder to consummate the public sale of the Registrable Securities; provided, that, without limiting the foregoing, the Company shall not be obligated to execute or file any general consent to service of process or to qualify as a foreign corporation to do business under the laws of any such jurisdiction. The Holder shall furnish information reasonably requested by the Company in accordance with such post-effective amendments or registration statements, including its intentions with respect thereto, and shall furnish indemnification as set forth in Paragraph 6. The Company shall continue to advise the Holders of the Registrable Securities of its intention to file a registration statement or amendment pursuant to this Paragraph 5(a) until the earliest of (i) _______ ___, 2001; or (ii) such time as all of the Registrable Securities have been registered and sold under the Act; or (iii) such time as all of the Registrable Securities have been otherwise transferred, new certificates for them not bearing a legend restricting further transfer shall have been delivered by the Company and subsequent public distribution of them shall not require registration or qualification of them under the Act; or (iv) such time as in the opinion of legal counsel for the Company, the Registrable Securities may be offered and sold by the holders thereof without being registered under the Act

and such securities, upon receipt by the purchasers thereof pursuant to such sale, will not constitute "restricted securities" as such term is defined in Rule 144 under the Act.

(b) If any 51% holder (as defined below) shall give notice to the Company at any time during the four-year period beginning one year from __________, 1996 to the effect that such Holder desires to register under the Act any Registrable Securities, under such circumstances that a public distribution (within the meaning of the Act) of any such Registrable Securities will be involved (and the Registration Statement or any new registration statement under which such Registrable Securities are registered shall have ceased to be effective or the Prospectus contained therein shall have ceased to be current) , then the Company will as promptly as practicable after receipt of such notice, but not later than 30 days after receipt of such notice, at the Company's option, file a post effective amendment to the current Registration Statement or a new registration statement pursuant to the Act to the end that the Registrable Securities may be publicly sold under the Act as promptly as practicable thereafter and the Company will use its best efforts to cause such registration to become and remain effective as provided herein (including the taking of such steps as are reasonably necessary to obtain the removal of any stop order); provided, that such 51% holder shall furnish the Company with appropriate information in connection therewith as the Company may reasonably request; and provided, further, that the Company shall not be required to file such a post-effective amendment or registration statement pursuant to this Paragraph 5(b) on more than two occasions; and provided, further, that the registration rights of the 51% holder under this Paragraph 5(b) shall be subject to the "piggyback" registration rights of other holders of securities of the Company to include such securities in any registration statement or post-effective amendment filed pursuant to this Paragraph 5(b). The

Company will maintain such registration statement or post-effective amendment current under the Act for a period of at least nine months from the effective date thereof. The Company shall supply prospectuses in order to facilitate the public sale of the Registrable Securities, use its best efforts to register and qualify any of the Registrable Securities for sale in such states in which the Common Stock and Warrants are offered and sold in the Public Offering as such holder reasonably designates and furnish indemnification in the manner provided in Paragraph 6 hereof, provided that, without limiting the foregoing, the Company shall not be obligated to execute or file any general consent to service of process or to qualify as a foreign corporation to do business under the laws of any such jurisdiction.

(c) The Holder may, in accordance with Paragraphs 5(a) or (b), at his or its option, and subject to the limitations set forth in Paragraph 1(a) hereof, request the registration of any of the Registrable Securities in a filing made by the Company prior to the acquisition of the Securities upon exercise of this Underwriters' Warrant. The Holder may thereafter exercise this Underwriters' Warrant at any time or from time to time subsequent to the effectiveness under the Act of the registration statement which relates to the Common Stock underlying the Underwriters' Warrants and Warrants included therein.

(d) The term "51% holder," as used in this Paragraph 5, shall include any owner or combination of owners of Underwriters' Warrants or Registrable Securities if the aggregate number of shares of Common Stock and Warrant Shares included in and underlying the Underwriters' Warrants and Registrable Securities held of record by it or them, would constitute a majority of the aggregate of such shares of Common Stock and

Warrant Shares underlying the Underwriters' Warrant and Registrable Securities as of the date of the initial issuance of the Underwriters' Warrant.

(e) The following provisions of this Paragraph 5 shall also be applicable:

(i) Within ten (10) days after receiving any notice pursuant to Paragraph 5(b), the Company shall give notice to the other Holders of Underwriters' Warrants or Registrable Securities, advising that the Company is proceeding with such post-effective amendment or registration and offering to include therein the Registrable Securities of such other Holders, provided that they shall furnish the Company with all information in connection therewith as shall be necessary or appropriate and as the Company shall reasonably request in writing. Following the effective date of such post-effective amendment or registration statement, the Company shall, upon the request of any Holder of Registrable Securities, forthwith supply such number of prospectuses meeting the requirements of the Act, as shall be reasonably requested by such Holder. The Company shall use its best efforts to qualify the Registrable Securities for sale in such states in which the Common Stock and Warrants are offered and sold in the Public Offering as the 51% holder shall reasonably designate at such times as the registration statement is effective under the Act; provided, that, without limiting the foregoing, the Company shall not be obligated to execute or file any general consent to service of process or to qualify as a foreign corporation to do business under the laws of any such jurisdiction.

(ii) The Company shall bear the entire cost and expense of any registration of securities initiated by it under Paragraph 5(a) hereof notwithstanding that the Registrable Securities subject to this Underwriters' Warrant may be included in any

such registration. The Company shall also comply with the one request for registration made by the 51% holder pursuant to Paragraph 5(b) hereof at the Company's own expense and without charge to any holder of the Registrable Securities, but the expenses of registration pursuant to the second request, if any, for registration pursuant to Paragraph 5(b) shall be borne by the Company and the Holders of Registrable Securities included therein in proportion to the aggregate offering prices of the securities being offered by the Company included therein and the aggregate offering price of the Registrable Securities included therein. Notwithstanding the foregoing, any Holder whose Registrable Securities are included in any such registration statement pursuant to this Paragraph 5 shall, however, bear the fees of any counsel retained by him and any transfer taxes or underwriting discounts or commissions applicable to the Registrable Securities sold by him pursuant thereto and, in the case of a registration pursuant to Paragraph 5(a) hereof, any additional registration or "blue sky" or state securities fees attributable to the registration or qualification of such Holder's Registrable Securities.

(iii) If the underwriter or managing underwriter in any underwritten offering made pursuant to Paragraph 5(a) hereof shall advise the Company that it declines to include a portion or all of the Registrable Securities requested by the Holders to be included in the registration statement, then distribution of all or a specified portion of the Registrable Securities shall be excluded from such registration statement (in case of an exclusion as to a portion of such Registrable Securities, such portion to be allocated among such Holders in proportion to the respective numbers of Registrable Securities requested to be registered by each such Holder). In such event the Company shall give the Holder prompt notice of the number of Registrable Securities excluded. Further, in such event the Company shall, commencing six months after the

completion of such underwritten offering, file and use its best efforts to have declared effective, at its sole expense (subject to the last sentence of Paragraph 5(a)(ii)), a registration statement relating to such excluded securities.

(iv) Notwithstanding anything to the contrary contained herein, the Company shall have the right at any time after it shall have given written notice pursuant to Paragraph 5(a) or 5(b) (irrespective of whether a written request for inclusion of any Registrable Securities shall have been made) to elect not to file or to delay any such proposed registration statement or post effective amendment thereto, or to withdraw the same after the filing but prior to the effective date thereof. In addition, the Company may delay the filing of any registration statement or post effective amendment requested pursuant to Paragraph 5(b) hereof by not more than 120 days if the Company, prior to the time it would otherwise have been required to file such registration statement or post-effective amendment thereto, determines in good faith that the filing of the registration statement would require the disclosure of non-public material information that, in its judgment, would be detrimental to the Company if so disclosed or would otherwise adversely affect a financing, acquisition, disposition, merger or other material transaction.

(v) If a registration pursuant to Paragraph 5(a) hereof involves an underwritten offering, the Company shall have the right to select the investment banker or investment bankers and manager or managers that will serve as underwriters with respect to the underwritten offering. No Holder of Registrable Securities may participate in any underwritten offering under this Agreement unless such Holder completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwritten offering, in each case, in the form and upon terms reasonably

acceptable to the Company and the underwriters. The requested registration pursuant to Paragraph 5 (b) hereof shall not involve an underwritten offering unless the Company shall first give its written approval of each underwriter that participates in the offering, such approval not to be unreasonably withheld.

6. Indemnification.

(a) Whenever pursuant to Paragraph 5, a registration statement relating to any Registrable Securities is filed under the Act, amended or supplemented, the Company will indemnify and hold harmless each Holder of the Registrable Securities covered by such registration statement, amendment or supplement (such holder hereinafter referred to as the "Distributing Holder"), each person, if any, who controls (within the meaning of the Act) the Distributing Holder, and each officer, employee, partner or agent of the Distributing Holder, if the Distributing Holder is a broker or dealer, and each underwriter (within the meaning of the Act) of such securities and each person, if any, who controls (within the meaning of the Act) any such underwriter and each officer, employee, agent or partner of such underwriter against any losses, claims, damages or liabilities, joint or several, to which the Distributing Holder, any such underwriter or any other person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any such registration statement or any preliminary prospectus or final prospectus constituting a part thereof or any amendment or supplement thereto, or arise out of or are based upon the omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which such statements were made, not misleading; and will

reimburse the Distributing Holder and each such underwriter or such other person for any legal or other expenses reasonably incurred by the Distributing Holder, or Underwriters or such other person, in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case (i) to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, such preliminary prospectus, such final prospectus or such amendment or supplement in reliance upon and in conformity with written information furnished by such Distributing Holder, any other Distributing Holder or any such underwriter for use in the preparation thereof, or (ii) such losses, claims, damages or liabilities arise out of or are based upon any actual or alleged untrue statement or omission made in or from any preliminary prospectus, but corrected in the final prospectus, as amended or supplemented.

(b) Whenever pursuant to Paragraph 5 a registration statement relating to the Registrable Securities is filed under the Act, or is amended or supplemented, the Distributing Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed such registration statement and such amendments and supplements thereto, and each person, if any, who controls the Company (within the meaning of the Act) against any losses, claims, damages or liabilities to which the Company or any such director, officer or controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue or alleged untrue statement of any material fact contained in any such registration statement or any preliminary prospectus or final prospectus constituting a part thereof, or any amendment or

supplement thereto, or arise out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in such registration statement, such preliminary prospectus, such final prospectus or such amendment or supplement in reliance upon and in conformity with written information furnished by such Distributing Holder for use in the preparation thereof; and will reimburse the Company or any such director, officer or controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action.

(c) Promptly after receipt by an indemnified party under this Paragraph 6 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party, give the indemnifying party notice of the commencement thereof; but the omission to so notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this Paragraph 6.

(d) In case any such action is brought against any indemnified party, and it notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate in, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Paragraph 6 for any legal or other expenses subsequently incurred by

such indemnified party in connection with the defense thereof other than reasonable costs of investigation.

7. Adjustments of Warrant Price and Number of Shares of Common Stock.

(a) Computation of Adjusted Price. Except as hereinafter provided, in case the Company shall, at any time after the date of closing of the sale of securities pursuant to the Public Offering (the "Closing Date"), issue or sell any shares of Common Stock (other than the issuances or sales referred to in Paragraph 7(f) hereof), including shares held in the Company's treasury and shares of Common Stock issued upon the exercise of any options, rights or warrants to subscribe for shares of Common Stock (other than the issuances or sales of Common Stock pursuant to rights to subscribe for such Common Stock distributed pursuant to Paragraph 7(j) hereof) and shares of Common Stock issued upon the direct or indirect conversion or exchange of securities for shares of Common Stock, for a consideration per share less than both the "Market Price" (as defined in Paragraph 7 (a)(vi) hereof) per share of Common Stock on the trading day immediately preceding such issuance or sale and the Underwriters' Warrant Price (as defined below) in effect immediately prior to such issuance or sale, or without consideration, then forthwith upon such issuance or sale, the Underwriters' Warrant Price in respect of the Common Stock issuable upon exercise of this Underwriters' Warrant (but not the exercise price of the Warrants issuable upon exercise of this Underwriters' Warrant, which shall be adjusted only in accordance with the Warrant Agreement) shall (until another such issuance or sale) be reduced to the price (calculated to the nearest full cent) determined by multiplying the Underwriters' Warrant Price in effect immediately

prior to such issuance or sale by a fraction, the numerator of which shall be the sum of (1) the number of shares of Common Stock outstanding immediately prior to such issuance or sale multiplied by the Underwriters' Warrant Price immediately prior to such issuance or sale plus (2) the consideration received by the Company upon such issuance or sale, and the denominator of which shall be the product of (x) the total number of shares of Common Stock outstanding immediately after such issuance or sale, multiplied by (y) the Underwriters' Warrant Price immediately prior to such issuance or sale; provided, however, that in no event shall the Underwriters' Warrant Price be adjusted pursuant to this computation to an amount in excess of the Underwriters' Warrant Price in effect immediately prior to such computation, except in the case of a combination of outstanding shares of Common Stock, as provided by Paragraph 7(c) hereof. For the purposes of this Paragraph 7, the term "Underwriters' Warrant Price" shall mean the exercise price per share of Common Stock issuable upon exercise of the Underwriters' Warrant (initially $7.00 per share), as adjusted from time to time pursuant to the provisions of this Paragraph 7.

For the purposes of any computation to be made in accordance with this Paragraph 7(a), the following provisions shall be applicable:

(i) In case of the issuance or sale of shares of Common Stock for a consideration part or all of which shall be cash, the amount of the cash consideration therefor shall be deemed to be the amount of cash received by the Company for such shares (or, if shares of Common Stock are offered by the Company for subscription, the subscription price, or, if such securities shall be sold to underwriters or dealers for public offering without a subscription offering, the public offering price) before deducting therefrom any compensation paid or discount

allowed in the sale, underwriting or purchase thereof by underwriters or dealers or others performing similar services, or any expenses incurred in connection therewith.

(ii) In case of the issuance or sale (otherwise than as a dividend or other distribution on any stock of the Company) of shares of Common Stock for a consideration part or all of which shall be other than cash, the amount of the consideration therefor other than cash shall be deemed to be the value of such consideration as determined in good faith by the Board of Directors of the Company.

(iii) Shares of Common Stock issuable by way of dividend or other distribution on any stock of the Company shall be deemed to have been issued immediately after the opening of business on the day following the record date for the determination of stockholders entitled to receive such dividend or other distribution and shall be deemed to have been issued without consideration.

(iv) The reclassification of securities of the Company other than shares of Common Stock into securities including shares of Common Stock shall be deemed to involve the issuance of such shares of Common Stock for a consideration other than cash immediately prior to the close of business on the date fixed for the determination of security holders entitled to receive such shares, and the value of the consideration allocable to such shares of Common Stock shall be determined as provided in subparagraph (ii) of this Paragraph 7(a).

(v) The number of shares of Common Stock at any one time outstanding shall include the aggregate number of shares issued or issuable upon the exercise of options, rights or warrants and upon the conversion or exchange of convertible or exchangeable securities.

(vi) As used herein, the phrase "Market Price" at any date shall be deemed to be the average of the last reported sale price, or, in case no such reported sale takes place on such day, the average of the last reported sale prices for the last three trading days, in either case as officially reported by the principal securities exchange on which the Common Stock is listed or admitted to trading or as reported in the Nasdaq Stock Market, or, if the Common Stock is not listed or admitted to trading on any national securities exchange or quoted on the Nasdaq Stock Market, the closing bid quotation as furnished by the National Association of Securities Dealers, Inc. through Nasdaq or a similar organization if Nasdaq is no longer reporting such information, or if the Common Stock is not quoted on Nasdaq, as determined in good faith by resolution of the Board of Directors of the Company, based on the best information available to it for the day immediately preceding such issuance or sale, the day of such issuance or sale and the day immediately after such issuance or sale. If the Common Stock is listed or admitted to trading on a national securities exchange and also quoted on the Nasdaq Stock Market, the Market Price shall be determined as hereinabove provided by reference to the prices reported in the Nasdaq Stock Market; provided that if the Common Stock is listed or admitted to trading on the New York Stock Exchange, the Market Price shall be determined as hereinabove provided by reference to the prices reported by such exchange.

(b) Options, Rights, Warrants and Convertible and Exchangeable Securities. Except in the case of the Company issuing rights to subscribe for shares of Common Stock distributed pursuant to Paragraph 7(j) hereof, if the Company shall at any time after the Closing Date issue options, rights or warrants to subscribe for shares of Common Stock, or issue any securities convertible into or exchangeable for shares of Common Stock, in each case other than

the issuances or sales referred to in Paragraph 7(f) hereof, (i) for a consideration per share less than the lesser of (a) the Underwriters' Warrant Price in effect immediately prior to the issuance of such options, rights or warrants, or such convertible or exchangeable securities, or (b) the Market Price on the trading day immediately preceding such issuance, or (ii) without consideration, the Underwriters' Warrant Price in effect immediately prior to the issuance of such options, rights or warrants, or such convertible or exchangeable securities, as the case may be, shall be reduced to a price determined by making a computation in accordance with the provisions of Paragraph 7(a) hereof, provided that:

(i) The aggregate maximum number of shares of Common Stock, as the case may be, issuable under all the outstanding options, rights or warrants shall be deemed to be issued and outstanding at the time all the outstanding options, rights or warrants were issued, and for a consideration equal to the minimum purchase price per share provided for in the options, rights or warrants at the time of issuance, plus the consideration (determined in the same manner as consideration received on the issue or sale of shares in accordance with the terms of Paragraph 7(a) hereof), if any, received by the Company for the options, rights or warrants, and if no minimum purchase price is provided in the options, rights or warrants, then the minimum purchase price shall be equal to zero; provided, however, that upon the expiration or other termination of the options, rights or warrants, if any thereof shall not have been exercised, the number of shares of Common Stock deemed to be issued and outstanding pursuant to this subparagraph (b) (and for the purposes of subparagraph (v) of Paragraph 7(a) hereof) shall be reduced by such number of shares as to which options, warrants and/or rights shall have expired or terminated unexercised, and such number of shares shall no longer be deemed to be issued and outstanding, and the

Warrant Price then in effect shall forthwith be readjusted and thereafter be the price which it would have been had adjustment been made on the basis of the issuance only of shares actually issued or issuable upon the exercise of those options, rights or warrants as to which the exercise rights shall not have expired or terminated unexercised.

(ii) The aggregate maximum number of shares of Common Stock issuable upon conversion or exchange of any convertible or exchangeable securities shall be deemed to be issued and outstanding at the time of issuance of such securities, and for a consideration equal to the consideration (determined in the same manner as consideration received on the issue or sale of shares of Common Stock in accordance with the terms of Paragraph 7 (a) hereof) received by the Company for such securities, plus the minimum consideration, if any, receivable by the Company upon the conversion or exchange thereof; provided, however, that upon the expiration or other termination of the right to convert or exchange such convertible or exchangeable securities (whether by reason of redemption or otherwise), the number of shares deemed to be issued and outstanding pursuant to this subparagraph (ii) (and for the purpose of subparagraph (v) of Paragraph 7(a) hereof) shall be reduced by such number of shares as to which the conversion or exchange rights shall have expired or terminated unexercised, and such number of shares shall no longer be deemed to be issued and outstanding, and the Warrant Price then in effect shall forthwith be readjusted and thereafter be the price which it would have been had adjustment been made on the basis of the issuance only of the shares actually issued or issuable upon the conversion or exchange of those convertible or exchangeable securities as to which the conversion or exchange rights shall not have expired or terminated unexercised. No adjustment will be made pursuant to this subparagraph (ii) upon the issuance by the Company of any

convertible or exchangeable securities pursuant to the exercise of any option, right or warrant exercisable therefor, to the extent that adjustments in respect of such options, rights or warrants were previously made pursuant to the provisions of subparagraph (i) of this subparagraph 7(b).

(iii) If any change shall occur in the price per share provided for in any of the options, rights or warrants referred to in subparagraph (i) of this Paragraph 7 (b) , or in the price per share at which the securities referred to in subparagraph (ii) of this Paragraph 7 (b) are convertible or exchangeable, or if any such options, rights or warrants are exercised at a price greater than the minimum purchase price provided for in such options, rights or warrants, or any such securities are converted or exercised for more than the minimum consideration receivable by the Company upon such conversion or exchange, the options, rights or warrants or conversion or exchange rights, as the case may be, shall be deemed to have expired or terminated on the date when such price change became effective in respect of shares not theretofore issued pursuant to the exercise or conversion or exchange thereof, and the Company shall be deemed to have issued upon such date new options, rights or warrants or convertible or exchangeable securities at the new price with respect of the number of shares issuable upon the exercise of such options, rights or warrants or the conversion or exchange of such convertible or exchangeable securities; provided, however, that no adjustment shall be made pursuant to this subparagraph (iii) with respect to any change in the price per share provided for in any of the options, rights or warrants referred to in subparagraph (i) of this Paragraph 7, or in the price per share at which the securities referred to in subparagraph (ii) of this Paragraph 7(b) are convertible or exchangeable, which change results from the application of the anti-dilution provisions thereof in connection with an event for which, subject to subparagraph (iv) of Paragraph 7(f), an adjustment to the Warrant

Price and the number of securities issuable upon exercise of the Warrants will be required to be made pursuant to this Paragraph 7 and the Warrant Agreement, respectively.

(c) Subdivision and Combination. In case the Company shall at any time after the Closing Date subdivide or combine the outstanding shares of Common Stock, the Warrant Price shall forthwith be proportionately decreased in the case of subdivision or increased in the case of combination.

(d) Adjustment in Number of Shares. Upon each adjustment of the Warrant Price pursuant to the provisions of this Paragraph 7, the number of shares of Common Stock (but not the number of Warrants, which are subject to adjustment as set forth in the Warrant Agreement) issuable upon the exercise of the Underwriters' Warrant shall be adjusted to the nearest full whole number by multiplying a number equal to the Underwriters' Warrant Price in effect immediately prior to such adjustment by the number of shares of Common Stock issuable upon exercise of the Underwriters' Warrant immediately prior to such adjustment and dividing the product so obtained by the adjusted Underwriters' Warrant Price.

(e) Reclassification, Consolidation, Merger, etc. In case of any reclassification or change of the outstanding shares of Common Stock (other than a change in par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), or in the case of any consolidation of the Company with, or merger of the Company into, another corporation (other than a consolidation or merger which does not result in any reclassification or change of the outstanding shares of Common Stock, except a change as a result of a subdivision or combination of such shares or a change in par value, as aforesaid), or in the case of a sale or

conveyance to another corporation of the property of the Company as an entirety, the Holder shall thereafter have the right to purchase the kind and number of shares of stock and other securities and property receivable upon such reclassification, change, consolidation, merger, sale or conveyance as if the Holder were the owner of the shares of Common Stock underlying the Underwriters' Warrant immediately prior to any such events (but not the shares of Common Stock issuable upon exercise of any Warrants underlying the Underwriters' Warrant) at a price equal to the product of (x) the number of shares issuable upon exercise of the Underwriters' Warrant (but not the shares of Common Stock issuable upon exercise of any Warrants underlying the Underwriters' Warrant) and (y) the Warrant Price in effect immediately prior to the record date for such reclassification, change, consolidation, merger, sale or conveyance as if such Holder had exercised the Underwriters' Warrant.

(f) No Adjustment of Warrant Price in Certain Cases. Notwithstanding anything herein to the contrary, no adjustment of the Warrant Price shall be made:

(i) Upon the issuance or sale of the Underwriters' Warrant, the shares of Common Stock or Warrants issuable upon the exercise of the Underwriters' Warrant or the shares of Common Stock issuable upon exercise of the Warrants underlying the Underwriters' Warrant; or

(ii) Upon the issuance or sale of (A) the shares of Common Stock or Warrants issued by the Company in the Public Offering (including pursuant to the Over-allotment Option) or other shares of Common Stock or warrants issued by the Company upon

consummation of the Public Offering, or (B) the shares of Common Stock (or other securities) issuable upon exercise of Warrants; or

(iii) Upon (i) the issuance of options pursuant to the Company's incentive stock option plan in effect on the date hereof or as hereafter amended in accordance with the terms thereof or any other employee or executive stock option plan approved by stockholders of the Company or the sale by the Company of any shares of Common Stock pursuant to the exercise of any such options, or (ii) the sale by the Company of any shares of Common Stock pursuant to the exercise of any options or warrants issued and outstanding on the date of closing of the sale of Common Stock and Warrants pursuant to the Public Offering or (iii) the issuance or sale by the Company of any shares of Common Stock pursuant to the Company's restricted stock plan in effect on the date hereof; or

(iv) If the amount of said adjustment shall be less than two cents (2(cent)) per share of Common Stock.

(g) Adjustment of Warrants Underlying Underwriters' Warrant. With respect to the Warrants underlying the Underwriters' Warrant, the exercise price of such Warrants and the number of shares of Common Stock purchasable pursuant to such Warrants shall be automatically adjusted in accordance with the applicable provisions of the Warrant Agreement, upon the occurrence, at any time after the date hereof, of any of the events described in the Warrant Agreement requiring such adjustment, with the same force and effect as if such Warrants had been issued as of this date, whether or not such Warrants shall have been exercised (or are exercisable) at the time of the occurrence of such event and whether or not such Warrants shall be issued and outstanding at the time of the occurrence of such event. Thereafter,

such Warrants shall be exercisable at such Warrant's adjusted exercise price for such adjusted number of shares of Common Stock or other securities, properties or rights as provided for in the Warrant Agreement.

(h) Redemption of Underwriters' Warrant. Notwithstanding anything to the contrary contained in this Agreement or elsewhere, the Underwriters' Warrant cannot be redeemed by the Company under any circumstances.

(i) Dividends and Other Distributions with Respect to Outstanding Securities. In the event that the Company shall at any time after the Closing Date and prior to the exercise and expiration of the Underwriters' Warrant declare a dividend (other than a dividend consisting solely of shares of Common Stock or a cash dividend or distribution payable out of current or retained earnings) or otherwise distribute to the holders of Common Stock any monies, assets, property, rights, evidences of indebtedness, securities (other than such a cash dividend or distribution or dividend consisting solely of shares of Common Stock), whether issued by the Company or by another person or entity, or any other thing of value, the Holders of the unexercised Underwriters' Warrant shall thereafter be entitled, in addition to the shares of Common Stock or other securities receivable upon the exercise thereof, to receive, upon the exercise of such Underwriters' Warrant, the same monies, property, assets, rights, evidences of indebtedness, securities or any other thing of value that they would have been entitled to receive at the time of such dividend or distribution as if the Holders were the owners of the shares of Common Stock underlying the Underwriters' Warrant (but not the shares of Common Stock issuable upon exercise of any Warrants underlying the Underwriters' Warrant). At the time of any such dividend or distribution, the Company shall

make appropriate reserves to ensure the timely performance of the provisions of this Paragraph 7(i).

(j) Subscription Rights for Shares of Common Stock or Other Securities. In case the Company or an affiliate of the Company shall at any time after the date hereof and prior to the exercise of the Underwriters' Warrant in full issue any rights to subscribe for shares of Common Stock or any other securities of the Company or of such affiliate to all the holders of Common Stock, the Holders of the unexercised Underwriters' Warrant shall be entitled, in addition to the shares of Common Stock or other securities receivable upon the exercise of the Underwriters' Warrant, to receive such rights at the time such rights are distributed to the other stockholders of the Company but only to the extent of the number of shares of Common Stock, if any, for which the Underwriters' Warrant remains exercisable other than shares of Common Stock issuable upon exercise of the Warrants underlying Underwriters' Warrant.

(k) Notice in Event of Dissolution. In case of the dissolution, liquidation or winding-up of the Company, all rights under the Underwriters' Warrant shall terminate on a date fixed by the Company, such date to be no earlier than ten (10) days prior to the effectiveness of such dissolution, liquidation or winding-up and not later than five (5) days prior to such effectiveness. Notice of such termination of purchase rights shall be given to the registered Holders of the Underwriters' Warrant, as the same shall appear on the books and records of the Company, by registered mail at least thirty (30) days prior to such termination date.

(l) Computations. The Company may retain a firm of independent public accountants (who may be any such firm regularly employed by the Company) to make any computation required under this Paragraph, and any certificate setting forth such computation signed by such firm shall be conclusive evidence of the correctness of any computation made under this Paragraph 7.

8. Fractional Shares.

(a) The Company shall not be required to issue fractions of shares of Common Stock or fractional Warrants on the exercise of this Underwriters' Warrant; provided, however, that if the Holder exercises the Underwriters' Warrant in full, any fractional shares of Common Stock shall be eliminated by rounding any fraction up to the nearest whole number of shares of Common Stock.

(b) The Holder of this Underwriters' Warrant, by acceptance hereof, expressly waives his right to receive any fractional share of Common Stock or fractional Warrant upon exercise of this Underwriters' Warrant.

9. Redemption of Warrants Underlying the Underwriters' Warrant. The Warrants underlying the Underwriters' Warrant are redeemable by the Company at a redemption price of $.10 per Warrant, in whole or in part, commencing on the first anniversary of the date hereof (or earlier with the consent of the Representative) and prior to their expiration upon not less than thirty (30) days' prior written notice to the holders of the Warrants; provided, that the average closing bid quotation of the Common Stock as reported on The Nasdaq Stock Market, if traded thereon, or if not traded thereon, the average closing sale price if listed on a national securities exchange (or other

reporting system that provides last sales prices), has been at least 150% of the then current Exercise Price for a period of 20 consecutive trading days ending on the third day prior to the date on which the Company gives notice of redemption. Any redemption in part shall be made pro rata to all Warrant holders. The redemption notice shall be mailed to the holders of the Warrants at their respective addresses appearing in the Warrant register. Holders of the Warrants will have exercise rights until the close of business on the day immediately preceding the date fixed for redemption (at which time this Underwriters' Warrant shall no longer be exercisable for Warrants).

10. Miscellaneous.

(a) This Underwriters' Warrant shall be governed by and in accordance with the laws of the State of New York without regard to the conflicts of law principles thereof.

(b) All notices, requests, consents and other communications hereunder shall be made in writing and shall be deemed to have been duly made when delivered, or mailed by registered or certified mail, return receipt requested: (i) if to a Holder, to the address of such Holder as shown on the books of the Company, or (ii) if to the Company, 829 West Stadium Lane Sacramento, California 95834.

(c) The Company and the Representative may from time to time supplement or amend this Underwriters' Warrant without the approval of any other Holders in order to cure any ambiguity, to correct or supplement any provision contained herein which may be defective or inconsistent with any provisions herein, or to make any other provisions in regard to matters or questions arising hereunder which the Company and the

Underwriters may deem necessary or desirable and which the Company and the Underwriters deem not to materially adversely affect the interest of the Holders.

(d) All the covenants and provisions of this Underwriters' Warrant by or for the benefit of the Company and the Holders shall bind and inure to the benefit of their respective successors and assigns hereunder.

(e) Nothing in this Underwriters' Warrant shall be construed to give to any person or corporation other than the Company and the Underwriters and any other registered Holder or Holders, any legal or equitable right, and this Underwriters' Warrant shall be for the sole and exclusive benefit of the Company and the Underwriters and any other Holder or Holders.

(f) This Underwriters' Warrant may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the Company has caused this Underwriters' Warrant to be signed by its duly authorized officer and to be dated _______ ___,1996.

INTEGRATED SURGICAL SYSTEMS, INC.

By: ____
Name: Dr. Ramesh Trivedi
Title: President and Chief Executive Officer

PURCHASE FORM

(To be signed only upon exercise of the Underwriters' Warrant)

The undersigned, the Holder of the foregoing Underwriters' Warrant, hereby irrevocably elects to exercise the purchase rights represented by such Underwriters' Warrant for, and to purchase thereunder, _______ shares of Common Stock and/or _______ Warrants of Integrated Surgical Systems, Inc. and herewith makes payment of $_______________ therefor, and requests that the certificates for Common Stock and/or Warrants be issued in the name(s) of, and delivered to ____ whose addresses is (are) ____ and whose social security or taxpayer identification number(s) is (are) _________________________.

Dated:______________________

____

____
Address

____
Telephone

____

Signature must conform in all respects to name of registered Holder.

TRANSFER FORM

(To be signed only upon transfer of the Underwriters' Warrant)

For value received, the undersigned hereby sells, assigns, and transfers unto __________________________ the right to purchase shares of Common Stock and/or Warrants of Integrated Surgical Systems, Inc. represented by the foregoing Underwriters' Warrant to the extent of ______________________________ shares of Common Stock and/or ___________ Warrants, and appoints __________________________, attorney to transfer such rights on the books of Integrated Surgical Systems, Inc., with full power of substitution in the premises.

Dated: _________________________

____
(name of holder)

____
Address

____

In the presence of:

____

____

- ------------------ COMPARISON OF FOOTERS ------------------

- -FOOTER 1-

120073-3 9/19/96

EXHIBIT 4.2

INTEGRATED SURGICAL SYSTEMS, INC.
a Delaware corporation,

RICKEL & ASSOCIATES, INC.

AEGIS CAPITAL CORP.

and

[NAME OF WARRANT & TRANSFER AGENT]

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WARRANT AGREEMENT, dated as of __________ ___, 1996, among Integrated Surgical Systems, Inc., a Delaware corporation (the "Company"), Rickel & Associates, Inc. ("Rickel" or the "Representative"), Aegis Capital Corp. ("Aegis") and [Name of Warrant & Transfer Agent], as warrant agent (the "Warrant Agent").

The Company proposes to issue and sell through an initial public offering (the "IPO") underwritten by Rickel and Aegis (the "Underwriters"), an aggregate of up to 1,500,000 shares of common stock, par value $.01 per share (the "Common Stock") , and 1,500,000 redeemable Common Stock purchase warrants ("Warrants") (of which Aegis may purchase up to a maximum of 500,000 shares of Common Stock and 500,000 Warrants) and, pursuant to the Underwriters' overallotment option (the "Over-allotment Option"), up to an additional 225,000 shares of Common Stock and 225,000 Warrants. Pursuant to the Over-allotment Option, Aegis may purchase a maximum of up to 50,000 shares of Common Stock and 50,000 Warrants;

Each Warrant will entitle the holder to purchase one share of Common Stock;

In connection with the IPO the Company proposes to sell to the Underwriters warrants (the "Underwriters' Warrant") to purchase up to 150,000 shares of Common Stock and up to 150,000 warrants (of which Aegis may purchase up to 40,000 shares of Common Stock and 40,000 Warrants) (the "Underlying Warrants");

The Company desires the Warrant Agent to act on behalf of the Company, and the Warrant Agent is willing so to act, in connection with the issuance, registration, transfer, exchange and exercise of the Warrants;

THEREFORE, the parties hereto agree as follows:

Section 1. Appointment of Warrant Agent. The Company hereby appoints the Warrant Agent to act as Warrant Agent for the Company in accordance with the instructions hereinafter set forth in this Agreement, and the Warrant Agent hereby accepts such appointment.

Upon the execution of this Agreement, certificates representing 1,500,000 Warrants to purchase up to an aggregate of 1,500,000 shares of Common Stock (subject to modification and adjustment as provided in Section 9 hereof) shall be executed by the Company and delivered to the Warrant Agent.

Upon the exercise of the Overallotment Option, certificates representing up to 225,000 Warrants to purchase up to an aggregate of 225,000 shares of Common Stock (subject to modification and adjustment as provided in Section 9 hereof) shall be executed by the Company and delivered to the Warrant Agent.

Upon exercise of the Underwriters' Warrant as provided therein, certificates representing up to 150,000 Warrants to purchase up to an aggregate of 150,000 shares of Common Stock (subject to modification and adjustment as provided in Section 9 hereof) shall be executed by the Company and delivered to the Warrant Agent.

Section 2. Form of Warrant. The text of the Warrants and the form of election to purchase Common Stock to be printed on the reverse thereof shall be substantially as set forth in Exhibit A attached hereto (the provisions of which are hereby incorporated herein) . All of the certificates for the Warrants may have such letters, numbers or other marks of identification or designation and such legends, summaries or endorsements printed, lithographed or engraved thereon as the Company may deem appropriate and as are not inconsistent with the provisions

of this Agreement, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which the Warrants may be listed, or to conform to usage. Each Warrant shall initially entitle the registered holder thereof to purchase one share of Common Stock at a purchase price of seven dollars ($7.00) (as adjusted as hereinafter provided, the "Warrant Price"), at any time during the period (the "Exercise Period") commencing on __________ __, 1997, the first anniversary of the date of the Company's prospectus (the "Prospectus") pursuant to which the Warrants are being sold in the IPO) and expiring at 5:00 p.m. New York time, on __________ __, 2001 (the fifth anniversary of the date of the Prospectus). The Warrant Price and the number of shares of Common Stock issuable upon exercise of the Warrants are subject to adjustment upon the occurrence of certain events, all as hereinafter provided. The Warrants shall be executed on behalf of the Company by the manual or facsimile signature of the present or any future President or Vice President of the Company, and attested to by the manual or facsimile signature of the present or any future Secretary or Assistant Secretary of the Company.

Warrants shall be dated as of the date of issuance by the Warrant Agent either upon initial issuance or upon transfer or exchange.

In the event the aforesaid expiration date of the Warrants falls on a day that is not a business day, then the Warrants shall expire at 5:00 p.m. New York time on the next succeeding business day. For purposes hereof, the term "business day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in New York City, New York, are authorized or obligated by law to be closed.

Section 3. Countersignature and Registration. The Warrant Agent shall maintain books for the transfer and registration of the Warrants. Upon the initial issuance of the Warrants, the Warrant Agent shall issue and register the Warrants in the names of the respective holders thereof. The Warrants shall be countersigned manually or by facsimile by the Warrant Agent (or by any successor to the Warrant Agent then acting as warrant agent under this Agreement) and shall not be valid for any purpose unless so countersigned. The Warrants may, however, be so countersigned by the Warrant Agent (or by its successor as Warrant Agent) and be delivered by the Warrant Agent, notwithstanding that the persons whose manual or facsimile signatures appear thereon as proper officers of the Company shall have ceased to be such officers at the time of such countersignature or delivery.

Section 4. Transfers and Exchanges. The Warrant Agent shall transfer, from time to time, any outstanding Warrants upon the books to be maintained by the Warrant Agent for that purpose, upon surrender thereof for transfer properly endorsed or accompanied by appropriate instructions for transfer. Upon any such transfer, a new Warrant shall be issued to the transferee and the surrendered Warrant shall be cancelled by the Warrant Agent. Warrants so cancelled shall be delivered by the Warrant Agent to the Company from time to time upon request. Warrants may be exchanged at the option of the holder thereof, when surrendered at the office of the Warrant Agent, for another Warrant, or other Warrants of different denominations of like tenor and representing in the aggregate the right to purchase a like number of shares of Common Stock. No certificates for Warrants shall be issued except for (i) Warrants initially issued hereunder in accordance with Section 1 hereof, (ii) Warrants issued upon any transfer or exchange of Warrants, (iii) Warrants issued in replacement of lost,

stolen, destroyed or mutilated certificates for Warrants pursuant to Section 7 hereof, and (iv) at the option of the Board of Directors of the Company, Warrants in such form as may be approved by its Board of Directors, to reflect any adjustment or change in the Warrant Price or the number of shares of Common Stock purchasable upon exercise of the Warrants made pursuant to Section 9 hereof.

Section 5. Exercise of Warrants; Payment of Warrant Solicitation Fee. Subject to the provisions of this Agreement, each registered holder of Warrants shall have the right, at any time during the Exercise Period, to exercise such Warrants and purchase the number of fully paid and non-assessable shares of Common Stock specified in such Warrants upon presentation and surrender of such Warrants to the Company at the corporate office of the Warrant Agent, with the exercise form on the reverse thereof duly executed, and upon payment to the Company of the Warrant Price, determined in accordance with the provisions of Sections 2, 9 and 10 of this Agreement, for the number of shares of Common Stock in respect of which such Warrants are then exercised. Payment of such Warrant Price shall be made in cash or by certified or bank check payable to the Company. Subject to Section 6 hereof, upon such surrender of Warrants and payment of the Warrant Price, the Warrant Agent on behalf of the Company shall cause to be issued and delivered with all reasonable dispatch to or upon the written order of the registered holder of such Warrants and in such name or names as such registered holder may designate, a certificate or certificates for the number of full shares of Common Stock so purchased upon the exercise of such Warrants. Such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such shares of Common Stock immediately prior to the close of

business on the date of the surrender of such Warrants and payment of the Warrant Price as aforesaid. The rights of purchase represented by the Warrants shall be exercisable during the Exercise Period, at the election of the registered holders thereof, either as an entirety or from time to time for a portion of the shares specified therein and, in the event that any Warrant is exercised in respect of less than all of the shares of Common Stock specified therein at any time prior to the date of expiration of the Warrants, a new Warrant or Warrants will be issued to the registered holder for the remaining number of shares of Common Stock specified in the Warrant so surrendered, and the Warrant Agent is hereby irrevocably authorized to countersign and to deliver the required new Warrants pursuant to the provisions of this Section and of Section 3 of this Agreement and the Company, whenever requested by the Warrant Agent, will supply the Warrant Agent with Warrants duly executed on behalf of the Company for such purpose. Upon the exercise of any one or more Warrants, the Warrant Agent shall promptly notify the Company in writing of such fact and of the number of securities delivered upon such exercise and, subject to the provisions below, shall cause all payments of an amount, in cash or by check made payable to the order of the Company, equal to the aggregate Warrant Price for such Warrants, less any amounts payable to the Underwriters, as provided below, to be deposited promptly in the Company's bank account. The Company and Warrant Agent shall determine, in their sole and absolute discretion, whether a Warrant certificate has been properly completed for exercise by the registered holder thereof.

Anything in the foregoing to the contrary notwithstanding, no Warrant will be exercisable and the Company shall not be obligated to deliver any securities pursuant to the exercise of any warrant unless at the time of exercise the Company has filed with the Securities

and Exchange Commission a registration statement under the Securities Act of 1933, as amended (the "Act"), covering the securities issuable upon exercise of such Warrant and such registration statement shall have been declared and shall remain effective and shall be current, and such shares have been registered or qualified or be exempt under the securities laws of the state or other jurisdiction of residence of the holder of such Warrant and the exercise of such Warrant in any such state or other jurisdiction shall not otherwise be unlawful. During the Exercise Period, the Company shall use its best efforts to have a current registration statement on file with the Securities and Exchange Commission covering the issuance of Common Stock underlying the Warrants so as to permit the Company to deliver to each person exercising a Warrant a prospectus meeting the requirements of Section 10(a) (3) of the Act and otherwise complying therewith, and will deliver such prospectus to each such person. During the Exercise Period, the Company shall also use its best efforts to effect appropriate qualifications of the Common Stock underlying the Warrants under the laws and regulations of the states and other jurisdictions in which the Common Stock and Warrants are sold by the Underwriters in the IPO in order to comply with applicable laws in connection with the exercise of the Warrants.

(a) If at the time of exercise of any Warrant (i) the market price of the Common Stock is equal to or greater than the then exercise price of the Warrant, (ii) the exercise of the Warrant is solicited by the Representative at such time as it is a member of the National Association of Securities Dealers, Inc. ("NASD") , (iii) the Warrant is not held in a discretionary account, (iv) disclosure of the compensation arrangement is made in documents provided to the holders of the Warrants, and (v) the solicitation of the exercise

of the Warrant is not in violation of Rule 10b-6 (as such rule or any successor rule may be in effect as of such time of exercise) promulgated under the Securities Exchange Act of 1934, as amended, then the Representative shall be entitled to receive from the Company following exercise of each of the Warrants so exercised a fee of five percent (5%) of the aggregate exercise price of the Warrants so exercised (the "Exercise Fee"). The procedures for payment of the Exercise Fee are set forth in Section 5(b) below.

(b) (i) Within five (5) days after the last day of each month commencing with __________ ___, 1996, the Warrant Agent will notify the Underwriters of each Warrant certificate which has been properly completed for exercise by holders of Warrants during the last month. The Warrant Agent will provide the Representative with such information, in connection with the exercise of each Warrant, as the Representative shall reasonably request.

(ii) The Company hereby authorizes and instructs the Warrant Agent to deliver to the Representative the Exercise Fee, if payable, in respect of each exercise of Warrants, promptly after receipt by the Warrant Agent from the Company of a check payable to the order of the Representative in the amount of such Exercise Fee. In the event that an Exercise Fee is paid to the Representative with respect to a Warrant which the Company or the Warrant Agent determines is not properly completed for exercise or in respect of which the Representative is not entitled to an Exercise Fee, the Representative will return such Exercise Fee to the Warrant Agent which shall forthwith return such fee to the Company.

The Underwriters and the Company may at any time during business hours

examine the records of the Warrant Agent, including its ledger of original Warrant certificates returned to the Warrant Agent upon exercise of Warrants. Notwithstanding any provision to the contrary, the provisions of paragraph 5 (a) and 5 (b) may not be modified, amended or deleted without the prior written consent of the Representative.

Section 6. Payment of Taxes. The Company will pay any documentary stamp taxes attributable to the initial issuance of Common Stock issuable upon the exercise of Warrants; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance or delivery of any certificates for shares of Common Stock in a name other than that of the registered holder of Warrants in respect of which such shares are issued, and in such case neither the Company nor the Warrant Agent shall be required to issue or deliver any certificate for shares of Common Stock or any Warrant until the person requesting the same has paid to the Company the amount of such tax or has established to the Company's satisfaction that such tax has been paid or that no such tax is required to be paid.

Section 7. Mutilated or Missing Warrants. In case any of the Warrants shall be mutilated, lost, stolen or destroyed, the Company may, in its discretion, issue and the Warrant Agent shall countersign and deliver in exchange and substitution for and upon cancellation of the mutilated Warrant, or in lieu of and in substitution for the Warrant lost, stolen or destroyed, a new Warrant of like tenor and representing an equivalent right or interest, but only upon receipt of evidence satisfactory to the Company and the Warrant Agent of such loss, theft or destruction and, in case of a lost, stolen or destroyed Warrant, indemnity or bond, if requested, also satisfactory to them. Applicants for such substitute Warrants shall also comply with such

other reasonable regulations and pay such reasonable charges as the Company or the Warrant Agent may prescribe.

Section 8. Reservation of Common Stock. There have been reserved, and the Company shall at all times keep reserved, out of its authorized shares of Common Stock, a number of shares of Common Stock sufficient to provide for the exercise of the rights of purchase represented by the Warrants, and the transfer agent for the shares of Common Stock and every subsequent transfer agent for any shares of Common Stock issuable upon the exercise of any of the aforesaid rights of purchase are irrevocably authorized and directed at all times to reserve such number of authorized shares of Common Stock as shall be required for such purpose. The Company agrees that all shares of Common Stock issued upon exercise of the Warrants shall be, at the time of delivery of the certificates for such shares against payment of the Warrant Price therefor, validly issued, fully paid and nonassessable and listed on any national securities exchange or included in any interdealer automated quotation system upon or in which the other shares of outstanding Common Stock are then listed or included. The Company will keep a copy of this Agreement on file with the transfer agent for the shares of Common Stock (which may be the Warrant Agent) and with every subsequent transfer agent for any shares of Common Stock issuable upon the exercise of the rights of purchase represented by the Warrants. The Warrant Agent is irrevocably authorized to requisition from time to time from such transfer agent stock certificates required to honor outstanding Warrants. The Company will supply such transfer agent with duly executed stock certificates for that purpose. All Warrants surrendered in the exercise of the rights thereby evidenced shall be cancelled by the Warrant Agent and shall thereafter be delivered to the Company, and such

cancelled Warrants shall constitute sufficient evidence of the number of shares of Common Stock which have been issued upon the exercise of such Warrants. Promptly after the date of expiration of the Warrants, the Warrant Agent shall certify to the Company the total aggregate amount of Warrants then outstanding, and thereafter no shares of Common Stock shall be subject to reservation in respect of such Warrants which shall have expired.

Section 9. Adjustments of Warrant Price and Number of Securities.

(a) Computation of Adjusted Price. Except as hereinafter provided, in case the Company shall, at any time after the date of closing of the sale of securities pursuant to the IPO (the "Closing Date"), issue or sell any shares of Common Stock (other than the issuances or sales referred to in Section 9 (f) hereof), including shares held in the Company's treasury and shares of Common Stock issued upon the exercise of any options, rights or warrants to subscribe for shares of Common Stock (other than the issuances or sales of Common Stock pursuant to rights to subscribe for such Common Stock distributed pursuant to Section 9(h) hereof) and shares of Common Stock issued upon the direct or indirect conversion or exchange of securities for shares of Common Stock, for a consideration per share less than both the "Market Price" (as defined in Section 9(a)(vi) hereof) per share of Common Stock on the trading day immediately preceding such issuance or sale and the Warrant Price in effect immediately prior to such issuance or sale, or without consideration, then forthwith upon such issuance or sale, the Warrant Price shall (until another such issuance or sale) be reduced to the price (calculated to the nearest full cent) determined by multiplying the Warrant Price in effect immediately prior to such issuance or sale by a fraction, the numerator of which shall be the sum of (1) the number of shares of Common Stock outstanding immediately prior to such

issuance or sale multiplied by the Warrant Price immediately prior to such issuance or sale plus (2) the consideration received by the Company upon such issuance or sale, and the denominator of which shall be the product of (x) the total number of shares of Common Stock outstanding immediately after such issuance or sale, multiplied by (y) the Warrant Price immediately prior to such issuance or sale; provided, however, that in no event shall the Warrant Price be adjusted pursuant to this computation to an amount in excess of the Warrant Price in effect immediately prior to such computation, except in the case of a combination of outstanding shares of Common Stock, as provided by Section 9(c) hereof.

For the purposes of any computation to be made in accordance with this Section 9(a), the following provisions shall be applicable:

(i) In case of the issuance or sale of shares of Common Stock for a consideration part or all of which shall be cash, the amount of the cash consideration therefor shall be deemed to be the amount of cash received by the Company for such shares (or, if shares of Common Stock are offered by the Company for subscription, the subscription price, or, if such securities shall be sold to underwriters or dealers for public offering without a subscription offering, the public offering price) before deducting therefrom any compensation paid or discount allowed in the sale, underwriting or purchase thereof by underwriters or dealers or others performing similar services, or any expenses incurred in connection therewith.

(ii) In case of the issuance or sale (otherwise than as a dividend or other distribution on any stock of the Company) of shares of Common Stock for a consideration part or all of which shall be other than cash, the amount of the consideration therefor other than cash shall be deemed to be the value of such consideration as determined

in good faith by the Board of Directors of the Company.

(iii) Shares of Common Stock issuable by way of dividend or other distribution on any stock of the Company shall be deemed to have been issued immediately after the opening of business on the day following the record date for the determination of shareholders entitled to receive such dividend or other distribution and shall be deemed to have been issued without consideration.

(iv) The reclassification of securities of the Company other than shares of Common Stock into securities including shares of Common Stock shall be deemed to involve the issuance of such shares of Common Stock for a consideration other than cash immediately prior to the close of business on the date fixed for the determination of security holders entitled to receive such shares, and the value of the consideration allocable to such shares of Common Stock shall be determined as provided in subsection (ii) of this Section 9(a).

(v) The number of shares of Common Stock at any one time outstanding shall include the aggregate number of shares issued or issuable upon the exercise of options, warrants or rights and upon the conversion or exchange of convertible or exchangeable securities.

(vi) As used herein, the phrase "Market Price" at any date shall be deemed to be the average of the last reported sale price, or, in case no such reported sale takes place on such day, the average of the last reported sale prices for the last three trading days, in either case as officially reported by the principal securities exchange on which the Common Stock is listed or admitted to trading or as reported in the Nasdaq Stock Market, or, if the Common Stock is not listed or admitted to trading on any national securities exchange or

quoted on the Nasdaq Stock Market, the closing bid quotation as furnished by the National Association of Securities Dealers, Inc. through Nasdaq or a similar organization if Nasdaq is no longer reporting such information, or if the Common Stock is not quoted on Nasdaq, as determined in good faith by resolution of the Board of Directors of the Company, based on the best information available to it for the day immediately preceding such issuance or sale, the day of such issuance or sale and the day immediately after such issuance or sale. If the Common Stock is listed or admitted to trading on a national securities exchange and also quoted on the Nasdaq Stock Market, the Market Price shall be determined as hereinabove provided by reference to the prices reported in the Nasdaq Stock Market; provided that if the Common Stock is listed or admitted to trading on the New York Stock Exchange, the Market Price shall be determined as hereinabove provided by reference to the prices reported by such exchange.

(b) Options, Rights, Warrants and Convertible and Exchangeable Securities. Except in the case of the Company issuing rights to subscribe for shares of Common Stock distributed pursuant to Section 9(h) hereof, if the Company shall at any time after the Closing Date issue options, rights or warrants to subscribe for shares of Common Stock, or issue any securities convertible into or exchangeable for shares of Common Stock, in each case other than the issuances or sales referred to in section 9 (f) hereof, (i) for a consideration per share less than the lesser of (a) the Warrant Price in effect immediately prior to the issuance of such options, rights or warrants, or such convertible or exchangeable securities, or (b) the Market Price on the trading day immediately preceding such issuance, or (ii) without consideration, the Warrant Price in effect immediately prior to the issuance of such options, rights or warrants, or such convertible or exchangeable securities, as the case may be, shall be reduced to a price

determined by making a computation in accordance with the provisions of Section 9(a) hereof; provided that:

(i) The aggregate maximum number of shares of Common Stock, as the case may be, issuable under all the outstanding options, rights or warrants shall be deemed to be issued and outstanding at the time all the outstanding options, rights or warrants were issued, and for a consideration equal to the minimum purchase price per share provided for in the options, rights or warrants at the time of issuance, plus the consideration (determined in the same manner as consideration received on the issue or sale of shares in accordance with the terms of Section 9(a)), if any, received by the Company for the options, rights or warrants, and if no minimum purchase price is provided in the options, rights or warrants, then the minimum purchase price shall be equal to zero; provided, however, that upon the expiration or other termination of the options, rights or warrants, if any thereof shall not have been exercised, the number of shares of Common Stock deemed to be issued and outstanding pursuant to this subsection (b) (and for the purposes of subsection (v) of Section 9(a) hereof) shall be reduced by such number of shares as to which options, warrants or rights shall have expired or terminated unexercised, and such number of shares shall no longer be deemed to be issued and outstanding, and the Warrant Price then in effect shall forthwith be readjusted and thereafter be the price which it would have been had adjustment been made on the basis of the issuance only of shares actually issued or issuable upon the exercise of those options, rights or warrants as to which the exercise rights shall not have expired or terminated unexercised.

(ii) The aggregate maximum number of shares of Common Stock issuable upon conversion or exchange of any convertible or exchangeable securities shall be

deemed to be issued and outstanding at the time of issuance of such securities, and for a consideration equal to the consideration (determined in the same manner as consideration received on the issue or sale of shares of Common Stock in accordance with the terms of Section 9 (a)) received by the Company for such securities, plus the minimum consideration, if any, receivable by the Company upon the conversion or exchange thereof; provided, however, that upon the expiration or other termination of the right to convert or exchange such convertible or exchangeable securities (whether by reason of redemption or otherwise), the number of shares deemed to be issued and outstanding pursuant to this subsection (ii) (and for the purpose of subsection (v) of Section 9(a) hereof) shall be reduced by such number of shares as to which the conversion or exchange rights shall have expired or terminated unexercised, and such number of shares shall no longer be deemed to be issued and outstanding, and the Warrant Price then in effect shall forthwith be readjusted and thereafter be the price which it would have been had adjustment been made on the basis of the issuance only of the shares actually issued or issuable upon the conversion or exchange of those convertible or exchangeable securities as to which the conversion or exchange rights shall not have expired or terminated unexercised. No adjustment will be made pursuant to this subsection (ii) upon the issuance by the Company of any convertible or exchangeable securities pursuant to the exercise of any option, right or warrant exercisable therefor, to the extent that adjustments in respect of such options, rights or warrants were previously made pursuant to the provisions of subsection (i) of this subsection 9 (b) .

(iii) If any change shall occur in the price per share provided for in any of the options, rights or warrants referred to in subsection (i) of this Section 9 (b) , or in

the price per share at which the securities referred to in subsection (ii) of this Section 9(b) are convertible or exchangeable, or if any such options, rights or warrants are exercised at a price greater than the minimum purchase price provided for in such options, rights or warrants, or any such securities are converted or exercised for more than the minimum consideration receivable by the Company upon such conversion or exchange, the options, rights or warrants or conversion or exchange rights, as the case may be, shall be deemed to have expired or terminated on the date when such price change became effective in respect of shares not theretofore issued pursuant to the exercise or conversion or exchange thereof, and the Company shall be deemed to have issued upon such date new options, rights or warrants or convertible or exchangeable securities at the new price in respect of the number of shares issuable upon the exercise of such options, rights or warrants or the conversion or exchange of such convertible or exchangeable securities; provided, however, that no adjustment shall be made pursuant to this subsection (iii) with respect to any change in the price per share provided for in any of the options, rights or warrants referred to in subsection (b) (i) of this Section 9 (b), or in the price per share at which the securities referred to in subsection (b) (ii) of this Section 9(b) are convertible or exchangeable, which change results from the application of the anti-dilution provisions thereof in connection with an event for which, subject to subsection (iv) of this Section 9(f), an adjustment to the Warrant Price and the number of securities issuable upon exercise of the Warrants will be required to be made pursuant to this Section 9.

(c) Subdivision and Combination. In case the Company shall at any time after the Closing Date subdivide or combine the outstanding shares of Common Stock, the Warrant Price shall forthwith be proportionately decreased in the case of subdivision or

increased in the case of combination.

(d) Adjustment in Number of Shares. Upon each adjustment of the Warrant Price pursuant to the provisions of this Section 9, the number of shares of Common Stock issuable upon the exercise of the Warrants shall be adjusted to the nearest full whole number by multiplying a number equal to the Warrant Price in effect immediately prior to such adjustment by the number of shares of Common Stock issuable upon exercise of the Warrants immediately prior to such adjustment and dividing the product so obtained by the adjusted Warrant Price.

(e) Reclassification, Consolidation, Merger etc. In case of any reclassification or change of the outstanding shares of Common Stock (other than a change in par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), or in the case of any consolidation of the Company with, or merger of the Company into, another corporation (other than a consolidation or merger which does not result in any reclassification or change of the outstanding shares of Common Stock, except a change as a result of a subdivision or combination of such shares or a change in par value, as aforesaid), or in the case of a sale or conveyance to another corporation of the property of the Company as an entirety, the Holder shall thereafter have the right to purchase the kind and number of shares of stock and other securities and property receivable upon such reclassification, change, consolidation, merger, sale or conveyance as if the Holder were the owner of the shares of Common Stock underlying the Warrants immediately prior to any such events at a price equal to the product of (x) the number of shares issuable upon exercise of the Warrants and (y) the Warrant Price in effect immediately prior to the record date for such

reclassification, change, consolidation, merger, sale or conveyance as if such Holder had exercised the Warrant.

(f) No Adjustment of Warrant Price in Certain Cases. Notwithstanding anything herein to the contrary, no adjustment of the Warrant Price shall be made:

(i) Upon the issuance or sale of the Underwriters' Warrant, the shares of Common Stock or Warrants issuable upon the exercise of the Underwriters' Warrant or the shares of Common Stock issuable upon exercise of the Warrants underlying the Underwriters' Warrant; or

(ii) Upon the issuance or sale of (A) the shares of Common Stock or Warrants issued by the Company in the IPO (including pursuant to the Over-allotment Option) or other shares of Common Stock or warrants issued by the Company upon consummation of the IPO or, (B) the shares of Common Stock (or other securities) issuable upon exercise of Warrants; or

(iii) Upon (i) the issuance of options pursuant to the Company's stock option plan in effect on the date hereof or as hereafter amended in accordance with the terms thereof or any other employee or executive stock option plan approved by stockholders of the Company or the sale by the Company of any shares of Common Stock pursuant to the exercise of any such options, or (ii) the sale by the Company of any shares of Common Stock pursuant to the exercise of any options or warrants issued and outstanding on the date of closing of the sale of Common Stock and Warrants pursuant to the IPO or (iii) the issuance or sale by the Company of any shares of Common Stock pursuant to the Company's restricted stock plan in effect on the date hereof; or

(iv) If the amount of said adjustment shall be less than two cents (2(cent)) per share of Common Stock.

(g) Dividends and Other Distributions with Respect to Outstanding Securities. In the event that the Company shall at any time after the Closing Date and prior to the exercise or expiration of all Warrants declare a dividend (other than a dividend consisting solely of shares of Common Stock or a cash dividend or distribution payable out of current or retained earnings) or otherwise distribute to the holders of Common Stock any monies, assets, property, rights, evidences of indebtedness, securities (other than such a cash dividend or distribution or dividend consisting solely of shares of Common Stock), whether issued by the Company or by another person or entity, or any other thing of value, the Holders of the unexercised Warrants shall thereafter be entitled, in addition to the shares of Common Stock or other securities receivable upon the exercise thereof, to receive, upon the exercise of such Warrants, the same monies, property, assets, rights, evidences of indebtedness, securities or any other thing of value that they would have been entitled to receive at the time of such dividend or distribution as if the Holders were the owners of the shares of Common Stock underlying such Warrants. At the time of any such dividend or distribution, the Company shall make appropriate reserves to ensure the timely performance of the provisions of this Section 9(g).

(h) Subscription Rights for Shares of Common Stock or Other Securities. In case the Company or an affiliate of the Company shall at anytime after the date hereof and prior to the exercise of all the Warrants issue any rights to subscribe for shares of Common Stock or any other securities of the Company or of such affiliate to all the holders of Common Stock, the Holders of the unexercised Warrants shall be entitled, in addition to the shares of

Common Stock or other securities receivable upon the exercise of the Warrants, to receive such rights at the time such rights are distributed to the other stockholders of the Company but only to the extent of the number of shares of Common Stock, if any, for which the Warrants remain exercisable.

(i) Notice in Event of Dissolution. In case of the dissolution, liquidation or winding-up of the Company, all rights under the Warrants shall terminate on a date fixed by the Company, such date to be no earlier than ten (10) days prior to the effectiveness of such dissolution, liquidation or winding-up and not later than five (5) days prior to such effectiveness. Notice of such termination of purchase rights shall be given to each registered holder of the Warrants, as the same shall appear on the books of the Company maintained by the Warrant Agent, by registered mail at least thirty (30) days prior to such termination date.

(j) Computations. The Company may retain a firm of independent public accountants (who may be any such firm regularly employed by the Company) to make any computation required under this Section 9, and any certificate setting forth such computation signed by such firm shall be conclusive evidence of the correctness of any computation made under this Section 9.

Section 10. Fractional Interests. The Warrants may only be exercised to purchase full shares of Common Stock and the Company shall not be required to issue fractions of shares of Common Stock on the exercise of Warrants. However, if a Warrantholder exercises all Warrants then owned of record by him and such exercise would result in the issuance of a fractional share, the Company will pay to such Warrantholder, in lieu of the issuance of any fractional share otherwise issuable, an amount of cash based on the Market Price on the last

trading day prior to the exercise date.

Section 11. Notices to Warrantholders.

(a) Upon any adjustment of the Warrant Price and the number of shares of Common Stock issuable upon exercise of a Warrant, then and in each such case, the Company shall give written notice thereof to the Warrant Agent, which notice shall state the Warrant Price resulting from such adjustment and the increase or decrease, if any, in the number of shares purchasable at such price upon the exercise of a Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. The Company shall also mail such notice to the holders of the Warrants at their respective addresses appearing in the Warrant register. Failure to give or mail such notice, or any defect therein, shall not affect the validity of the adjustments.

(b) In case at any time after the Closing Date:

(i) the Company shall pay dividends payable in stock upon its Common Stock or make any distribution (other than regular cash dividends) to the holders of Common Stock; or

(ii) the Company shall offer for subscription pro rata to all of the holders of Common Stock any additional shares of stock of any class or other rights; or

(iii) there shall be any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of substantially all of its assets to another corporation; or

(iv) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company; then in any one or more of such cases, the Company shall give

written notice to the Warrant Agent and the holders of the Warrants in the manner set forth in Section 11(a) of the date on which (A) a record shall be taken for such dividend, distribution or subscription rights, or (B) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of Common Stock of record shall participate in such dividend, distribution or subscription rights, or shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, as the case may be. Such notice shall be given at least ten (10) days prior to the action in question and not less than ten (10) days prior to the record date in respect thereof. Failure to give such notice, or any defect therein, shall not affect the legality or validity of any of the matters set forth in this Section 11(b).

(c) The Company shall cause copies of all financial statements and reports, proxy statements and other documents that are sent to its stockholders to be sent by an identical class of mail, postage prepaid, on the date of mailing to such stockholders, to each registered holder of Warrants at his address appearing in the Warrant register as of the record date for the determination of the stockholders entitled to such documents.

Section 12. Disposition of Proceeds on Exercise of Warrants.

(a) The Warrant Agent shall promptly forward to the Company all monies received by the Warrant Agent for the purchase of shares of Common Stock through the exercise of these Warrants.

(b) The Warrant Agent shall keep copies of this Agreement available for

inspection by holders of Warrants during normal business hours.

Section 13. Redemption of Warrants. The Warrants are redeemable by the Company commencing on the first anniversary the date of the Prospectus, in whole or in part, on not less than thirty (30) days' prior written notice at a redemption price of $_____ per Warrant (or earlier with the prior consent of Rickel), provided the average closing bid quotation of the Common Stock as reported on the Nasdaq Stock Market, if traded thereon, or if not traded thereon, the average closing sale price if listed on a national securities exchange (or other reporting system that provides last sale prices), has been at least ____% of the then current Exercise Price of the Warrants, for a period of ____ consecutive trading days ending on the third day prior to the date on which the Company gives notice of redemption. Any redemption in part shall be made pro rata to all Warrant holders. The redemption notice shall be mailed to the holders of the Warrants at their respective addresses appearing in the Warrant register. Any such notice mailed in the manner provided herein shall be conclusively presumed to have been duly given in accordance with this Agreement whether or not the registered holder receives such notice. No failure to mail such notice nor any defect therein or in the mailing thereof shall affect the validity of the proceedings for such redemption except as to a registered holder of a Warrant (i) to whom notice was not mailed or (ii) whose notice was defective. An affidavit of the Warrant Agent or the Secretary or Assistant Secretary of the Company that notice of redemption has been mailed shall, in the absence of fraud, be prima facie evidence of the facts stated therein. Holders of the Warrants will have exercise rights until the close of business on the day immediately preceding the date fixed for redemption.

Section 14. Merger or Consolidation or Change of Name of Warrant Agent. Any

corporation or company which may succeed to the corporate trust business of the Warrant Agent by any merger or consolidation or otherwise shall be the successor to the Warrant Agent hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto; provided, that such corporation would be eligible for appointment as a successor Warrant Agent under the provisions of Section 16 of this Agreement. In case at the time such successor to the Warrant Agent shall succeed to the agency created by this Agreement any of the Warrants shall have been countersigned but not delivered, any such successor to the Warrant Agent may adopt the countersignature of the original Warrant Agent and deliver such Warrants so countersigned.

In case at any time the name of the Warrant Agent shall be changed and at such time any of the Warrants shall have been countersigned but not delivered, the Warrant Agent may adopt the countersignature under its prior name and deliver Warrants so countersigned. In all such cases such Warrants shall have the full force provided in the Warrants and in this Agreement.

Section 15. Duties of Warrant Agent. The Warrant Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Warrants, by their acceptance thereof, shall be bound:

(a) The statements of fact and recitals contained herein and in the Warrants shall be taken as statements of the Company, and the Warrant Agent assumes no responsibility for the correctness of any of the same except as such describe the Warrant Agent or action taken or to be taken by it. The Warrant Agent assumes no responsibility with respect to the distribution of the Warrants except as herein expressly provided.

(b) The Warrant Agent shall not be responsible for any failure of the Company to comply with any of the covenants in this Agreement or in the Warrants to be complied with by the Company.

(c) The Warrant Agent may consult at any time with counsel satisfactory to it (who may be counsel for the Company) and the Warrant Agent shall incur no liability or responsibility to the Company or to any holder of any Warrant in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with the opinion or the advice of such counsel.

(d) The Warrant Agent shall incur no liability or responsibility to the Company or to any holder of any Warrant for any action taken in reliance on any notice, resolution, waiver, consent, order, certificate or other instrument believed by it to be genuine and to have been signed, sent or presented by the proper party or parties.

(e) The Company agrees to pay to the Warrant Agent reasonable compensation for all services rendered by the Warrant Agent in the execution of this Agreement, to reimburse the Warrant Agent for all expenses, taxes and governmental charges and other charges incurred by the Warrant Agent in the execution of this Agreement and to indemnify the Warrant Agent and save it harmless against any and all liabilities, including judgments, costs and reasonable counsel fees, for anything done or omitted by the Warrant Agent in the execution of this Agreement except as a result of the Warrant Agent's negligence, willful misconduct or bad faith.

(f) The Warrant Agent shall be under no obligation to institute any action, suit or legal proceeding or to take any other action likely to involve expenses unless the

Company or one or more registered holders of Warrants shall furnish the Warrant Agent with reasonable security and indemnity for any costs and expenses which may be incurred, but this provision shall not affect the power of the Warrant Agent to take such action as the Warrant Agent may consider proper, whether with or without any such security or indemnity. All rights of action under this Agreement or under any of the Warrants may be enforced by the Warrant Agent without the possession of any of the Warrants or the production thereof at any trial or other proceeding. Any such action, suit or proceeding instituted by the Warrant Agent shall be brought in its name as Warrant Agent, and any recovery of judgment shall be for the ratable benefit of the registered holders of the Warrants, as their respective rights and interests may appear.

(g) The Warrant Agent and any stockholder, director, officer, partner or employee of the Warrant Agent may buy, sell or deal in any of the Warrants or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to or otherwise act as fully and freely as though it were not the Warrant Agent under this Agreement. Nothing herein shall preclude the Warrant Agent from acting in any other capacity for the Company or for any other legal entity.

(h) The Warrant Agent shall act hereunder solely as agent and its duties shall be determined solely by the provisions hereof.

(i) The Warrant Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys, agents or employees, and the Warrant Agent shall not be answerable or accountable for any such attorneys, agents or employees or for any loss to the Company resulting from such

neglect or misconduct, provided reasonable care had been exercised in the selection and continued employment thereof.

(j) Any request, direction, election, order or demand of the Company shall be sufficiently evidenced by an instrument signed in the name of the Company by its President or a Vice President or its Secretary or an Assistant Secretary or its Treasurer or an Assistant Treasurer (unless other evidence in respect thereof be herein specifically prescribed); and any resolution of the Board of Directors may be evidenced to the Warrant Agent by a copy thereof certified by the Secretary or an Assistant Secretary of the Company.

Section 16. Change of Warrant Agent. The Warrant Agent may resign and be discharged from its duties under this Agreement by giving to the Company notice in writing, and to the holders of the Warrants notice by mailing such notice to the holders at their respective addresses appearing on the Warrant register, of such resignation, specifying a date when such resignation shall take effect. The Warrant Agent may be removed by like notice to the Warrant Agent from the Company and the like mailing of notice to the holders of the Warrants. If the Warrant Agent shall resign or be removed or shall otherwise become incapable of action, the Company shall appoint a successor to the Warrant Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Warrant Agent or after the Company has received such notice from a registered holder of a Warrant (who shall, with such notice, submit his Warrant for inspection by the Company), then the registered holder of any Warrant may apply to any court of competent jurisdiction for the appointment of a successor to the Warrant Agent. Any successor Warrant Agent, whether

appointed by the Company or by such a court, shall be a bank or trust company, in good standing, incorporated under New York or federal law. After appointment, the successor Warrant Agent shall be vested with the same powers, rights, duties and responsibility as if it had been originally named as Warrant Agent without further act or deed and the former Warrant Agent shall deliver and transfer to the successor Warrant Agent all canceled Warrants, records and property at the time held by it hereunder, and execute and deliver any further assurance or conveyance necessary for this purpose. Failure to file or mail any notice provided for in this Section , however, or any defect therein, shall not affect the validity of the resignation or removal of the Warrant Agent or the appointment of the successor Warrant Agent, as the case may be.

Section 17. Identity of Transfer Agent. Forthwith upon the appointment of any transfer agent (other than [Name of Warrant and Transfer Agent]) for the shares of Common Stock or of any subsequent transfer agent for the shares of Common Stock, the Company will file with the Warrant Agent a statement setting forth the name and address of such transfer agent.

Section 18. Notices. Any notice pursuant to this Agreement to be given by the Warrant Agent or the registered holder of any Warrant to the Company, shall be sufficiently given if sent by first-class mail, postage prepaid, addressed (until another is filed in writing by the Company with the Warrant Agent) as follows:

Integrated Surgical Systems, Inc.
829 West Stadium Lane
Sacramento, California 95834

Attention: Dr. Ramesh C. Trivedi, President and Chief Executive Officer

and a copy thereof to:

Snow Becker Krauss, P.C.
605 Third Avenue
New York, New York 10158-0125

Attention: Jack Becker, Esq.

Any notice pursuant to this Agreement to be given by the Company or the registered holder of any Warrant to the Warrant Agent shall be sufficiently given if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing by the Warrant Agent with the Company) as follows:

[Address]

Attention: [officer]

Any notice pursuant to this Agreement to be given by the Warrant Agent or the Company to the Representative shall be sufficiently given if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Warrant Agent) as follows:

Rickel & Associates, Inc.
875 Third Avenue
New York, New York 10022

Attention: Gregg Smith

and a copy thereof to:

Parker Chapin Flattau & Klimpl, LLP
1211 Avenue of the Americas
New York, New York 10036

Attention: Timothy I. Kahler, Esq.

Section 19. Supplements and Amendments. The Company and the Warrant Agent may from time to time supplement or amend this Agreement in order to cure any ambiguity or to correct or supplement any provision contained herein which may be defective or inconsistent with any other provision herein, or to make any other provisions in regard to matters or questions arising hereunder which the Company and the Warrant Agent may deem necessary or desirable and which shall not be inconsistent with the provisions of the Warrants and which shall not materially adversely affect the interest of the holders of Warrants; and in addition the Company and the Warrant Agent may modify, supplement or alter this Agreement with the consent in writing of the registered holders of the Warrants representing not less than a majority of the Warrants then outstanding.

Section 20. New York Contract. This Agreement and each Warrant issued hereunder shall be deemed to be a contract made under the laws of the State of New York and shall be construed in accordance with the laws of New York without regard to the conflicts of law principles thereof.

Section 21. Benefits of this Agreement. Nothing in this Agreement shall be construed to give to any person or corporation other than the Company, the Warrant Agent and the registered holders of the Warrants any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Warrant Agent and the registered holders of the Warrants.

Section 22. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Warrant Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

IN WITNESS WHEREOF, the parties have entered into this Agreement on the date first above written.

INTEGRATED SURGICAL SYSTEMS, INC.

By: ________________________________
Name: Dr. Ramesh C. Trivedi
Title: President and Chief Executive Officer

[NAME OF WARRANT & TRANSFER AGENT]

By: ________________________________
Name:
Title:

RICKEL & ASSOCIATES, INC.

By: ________________________________
Name: Gregg Smith
Title: Managing Director

AEGIS CAPITAL CORP.

By: ________________________________
Name:
Title:

No. W________________________ VOID AFTER_____________, 2001

WARRANTS

REDEEMABLE WARRANT CERTIFICATE TO
PURCHASE ONE SHARE OF COMMON STOCK

INTEGRATED SURGICAL SYSTEMS, INC.

CUSIP [ ]

THIS CERTIFIES THAT, FOR VALUE RECEIVED

or registered assigns (the "Registered Holder") is the owner of the number of Redeemable Warrants (the "Warrants") specified above. Each Warrant initially entitles the Registered Holder to purchase, subject to the terms and conditions set forth in this Certificate and the Warrant Agreement (as hereinafter defined), one fully paid and nonassessable share of Common Stock, par value $.01 per share (the "Common Stock"), of Integrated Surgical Systems, Inc., a Delaware corporation (the "Company"), at any time from _________ __, 1996 (the "Initial Warrant Exercise Date") , and prior to the Expiration Date (as hereinafter defined) upon the presentation and surrender of this Warrant Certificate with the Exercise Form on the reverse hereof duly executed, at the corporate office of [Name of Warrant & Transfer Agent], _______________________ __________________________________, as Warrant Agent, or its successor (the "Warrant Agent"), accompanied by payment of $______, subject to adjustment (the "Exercise Price"), in lawful money of the United States of America in cash or by certified or bank check made payable to the Company.

This Warrant Certificate and each Warrant represented hereby are issued pursuant to and are subject in all respects to the terms and conditions set forth in the Warrant Agreement, dated as of ___________ ___, 1996 (the "Warrant Agreement"), among the Company, Rickel & Associates, Inc. ("Rickel"), Aegis Capital Corp. and the Warrant Agent.

In the event of certain contingencies provided for in the Warrant Agreement, the Exercise Price and the number of shares of Common Stock subject to purchase upon the exercise of each Warrant represented hereby are subject to modification or adjustment.

Each Warrant represented hereby is exercisable at the option of the Registered Holder, but

no fractional shares will be issued. In the case of the exercise of less than all the Warrants represented hereby, the Company shall cancel this Warrant Certificate upon the surrender hereof and shall execute and deliver a new Warrant Certificate or Warrant Certificates of like tenor, which the Warrant Agent shall countersign, for the balance of such Warrants.

The term "Expiration Date" shall mean 5:00 p.m. (New York time) on_________ ___, 2001 [the date which is the fifth anniversary of the Initial Warrant Exercise Date]; provided, that if such date is not a business day, it shall mean 5:00 p.m., New York City time, on the next following business day. For purposes hereof, the term "business day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in New York City, New York, are authorized or obligated by law to be closed.

The Company shall not be obligated to deliver any securities pursuant to the exercise of the Warrants represented hereby unless at the time of exercise the Company has filed with the Securities and Exchange Commission a registration statement under the Securities Act of 1933, as amended (the "Act"), covering the securities issuable upon exercise of the Warrants represented hereby and such registration statement has been declared and shall remain effective and shall be current, and such securities have been registered or qualified or be exempt under the securities laws of the state or other jurisdiction of residence of the Registered Holder and the exercise of the Warrants represented hereby in any such state or other jurisdiction shall not otherwise be unlawful.

This Warrant Certificate is exchangeable, upon the surrender hereof by the Registered Holder at the corporate office of the Warrant Agent, for a new Warrant Certificate or Warrant Certificates of like tenor representing an equal aggregate number of Warrants, each of such new Warrant Certificates to represent such number of Warrants as shall be designated by such Registered Holder at the time of such surrender. Upon the presentment and payment of any tax or other charge imposed in connection therewith or incident thereto for registration of transfer of this Warrant Certificate at such office, a new Warrant Certificate or Warrant Certificates representing an equal aggregate number of Warrants will be issued to the transferee in exchange therefor, subject to the limitations provided in the Warrant Agreement.

Prior to the exercise of any Warrant represented hereby, the Registered Holder, as such, shall not be entitled to any rights of a stockholder of the Company, including, without limitation, the right to vote or to receive dividends or other distributions, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided in the Warrant Agreement.

Subject to the provisions of the Warrant Agreement, this Warrant may be redeemed at the option of the Company, at a redemption price of $_____ per Warrant, at any time commencing __________ ___, 1997 [the first anniversary of the date of the Prospectus] (or earlier with the consent of Rickel), provided that the average closing bid quotation of the Common Stock as reported on The Nasdaq Stock Market, if traded thereon, or is not traded thereon, the average closing sale price if listed on national exchange (or other reporting system that provides last sale prices), shall have for a period of _____ consecutive days on which such

market is open for trading ending on the third day prior to the date on which the Company gives the Notice of Redemption (as defined below) equaled or exceeded _____% of the then current Exercise Price. Notice of redemption (the "Notice of Redemption") shall be given by the Company no less than thirty days before the date fixed for redemption, all as provided in the Warrant Agreement. On and after the date fixed for redemption, the Registered Holder shall have no right with respect to this Warrant except to receive the $_____ per Warrant upon surrender of this Certificate.

Under certain circumstances described in the Warrant Agreement, Rickel shall be entitled to receive as a solicitation fee an aggregate of five percent (5%) of the Exercise Price of the Warrants represented hereby.

Prior to due presentment for registration of transfer hereof, the Company and the Warrant Agent may deem and treat the Registered Holder as the absolute owner hereof and of each Warrant represented hereby (notwithstanding any notations of ownership or writing hereon made by anyone other than a duly authorized officer of the Company or the Warrant Agent) for all purposes and shall not be affected by any notice to the contrary, except as provided in the Warrant Agreement.

This Warrant Certificate shall be governed by and construed in accordance with the laws of the State of New York without regard to the conflicts of law principles thereof.

This Warrant Certificate is not valid unless countersigned by the Warrant Agent.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be duly executed, manually or in facsimile by two of its officers thereunto duly authorized and a facsimile of its corporate seal to be imprinted hereon.

Dated __________ ___, 1996

SEAL INTEGRATED SURGICAL SYSTEMS, INC.

By: ____________________________________
President

By: ____________________________________
Secretary

COUNTERSIGNED:

[NAME OF WARRANT & TRANSFER AGENT],

as Warrant Agent

By: ____
Authorized Officer

EXERCISE FORM

To Be Executed by the Registered Holder
in order to Exercise Warrant

The undersigned Registered Holder hereby irrevocably elects to exercise _________ Warrants represented by this Warrant Certificate, and to purchase the securities issuable upon the exercise of such Warrants, and requests that certificates for such securities shall be issued in name of

PLEASE INSERT SOCIAL SECURITY
OR OTHER IDENTIFYING NUMBER

____

____

____

(please print or type name and address)

and be delivered to

____

____

____

(please print or type name and address)

and if such number of Warrants shall not be all the Warrants evidenced by this Warrant Certificate, that a new Warrant Certificate for the balance of such Warrants be registered in the name of, and delivered to, the Registered Holder at the address stated below.

IMPORTANT: PLEASE COMPLETE THE FOLLOWING:

1. If the exercise of this Warrant was solicited by Rickel & Associates, Inc., please check the following box. / /

2. The exercise of this warrant was solicited by

____

3. If the exercise of this Warrant was not solicited, please check the following box. / /

Dated: ________________________ X___________________________________

____

____
Address

____
Social Security or Taxpayer Identification Number

____
Signature Guaranteed

ASSIGNMENT

To be Executed by the Registered Holder
in Order to Assign Warrants

FOR VALUE RECEIVED, ____________________________, hereby sells, assigns and transfers unto

PLEASE INSERT SOCIAL SECURITY
OR OTHER IDENTIFYING NUMBER

____

____

____

(please print or type name and address)

________________________ of the Warrants represented by this Warrant Certificate, and hereby irrevocably constitutes and appoints ______________________________________ as its/his/her attorney-in-fact to transfer this Warrant Certificate on the books of the Company, with full power of substitution in the premises.

Dated: ______________________ x_______________________________

Signature Guaranteed

THE SIGNATURE TO THE ASSIGNMENT OR THE EXERCISE FORM MUST CORRESPOND TO THE NAME AS WRITTEN UPON THE FACE OF THIS WARRANT CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER AND MUST BE GUARANTEED BY A BANK, BROKER, DEALER, CREDIT UNION, SAVINGS ASSOCIATION OR OTHER ENTITY WHICH IS A MEMBER IN GOOD STANDING OF THE SECURITIES TRANSFER AGENTS MEDALLION PROGRAM.

------------------ COMPARISON OF HEADERS ------------------

-HEADER 1-
Section Page

------------------ COMPARISON OF FOOTERS ------------------

-FOOTER 1-
134583-1 9/19/96

EXHIBIT 4.3

ISS_____________ [ROBODOC LOGO]

INTEGRATED SURGICAL SYSTEMS, INC.

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

COMMON STOCK SEE REVERSE FOR CERTAIN DEFINITIONS
CUSIP 45812Y 10 8

THIS CERTIFIES that

is the owner of

FULLY PAID AND NON-ASSESSABLE SHARES OF THE $.01 PAR VALUE COMMON STOCK OF

INTEGRATED SURGICAL SYSTEMS, INC.

transferable only on the books of the corporation by the holder hereof in person or by a duly authorized attorney upon surrender of this certificate properly endorsed. This certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.

In Witness Whereof, the corporation has caused this certificate to be signed by the facsimile signatures of its duly authorized officers and to be sealed with the facsimile seal of the corporation.

Dated:

[INTEGRATED SURGICAL SYSTEMS, INC. CORPORATE SEAL]

/s/ J. Casey McGlynn	/s/ Ramesh C. Trivedi
SECRETARY	PRESIDENT AND CHIEF EXECUTIVE OFFICER

INTEGRATED SURGICAL SYSTEMS, INC.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common

UNIF GIFT MIN ACT --

________________Custodian_____________
(Cust) (Minor)
under Uniform Gifts to Minors

TEN ENT -- as tenants by the entireties

Act__________________________
(State)

IT TEN -- as joint tenants with right of survivorship and not as tenants in common

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED____________________hereby sell(s), assign(s) and transfer(s) unto

Please Insert Social Security or Other Identifying Number of Assignee
____

____

____
(Please print or typewrite name and address including postal zip code of assignee.

____

____

____Shares of the common stock represented by the within Certificate and do hereby irrevocably constitute and appoint

____Attorney to transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.

Date_________________________

____
Notice: The signature to this assignment must correspond with the name as written upon the face of the Certificate, in every particular, without alteration or enlargement, or any change whatsoever.

EXHIBIT 4.8

STOCKHOLDERS AGREEMENT dated as of February 6, 1991, by and among INTERNATIONAL BUSINESS MACHINES CORPORATION, a New York corporation ("IBM"), the investors in the Company listed on the signature pages hereof (the "Founders"), and Integrated Surgical Systems, Inc., a Delaware corporation (the "Company").

Simultaneously with the execution of this Agreement, IBM is entering into a loan and warrant purchase agreement (the "Loan and Warrant Agreement") with the Company pursuant to which IBM has agreed (i) to grant a loan to the Company in an amount of up to $3,000,000 and receive a Convertible Subordinated Loan Note (the "Loan Note") convertible into shares of Series A Preferred Stock, $0.01 par value ("Series A Preferred Stock"), of the Company, which is convertible into Common Stock, $0.01 par value ("Common Stock"), of the Company, and (ii) to acquire a warrant (the "Warrant") for the purchase of 500,000 shares of Common Stock. IBM, the Founders and the Company desire to provide for certain matters concerning the management of the Company and ownership and transfer of the Common Stock and the other Voting Securities of the Company.

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Accordingly, the parties hereby agree as follows:

1. Certain Definitions. As used herein, the following terms shall have the following meanings:

"Actual Voting Power of the Company" shall mean the total number of votes that may be cast in the election of directors of the Company at any meeting of stockholders of the Company assuming all shares of Common Stock and other securities of the Company entitled to vote generally in the election of directors of the Company were present and voted at such meeting, other than votes that may be cast only by one class or series of stock (other than Common Stock) or upon the happening of a contingency. In determining the percentage of Actual Voting Power of the Company represented by Voting Securities beneficially owned by any Person, any such securities not outstanding which are subject to any rights of conversion (including the Loan Note and the Series A Preferred Stock) or any options, warrants or rights (including the Warrant) shall be deemed to be outstanding for the purpose of computing the percentage of the Actual Voting Power of the Company represented by Voting Securities beneficially owned by such Person but shall not be deemed to be outstanding for the purpose of computing the percentage of the Actual Voting Power of the Company represented by Voting Securities beneficially owned by any other Person.

"Affiliate" shall mean, as to any Person, any other Person which directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with the specified Person.

A Person shall be deemed the "beneficial owner" of, and shall be deemed to "beneficially own", any securities (a) which such Person or any of its Affiliates is deemed to "beneficially own" within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934 or (b) which such Person or any of its Affiliates has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding or upon the exercise of any right of conversion or exchange, warrant, option or otherwise.

"Competitor" shall mean any Person which has for the most recent fiscal year of such Person, together with its Affiliates, (i) gross revenues in excess of $1 billion from the development, manufacture, sale, leasing and servicing of information processing hardware or (ii) gross revenues in excess of $200 million from the development, reproduction, licensing, leasing and sale of computer software and information processing related services.

As used in this Agreement, "control" (including, with its correlative meanings, "controlled by" and "under

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common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise).

"Person" shall mean any individual, firm, corporation, partnership, trust, joint venture or other entity, and shall include any successor (by merger or otherwise) of such entity.

"Securities Act" shall mean the Securities Act of 1933 and the rules and regulations thereunder.

"Selling Party" shall mean the Company, any Founder (or any stockholder group of which any Founder is a party), or any Significant Stockholder who may become a party to this Agreement which proposes to sell, assign, pledge or otherwise transfer any Voting Securities.

"Significant Stockholders" shall mean all Persons (other than IBM and its subsidiaries) who are or become beneficial owners of Voting Securities representing 5% or more of the Actual Voting Power of the Company.

"Voting Securities" shall mean the shares of Common Stock and any other securities of the Company entitled to vote generally in the election of directors of the Company, and any other securities (including rights, warrants and options and including the Loan Note) convertible

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into, exchangeable for or exercisable for any Common Stock or other securities referred to above (whether or not presently convertible, exchangeable or exercisable).

2. Restrictions on Transfers; First Offer Rights.

(a) So long as the principal of or interest on the Loan Note remains unpaid or IBM beneficially owns Voting Securities representing at least 25% of the Actual Voting Power of the Company, no Selling Party shall issue, sell, assign, pledge or otherwise dispose of its beneficial interest in any Voting Securities of the Company to a Competitor without the prior written consent of IBM.

(b) If at any time a Selling Party desires to issue, sell or otherwise dispose of its beneficial interest in any Voting Securities (the "Offered Securities") the following provisions shall apply:

(i) the Selling Party shall first submit a written offer to sell (the "Offer") the Offered Securities to IBM at a price per share in cash specified by the Selling Party (the "Specified Price"), which offer shall include a representation that the Selling Party intends to sell the Offered Securities in a bona fide arm's-length sales transaction at such price. Within 30 days after receipt of the Offer, and if no notice of acceptance or rejection is given to the Selling Party

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within such 30-day period, IBM shall be deemed to have rejected the Offer.

(ii) If the Offer is rejected or deemed rejected, the Selling Party may, subject to the restrictions set forth in Sections 2(a) and 5 if applicable, sell the Offered Securities to any Person or group at a price per share that is not less than the Specified Price (and which does not include any other terms, including financing terms, more favorable than those contained in the offer) at any time during the six-month period following the date of such rejection. Any Offered Securities not sold within such six-month period shall again be subject to the requirements of first offer to IBM pursuant to this Section. Prior to making any sale or other disposition of the Offered Securities, the Selling Party shall comply with Section 2(e) of this Agreement.

(iii) If IBM accepts the Offer in writing, it shall purchase and the Selling Party shall sell to IBM all the Offered Securities at the Specified Price per share no later than 30 days after receipt of such acceptance. At the closing, the Selling Party shall deliver to IBM a certificate or certificates representing the Offered Securities, duly endorsed for transfer or accompanied by duly executed stock powers

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for transfer to IBM and free and clear of all liens, against payment to the Selling Party of the purchase price therefor by certified check or wire transfer.

(c) If a Selling Party inquires of IBM about a proposed sale to a party that may be a Competitor, IBM shall indicate in writing to such Selling Party whether it deems such party to be a Competitor and such determination shall be binding upon IBM for purposes of the proposed sale.

(d) If any transfer or attempted transfer of Offered Securities is made contrary to the provisions of this Section 2, IBM shall have the right, in addition to any other legal or equitable remedies which it may have, to enforce its rights hereunder by an action for specific performance; and the Company, the Founders and any other Significant Stockholders recognize the rights set forth herein as unique, violations of which cannot be remedied by an award of monetary damage.

(e) Each Selling Party shall deliver to IBM, prior to making any sale or other disposition of its beneficial interest in Voting Securities to any Person not a party to this Agreement or any other agreement referred to in Section 7.14 of the Loan Agreement (unless such Person, after giving effect to such transaction, would own Voting Securities representing less than 5% of the Actual Voting Power of the Company) an appropriate document in which such

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Person agrees that it shall be bound by, and that its beneficial ownership of any Voting Securities shall be subject to, all the terms and conditions provided in this Agreement.

(f) This Section 2 shall not apply to any sale (i) pursuant to either a registration statement declared effective under the Securities Act of 1933 (so long as the distribution pursuant to such registration statement represents a bona fide offering to the public) or (ii) through a broker (so long as such sale is through an ordinary "broker's transaction" as such term is defined in Rule 144 under the Securities Act of 1933) when the Selling Party does not know the identity of the purchaser and does not direct the purchase.

3. Director; Observer; Voting. (a) The Company's By laws shall provide for five directors. So long as (i) the principal of and interest on the Loan Note remains unpaid or (ii) IBM beneficially owns Voting Securities representing at least 15% of the Actual Voting Power of the Company, IBM shall be entitled to (A) nominate, at any time, one individual to be a voting director of the Company and (B) have a nonvoting observer who shall be entitled to attend all Board meetings, and the Company agrees to cause such nominee to be proposed for election by its stockholders. The Company acknowledges and agrees that such

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director and/or observer will be under an obligation to IBM not to disclose to any person outside of IBM, or use in other than IBM's business, any confidential information or material relating to the business of IBM or its Subsidiaries; and, therefore, the Company acknowledges that there shall be no obligation on the part of such director or observer to disclose any such information or material to the Company, even if such disclosure would be of interest or value to the Company.

(b) Each of the Founders and other Significant Stockholders who may become a party to this Agreement agrees to vote all his Voting Securities to elect the individual nominated by IBM to be a director. The Company agrees to vote all Voting Securities for which the Company's management or Board of Directors holds proxies, granting them voting discretion, or is otherwise entitled to vote in favor of, and to use its best efforts in all other respects to cause, the election of such individual nominated by IBM. In the event that a vacancy is created on the Board of Directors of the Company at any time by the death, disability, resignation or removal (with or without cause) of any such individual nominated by IBM, each of the Founders and other Significant Stockholders who may become a party to this Agreement shall vote all of such Person's Voting Securities

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to elect an individual nominated by IBM to fill such vacancy and serve as a director.

(c) For so long as IBM has the right to nominate a director, IBM shall have the right to receive reasonable prior notice of (with such notice to be sent to the address provided in Section 8 below if IBM shall have not designated a specific individual), and have its director, nominee or observer, as the case may be, attend, all meetings of the Board of Directors of the Company or any committee thereof and the Company will promptly deliver to IBM copies of all minutes and other records of action by, and all written information furnished to, the Board or such committee.

(d) If IBM gives notice to any Founder or Significant Stockholder that IBM desires to remove a director nominated by IBM, each of the Founders and Significant Stockholders agrees to vote all his Voting Securities in favor of removing such director if a vote of holders of such securities shall be required to remove the director, and the Company agrees to take any action necessary to facilitate such removal.

(e) For so long as Section 8.05 of the Loan and Warrant Agreement shall be in effect, each of the Founders and other Significant Stockholders who may become party to this Agreement agrees to vote its Voting Securities in such

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a manner as to cause the Company to comply with such Section.

(f) If any Founder or other Significant Stockholder fails or refuses to vote his Voting Securities as required by this Section 3, IBM shall have an irrevocable proxy pursuant to the provisions of Section 212 of the Delaware General Corporation Code, coupled with an interest, so as to vote those securities in accordance with this Section 3, and each Founder and other Significant Stockholder hereby grants to IBM such irrevocable proxy.

(g) The right of IBM contained in this Section 3 to nominate one individual to be a voting director of the Company shall apply only in the event IBM is not entitled to elect a director pursuant to the Certificate of Incorporation of the Company by reason of being the holder of Series A Preferred Stock.

4. Preemptive Rights; Antidilution Rights. Each of the Founders hereby waives, with respect to the transactions contemplated by this Agreement and the Loan and Warrant Agreement, any preemptive, antidilution or other rights held by such Founder granting the holder of any securities the right to acquire any additional shares or other securities upon the issuance of securities by the Company.

5. Restriction on Transfer of Founders Shares. (a) In addition to the restrictions set forth in Section 2,

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the Founders shall not sell, assign, pledge or otherwise transfer their beneficial interest in any of the shares of Common Stock acquired by them at or prior to the date hereof or any Voting Securities hereafter received by the Founders in respect of such shares, whether by stock split, dividend reclassification or otherwise (such shares listed on Schedule A hereto and such other Voting Securities as may hereafter be received in respect thereof, herein referred to as the "Founders Shares"), unless (i) such shares are transferred to the Company, to IBM or to a third party with IBM's prior written approval, or (ii) the Company shall have sold its Common Stock in a bona fide public offering on an underwritten firm commitment basis pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission resulting in $15 million aggregate gross proceeds to the Company (a "Qualified Initial Public Offering"), or (iii) the Company shall have been acquired by another entity (whether by merger, acquisition of substantially all the Company's assets, or acquisition of substantially all the Voting Securities of the Company), or (iv) the proposed transfer of Founders Shares shall occur on or after February 6, 1998, provided that the principal of and interest on the Loan Note shall have been paid in full. The restriction on transfer set forth above shall be in addition to any other applicable restrictions

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that may be contained in other agreements between the Founders and the Company.

(b) The Company shall repurchase Founders Shares, except for any Founders Shares that have prior to such time become vested pursuant to the terms of the respective subscription agreements under which such Founders Shares were issued, at a purchase price of $0.01 per share, if the Founder holding such shares dies, or becomes disabled, or ceases to be employed by the Company for any reason (or, in the case of Dr. William Bargar, has his consulting agreement with the Company terminated for any reason). In addition, upon the occurrence of any event referred to in the preceding sentence, any Founders Shares then held by such Founder that have theretofore become vested shall be put into a trust (to be established by the Company and such Founder or his heirs) to be held for the benefit of such Founder or his heirs. Founders Shares held in such trust will be voted in the same proportion as other shareholders vote their shares. Any such trust shall be terminated upon the first to occur of (i) a Qualified Initial Public Offering, (ii) the acquisition of the Company by another entity (whether by merger, acquisition of substantially all the Company's assets, or acquisition of substantially all the Voting Securities of the Company), or (iii) February 6, 1998, if the principal of and interest on the Loan Note have

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been paid in full (or such later date on which the Loan Note is converted or paid in full, but in any event not later than February 6, 2001).

6. Legend on Certificates for Voting Securities. Each certificate representing Voting Securities beneficially owned by any Founder or any Significant Stockholder shall bear the following legend until such time as the Voting Securities represented thereby are no longer subject to this Agreement:

> THE SECURITIES REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS OF A STOCKHOLDERS AGREEMENT DATED AS OF FEBRUARY 6, 1991, BY AND AMONG INTERNATIONAL BUSINESS MACHINES CORPORATION, INTEGRATED SURGICAL SYSTEMS, INC. (THE "COMPANY"), AND CERTAIN OF THE COMPANY'S STOCKHOLDERS AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN ACCORDANCE THEREWITH. A COPY OF SUCH AGREEMENT IS ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE COMPANY, AND THE COMPANY WILL FURNISH A COPY OF SUCH AGREEMENT TO THE HOLDER OF THIS CERTIFICATE UPON WRITTEN REQUEST AND WITHOUT CHARGE.

The Company agrees not to register the transfer of any certificate containing such a legend without receiving a certificate from the transferring party stating that such party has complied with the transfer provisions of this Agreement.

7. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of each of the Founders, Significant Stockholders who may become a party hereto, and IBM and their successors, heirs and legatees and permitted assigns. Except as expressly set forth herein,

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none of the Founders may assign this Agreement without the prior written consent of IBM, and any such purported assignment shall be void. Subject to the provisions of this Section 7, IBM may assign all or any part of its rights and obligations hereunder to an Affiliate. A Person to whom all or a part of IBM'S rights are assigned shall become a party to this Agreement, entitled to all the rights and benefits hereunder.

8. Amendments. No amendment to this Agreement shall be effective unless it shall be in writing and signed by all parties hereto.

9. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given when delivered by hand or overnight courier service or five days after being mailed by registered or certified mail (return receipt requested), postage prepaid, to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(i) if to IBM,

International Business Machines Corporation
2000 Purchase Street
Purchase, New York 10577
Attention: M. W. Szeto

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with a copy to:

Cravath, Swaine & Moore
Worldwide Plaza
825 Eighth Avenue
New York, New York 10019
Attention: Martin L. Senzel

(ii) if to the Company,

Integrated Surgical Systems, Inc.
829 West Stadium Lane
Sacramento, California 95834
Attention: Dr. Howard Paul

with a copy to:

Wilson, Sonsini, Goodrich & Rosati
2 Palo Alto Square
Palo Alto, California 94304
Attention: J. Casey McGlynn

(iii) if to any Founder or Significant Stockholder, to his address as provided in the books of the Company.

10. Interpretation. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

11. Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the parties and delivered to the other parties.

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12. Entire Agreement. This Agreement contains the entire agreement and understanding between the parties hereto with respect to matter covered hereby and supersedes all prior agreements and understandings, written or oral, among the parties with respect to the subject matter hereof.

13. Severability. If any provision of this Agreement or the application of any such provision to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

14. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York applicable to agreements made and to be performed entirely within such state, without regard to the conflict of law principles of such state.

IN WITNESS WHEREOF, the parties have caused this Stockholders Agreement to be duly executed as of the date first written above.

INTERNATIONAL BUSINESS MACHINES CORPORATION,

by /s/ Michael W. Szeto

Name: Michael w. Szeto
Title: Vice President, Business Development

Exhibit 4.15

_______________, 1996

Rickel & Associates, Inc.
875 Third Avenue
New York, New York 10022

Integrated Surgical Systems, Inc.
829 West Stadium Lane
Sacramento, California 95834

Re: "Lock-Up" Agreement

Ladies and Gentlemen:

The undersigned stockholder, officer and/or director of Integrated Surgical Systems, Inc. (the "Company") is the owner of certain shares of (or certain rights to acquire, by conversion, exercise or other means) the Company's common stock, par value $.01 per share (the "Common Stock"). In order to induce Rickel & Associates, Inc. ("Rickel") to act as the underwriter in connection with a proposed public offering (the "Offering") of shares of Common Stock and redeemable warrants to purchase Common Stock, the undersigned hereby agrees as follows:

1. Without the prior written consent of Rickel (and, if required by applicable state blue sky laws, the securities commissions in any such states), for a period of 18 months after the effective date of a registration statement with respect to the Offering (the "Effective Date"), the undersigned will not offer sell, transfer or otherwise dispose of any shares of the Common Stock now owned or hereafter acquired, whether beneficially (as defined below) or of record, by the undersigned, including, but not limited to, shares of Common Stock acquired upon exercise of options or warrants or acquired upon conversion of any other securities owned by the undersigned (collectively, the "Common Stock"). For purposes of this agreement, the undersigned shall be deemed to "beneficially" own, among other shares, any shares owned by (i) members of his or her family and (ii) any person or entity controlled by the undersigned or under common control with the undersigned.

2. The undersigned will cause:

(i) a copy of this agreement to be available from the Company or the Company's transfer agent upon request and without charge;

(ii) a notice to be placed on the face of each stock certificate for Common Stock stating that the transfer of the Common Stock is restricted in accordance with the conditions set forth on the reverse side of the certificate; and

(iii) a typed legend to be placed on the reverse side of each certificate representing Common Stock stating that the sale or transfer of the Common Stock is subject to certain restrictions pursuant to an agreement between the stockholder and the Company, which agreement is on file with the Company and the stock transfer agent from which a copy is available upon request and without charge.

3. This agreement and all of its terms and restrictions shall be binding upon the undersigned and each and every one of its legal representatives, heirs, successors and assigns. The terms and conditions contained in this agreement can only be modified (including premature termination of this agreement) with the prior written consent of Rickel.

4. This agreement shall terminate in the event the Company and Rickel have not entered into an underwriting agreement by December 31, 1996 with respect to the Offering.

5. This agreement shall be governed by and construed in accordance with the law of the state of New York applicable to agreements made and to be performed entirely in New York.

Very truly yours,

[Entities:] ______________________________
[name of entity]

By:___________________________
Name:
Title:

[Individuals:] ______________________________
Name:

Exhibit 5.1

[LETTERHEAD] SNOW BECKER KRAUSS P.C.

September 19, 1996

Board of Directors
Integrated Surgical Systems, Inc.
829 West Stadium Lane
Sacramento, California 95834

Ladies and Gentlemen:

You have requested our opinion, as counsel for Integrated Surgical Systems, Inc., a Delaware corporation (the "Company"), in connection with the registration statement on Form SB-2 (No. 333-9207) (the "Registration Statement"), under the Securities Act of 1933 (the "Act"), filed by the Company with the Securities and Exchange Commission.

The Registration Statement relates to (i) an offering of up to 1,725,000 shares (the "Shares") of common stock, par value $0.01 ("Common Stock"), of the Company and up to 1,725,000 redeemable common stock purchase warrants (the "Redeemable Warrants"), each exercisable to purchase one share of Common Stock (the aggregate of 1,725,000 shares of Common Stock issuable upon exercise of the Redeemable Warrants being hereinafter referred to as the "Warrant Shares"), and (ii) warrants (the "Underwriters' Warrants") to purchase 150,000 shares of Common Stock (the "Underwriters' Shares") and 150,000 warrants (the "Underwriters' Common Stock Warrants"), each exercisable to purchase one share of Common Stock (the aggregate of 150,000 shares of Common Stock issuable upon exercise of the Underwriters' Common Stock Warrants being hereinafter referred to as the "Underwriters' Warrant Shares".)

[LETTERHEAD]

We have examined such records and documents and made such examinations of law as we have deemed relevant in connection with this opinion. It is our opinion that when there has been compliance with the Act and the applicable state securities laws:

(1) The Shares, the Redeemable Warrants and Underwriters' Warrants have been duly authorized and, when issued, delivered and paid for in the manner described in the form of Underwriting Agreement filed as Exhibit 1.1 to the Registration Statement, will be legally issued and the Shares, when so issued, delivered and paid for will also be fully paid and nonassessable.

(2) The Warrant Shares have been duly authorized, and when issued, delivered and, paid for upon exercise of the Redeemable Warrants in the manner described in the form of Warrant Agreement filed as Exhibit 4.2 to the Registration Statement, will be legally issued, fully paid, and nonassessable.

(3) The Underwriters' Shares, the Underwriters' Common Stock Warrants and the Underwriters' Warrant Shares, have been duly authorized and, when issued, delivered and paid for in the manner described in the Underwriters' Warrants filed as Exhibit 4.1 to the Registration Statement, will be legally issued, and the Underwriters' Shares and the Underwriters' Warrant Shares, when so issued, delivered and paid for will also be fully paid and nonassessable.

(4) The Redeemable Warrants, the Underwriters' Warrants and the Underwriters' Common Stock Warrants, have been duly authorized, and when issued and paid for as set forth in the Registration Statement, will be legally issued, fully paid and non-assessable, and will constitute the valid and legally binding obligations of the Company, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application relating to the availability of remedies (regardless of

[LETTERHEAD]

whether such enforcement is considered in a proceeding in equity or at law).

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to our firm under the caption "Legal Matters" in the Registration Statement. In so doing, we do not admit that we are in the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Securities and Exchange Commission promulgated thereunder.

Very truly yours,

SNOW BECKER KRAUSS P.C.

EXHIBIT 10.1

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LOAN AND WARRANT PURCHASE AGREEMENT

Dated as of February 6, 1991

between

INTEGRATED SURGICAL SYSTEMS, INC.

and

INTERNATIONAL BUSINESS MACHINES CORPORATION

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LOAN AND WARRANT PURCHASE AGREEMENT dated as of February 6, 1991, between INTEGRATED SURGICAL SYSTEMS, INC., a Delaware corporation (the "Company"), and INTERNATIONAL BUSINESS MACHINES CORPORATION, a New York Corporation ("IBM").

The Company has requested IBM to extend to the Company, upon the terms and subject to the conditions set forth herein, on the First Closing Date, a term loan in the principal amount of $750,000, which term loan may be increased at the Company's option, on the Additional Closing Dates, subject to the terms and conditions provided herein, to an aggregate principal amount of up to $3,000,000. IBM is willing to make the loan to the Company upon the terms and subject to the conditions set forth herein.

The Company has agreed to issue the Warrant to IBM on the First Closing Date, upon the terms and subject to the conditions set forth herein, and the parties desire to set forth the terms and conditions of the Warrant and the rights and duties of the parties with respect thereto and with respect to the shares of capital stock of the Company issuable upon the exercise thereof.

Accordingly, the Company and IBM agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Certain Definitions. As used in this Agreement, the following terms shall have the meanings specified below:

"Actual Voting Power of the Company" shall mean the total number of votes that may be cast in the election of directors of the Company at any meeting of stockholders of the Company assuming all shares of Common Stock and other securities of the Company entitled to vote generally in the election of directors of the Company were present and voted at such meeting, other than votes that may be cast only by one class or series of stock (other than Common Stock) or upon the happening of a contingency. In determining the percentage of Actual Voting Power of the Company represented by Voting Securities beneficially owned by any Person, any such securities not outstanding which are subject to any

rights of conversion (including the Loan Note and the preferred Stock) or any options, warrants or rights (including the Warrant) shall be deemed to be outstanding for the purpose of computing the percentage of the Actual Voting Power of the Company represented by Voting Securities beneficially owned by such Person but shall not be deemed to be outstanding for the purpose of computing the percentage of the Actual Voting Power of the Company represented by Voting Securities beneficially owned by any other Person.

"Affiliate" shall mean, when used with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, controls or is controlled by or is under common control with the Person specified.

"Applicable Rate" shall mean 9.25% per annum.

"Average Market Price" of any security at any date shall mean the average of the closing prices for a share of such security on the 30 consecutive trading days ending on the trading date last preceding the date of determination of such price, as reported on the New York Stock Exchange Composite Tape or, if such closing prices shall not be reported on the New York Stock Exchange Composite Tape, the average of the closing sales prices for a share of such security on the principal national securities exchange on which such security is listed on such 30 consecutive trading days or, if such security is not listed on any national securities exchange, the average of the closing prices for a share of such security on such 30 consecutive trading days as reported on the NASDAQ National Market System or, if such security is not included for quotation on the NASDAQ National Market System, the average of the high and low closing bid and asked prices for a share of such security on such 30 consecutive trading days as reported on NASDAQ or, if such closing prices shall not be reported on NASDAQ, the average of the mean between the closing bid and asked prices of a share of such security on such 30 consecutive trading days as so reported, as the same shall be reported by the National Quotation Bureau Incorporated.

A Person shall be deemed the "beneficial owner" of, and shall be deemed to "beneficially own", any securities (a) which such Person or any of its Affiliates is deemed to "beneficially own" within the meaning of Rule 13d-3 under the Exchange Act or (b) which such Person or any of its Affiliates has the right to acquire (whether such right is exercisable immediately or only after the

passage of time) pursuant to any agreement, arrangement or understanding or upon the exercise of any right of conversion (including pursuant to the Loan Note or the Preferred Stock) or exchange, warrant (including the Warrant), option or otherwise.

"Business Day" shall mean any day (other than a day which is a Saturday, Sunday or legal holiday in the State of New York or California) on which banks are open for business in New York, New York, and San Francisco, California.

"Business Plan" shall mean the Business Plan dated December 11, 1990, a copy of which is attached hereto as Exhibit A.

"Capital Lease Obligations" of any Person shall mean the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof , which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under generally accepted accounting principles.

A "Change of Control" shall be deemed to have occurred if (a) any Person or group (within the meaning of Rule 13d-5 under the Exchange Act as in effect on the date hereof) other than the Company, IBM or a Subsidiary of the Company or IBM shall become the owner, directly or indirectly, beneficially or of record, of Voting Securities representing in excess of 20% of the Total Voting Power of the Company; (b) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company cease for any reason to constitute a majority thereof unless each new director was elected by, or on the recommendation of, a majority of the directors then still in office who were directors at the beginning of the period; or (c) any Person or group shall otherwise directly or indirectly acquire control of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Common Stock" shall mean the Common Stock, $.01 par value, of the Company or any other shares of capital stock of the Company into which the Common Stock shall be reclassified or changed.

As used in this Agreement, "control" (including, with its correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise).

"Default" shall mean any event or condition which upon notice, lapse of time or both would constitute an Event of Default.

"dollars" or "$" shall mean lawful money of the United States of America.

"Event of Default" shall have the meaning assigned to such term in Article IX.

"Exchange Act" shall mean the Securities Exchange Act of 1934, and the rules and regulations thereunder.

"Founders" shall mean Dr. Howard Paul, Dr. William Bargar, Brent Mittelstadt and Dr. Peter Kazanzides, or any of them.

"Founders Subscription Agreements" shall mean the subscription agreements in the form of Exhibit J pursuant to which the Founders are to acquire shares of Common Stock.

"Governmental Authority" shall mean any court, administrative agency or commission or other governmental agency or instrumentality, domestic or foreign, of competent jurisdiction.

"Guarantee" of or by any Person shall mean any obligation, contingent or otherwise, of such Person guaranteeing any Indebtedness of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Indebtedness, (b) to purchase property, securities or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness or (c) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness; provided, however, that the term

Guarantee shall not include endorsements for collection or deposit, in either case in the ordinary course of business.

"Indebtedness" of any Person shall mean, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services, (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations of such Person in respect of interest rate protection agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (j) all obligations of such Person as an account party in respect of letters of credit and bankers' acceptances. The Indebtedness of any Person shall include the Indebtedness of any partnership in which such Person is a general partner.

"License Agreement" shall mean each of the License Agreements dated the date hereof between the Company and IBM in the form of Exhibit B.

"Lien" shall mean, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, encumbrance, charge or security interest in or on such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Management Incentive Stock Option Plan" shall mean a management incentive stock option plan to be adopted by the Company only with IBM's prior approval.

Any reference to any event, change or effect being "material" with respect to the Company means an event, change or effect which is or, insofar as reasonably can be

foreseen, in the future will be, material to the condition (financial or otherwise), properties, assets, liabilities, earnings, capitalization, stockholders' equity, licenses or franchises, businesses, operations or prospects of the Company.

"NASD" shall mean the National Association of Securities Dealers, Inc.

"NASDAQ" shall mean the National Association of Securities Dealers Automated Quotations System.

"Operative Agreements" shall mean this Agreement, each License Agreement, the Stockholders Agreement and the Founders Subscription Agreements.

"Payment Date" shall mean the last day of January, April, July and October in each year, commencing with January 31, 1996, or, if any such day is not a Business Day, the next succeeding Business Day.

"Permitted Liens" shall mean:

(a) mechanics', carriers', workmen's, repairmen's or other like liens arising from or incurred in the ordinary course of business and securing obligations which are not due or which are being contested in good faith by the Company, liens for Taxes which are not due and payable or which may thereafter be paid without penalty or which are being contested in good faith by the Company (provided that the Company has set up adequate reserves for the payment of such Taxes) and other imperfections of title or encumbrances, if any, which imperfections of title or other encumbrances do not materially impair the use of the assets to which they relate in the business of the Company as presently conducted and as proposed to be conducted;

(b) easements, covenants, rights-of-way and other encumbrances or restrictions of record;

(c) zoning, building and other similar restrictions; provided that the same are not violated in any material respect by any improvements of the Company or by the use thereof for the conduct of the Company's business; and

(d) unrecorded easements, covenants, rights-of-way or other encumbrances or restrictions, none of which

unrecorded items materially impairs the use of the property to which they relate in the business of the Company as presently conducted and as proposed to be conducted.

"Person" shall mean any individual, firm, corporation, partnership, trust, joint venture, Governmental Authority or other entity, and shall include any successor (by merger or otherwise) or such entity.

"Preferred Stock" shall mean Series A Preferred Stock of the Company having the terms set forth in Exhibit C hereto.

"Prior Loan Agreement" shall mean the Letter Agreement between IBM and the Company, dated October 18, 1990, as amended, pursuant to which IBM has agreed to extend a loan to the Company in a principal amount of up to a maximum of $250,000.

"SEC" shall mean the Securities and Exchange Commission or any successor commission or agency having similar powers.

"Securities Act" shall mean the Securities Act of 1933, and the rules and regulations thereunder.

"Significant Stockholders" shall mean all Persons (other than IBM and its Subsidiaries) who are or become beneficial owners of Voting Securities representing 5% or more of the Actual Voting Power of the Company.

"Stockholders Agreement" shall mean the Stockholders Agreement dated the date hereof among the Company, IBM and certain stockholders of the Company, in the form of Exhibit D.

"Subsidiary" of any Person shall mean a corporation, company or other entity (i) more than 50% of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority) are, or (ii) which does not have outstanding shares or securities (as may be the case in a partnership, joint venture or unincorporated association), but more than 50% of whose ownership interest representing the right to make decisions for such other entity is, now or hereafter owned or controlled, directly or indirectly, by such Person, but such corporation, company or other entity shall be deemed to

be a Subsidiary only so long as such ownership or control exists.

"Tax" or "Taxes" shall mean all Federal, state, local and foreign taxes, assessments and other governmental charges, including, without limitation, taxes based upon or measured by gross receipts, income, profits, sales, use or occupation, and value added, ad valorem, transfer, franchise, withholding, payroll, employment, excise, or property taxes, together with all interest, penalties and additions imposed with respect to such amounts and any obligations under any agreements or arrangements with any other Person with respect to such amounts.

"Total Voting Power of the Company" shall mean the total number of votes that may be cast in the election of directors of the Company at any meeting of stockholders of the Company if all Voting Securities (assuming full conversion, exchange or exercise of all securities (including rights, warrants and options and including the Loan Note, the Preferred Stock and the Warrant) convertible into, exchangeable for or exercisable for any securities of the Company entitled to vote generally in the election of directors of the Company) were present and voted at such meeting, other than votes that may be cast only by one class or series of stock (other than Common Stock) or upon the happening of a contingency.

"Voting Securities" shall mean the shares of Common Stock and any other securities of the Company entitled to vote generally in the election of directors of the Company, and any other securities (including rights, warrants and options and including the Loan Note, the Preferred Stock and the Warrant) convertible into, exchangeable for or exercisable for any Common Stock or other securities referred to above (whether or not presently convertible, exchangeable or exercisable).

SECTION 1.02. Additional Definitions.

Defined Term	Section Defined in
"Additional Closing Dates"	2.01
"Affiliated Group"	3.06
"Balance Sheet"	3.05
"Benefit Plan"	3.15
"Closing"	2.07
"Company"	Parties
"Contracts"	3.10

"Demand Registration"	10.01
"ERISA"	3.15
"Financial Statements"	3.05
"First Closing Date"	2.07
"Fourth Closing Date"	2.01
"IBM"	Parties
"Indemnitee"	11.05(b)
"Loan"	2.01(a)
"Loan Note"	2.02
"Notice"	2.01(b)
"Piggyback Registration"	10.02
"Registration Shares"	10.01
"Registration Statement"	10.09(a)
"Second Closing Date"	2.01
"Third Closing Date"	2.01
"Warrant"	2.06

ARTICLE II

Making of Loan; Issuance of Loan Note;
Issuance of Warrant; Closings

SECTION 2.01. The Loan. (a) Upon the terms and subject to the conditions set forth in this Agreement, and relying upon the representations and warranties set forth in this Agreement, IBM agrees to make a term loan on the First Closing Date to the Company in the principal amount of $750,000 (less any amounts then outstanding under the Prior Loan Agreement), which term loan shall be increased on the following dates and in the following amounts up to an aggregate principal amount of $3,000,000 (the "Loan").

	Estimated Closing Date	Amount
Second Closing	March 31, 1991	$1,100,000
Third Closing	August 31, 1991	$1,000,000
Fourth Closing	November 1, 1991	$ 150,000

The actual date of each Closing shall be a Business Day designated by the Company in the notice delivered pursuant to Section 2.01(b), and shall not occur prior to the satisfaction of the additional condition or conditions for such Closing contained in Section 5.14. If the conditions for any Closing are not satisfied within four months after the estimated closing date therefor set forth above, IBM's obligation to advance any additional amounts under this

Agreement shall terminate. The date of the Second Closing is referred to as the "Second Closing Date", the date of the Third Closing is referred to as the "Third Closing Date", the date of the Fourth Closing is referred to as the "Fourth Closing Date", and such dates are collectively referred to as the "Additional Closing Dates".

(b) IBM shall make the additional amounts of the Loan available to the Company, subject to the provisions herein, upon the receipt of 20 days prior written notice from the Company (a "Notice") for the applicable increase. Such Notice shall in each case refer to this Agreement, shall state that the conditions to the extension of the increase in the Loan set forth in Section 5.14 have been satisfied as of the date of such Notice and will be satisfied as of the date of such increase, and shall include supporting data that demonstrates the satisfaction of such conditions. Such Notice shall also specify the date and time of the proposed borrowing and the account of the Company to which the proceeds of the borrowing are to be made available.

SECTION 2.02. Convertible Loan Note. The Loan by IBM shall be evidenced by a single convertible subordinated loan note (the "Loan Note") duly executed on behalf of the Company, dated the First Closing Date, in substantially the form attached hereto as Exhibit E with the blanks appropriately filled, payable to the order of IBM. The aggregate unpaid principal amount of the Loan Note shall be payable as set forth in Section 2.04. The Loan Note shall bear interest from its date on the aggregate unpaid principal amount of the Loan as set forth in Section 2.03. IBM shall, and is hereby authorized by the Company to, endorse on the schedule attached to the Loan Note (or on a continuation of such schedule attached to the Loan Note and made a part thereof) an appropriate notation evidencing the date and amount of each borrowing under the Loan, each payment of principal and the other information provided for on such schedules; provided, however, that the failure of IBM to set forth such amount, principal payments and other information on such schedule shall not in any manner affect the obligation of the Company to repay the Loan in accordance with the terms hereof and of the Loan Note. The unpaid amount of the Loan at any time shall be the principal amount owing on the Loan Note at such time.

SECTION 2.03. Interest on Loan. The aggregate outstanding amount of the Loan shall bear interest at a rate per annum (computed on the basis of the actual number of

days elapsed over a year of 360 days) equal to the Applicable Rate. Interest shall be compounded annually and shall be payable on each Payment Date; provided, that interest accruing prior to the fifth anniversary of the First Closing Date shall be paid in 16 equal installments on the first 16 consecutive Payment Dates commencing with the initial Payment Date, and provided further that interest accruing from and after the initial Payment Date (including interest on unpaid interest deferred under the preceding proviso) shall be payable on each subsequent Payment Date. Notwithstanding the foregoing, IBM shall have the right at any time on or after the initial Payment Date to convert all or any portion of the interest accrued prior to the initial Payment Date into additional principal under the Loan Note; provided that at no time shall the principal of the Loan Note plus any portion of the principal of the Loan Note theretofore converted into Preferred Stock exceed $3,000,000; and provided, further, that in the event of such conversion into principal, the remaining payments of such accrued interest shall be reduced pro rata and remaining payments of principal shall be increased pro rata. In the event that the Loan Note is converted prior to such time as all interest accruing through the first Payment Date has been paid in full, such unpaid accrued interest that is not converted to principal in accordance with the preceding sentence shall remain payable on the same dates as aforesaid. If any installment of principal of or interest on the Loan Note is not paid when due, interest shall continue to accrue at the same rate up to the date of actual payment on the unpaid principal and, to the extent permitted by law, on the unpaid interest. Such additional interest shall be payable on demand from time to time.

SECTION 2.04. Payment of Principal. Subject to Section 2.03, the principal amount of the Loan shall be due and payable in 16 equal installments on each Payment Date commencing with the initial Payment Date until the outstanding amount thereof has been paid in full. The balance outstanding under the Loan Note may not be prepaid without IBM's consent.

SECTION 2.05. Conversion of the Loan Note. The aggregate unpaid principal amount of the Loan Note will be convertible by IBM in whole or in part at any time into Preferred Stock of the Company in accordance with the terms of the Loan Note.

SECTION 2.06. The Warrant. Upon the terms and subject to the conditions of this Agreement, and relying on

the representations and warranties set forth in this Agreement, IBM agrees to accept from the Company and the Company agrees to issue to IBM as consideration for IBM's execution and delivery of the License Agreement, on the First Closing Date, the warrant (the "Warrant") in the form attached as Exhibit F.

SECTION 2.07. Closings. The Closings (each a "Closing") with respect to the Loan shall be held at the offices of Cravath, Swaine & Moore, Worldwide Plaza, 825 Eighth Avenue, New York, N.Y. 10019. The initial Closing will be at 10:00 a.m. on February 6, 1991, or at such other time or on such other date as may be agreed to by IBM and the Company. The date on which the initial Closing for the Loan shall occur is herein referred to as the "First Closing Date". On the First Closing Date, (a) IBM shall deliver to the Company, by wire transfer of funds to the Company's account at: The Sacramento First National Bank, 1440 Eathan Way, Sacramento, California 95825, ABA Wire No. 121140849001, for deposit to the company's Account, No. 001205900 (for assistance, telephone Mary Lehmann, 916-920-4111) the amount of $500,000 and an acknowledgment of repayment by the Company of indebtedness in the amount of $250,000 to IBM pursuant to the Prior Loan Agreement and (b) the Company shall deliver the Loan Note evidencing the initial loan of $750,000 and the Warrant to IBM. The Closing for each increase in the Loan will be held at the date and time specified in the Company's Notice requesting such increase in the Loan, or at such other time or on such other date as may be agreed to by IBM and the Company. At each Closing for each increase in the Loan, (a) IBM shall deliver to the Company, by wire transfer of funds to the Company's account specified in the Notice requesting such increase in the Loan, the additional amount of the Loan to be advanced at such Closing and (b) IBM shall endorse on the schedule attached to the Loan Note an appropriate notation evidencing the date and amount of such increase in the Loan.

ARTICLE III

Representations and Warranties of the Company

The Company represents and warrants to IBM that:

SECTION 3.01. Organization and Standing of the Company. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Company has all requisite corporate

power and authority and possesses all franchises, licenses, permits, authorizations and approvals from Governmental Authorities necessary to enable it to use its corporate name and to own, lease or otherwise hold its properties and assets and to carry on its business as presently conducted. As of the Closing Date, the Company will be duly qualified to do business as a foreign corporation in each jurisdiction in which the nature of its business or the ownership, leasing or holding of its properties or assets requires qualification, except where the failure to be so qualified would not have a material adverse effect on the Company. The Company has delivered to IBM true and complete copies of the Certificate of Incorporation, as amended to date, and the By-laws, as in effect on the date hereof, of the Company. The stock certificate and transfer books and the minute books of the Company (which have been made available for inspection by IBM and its representatives) are true and complete.

SECTION 3.02. Authority. The Company has all requisite corporate power and authority to enter into the Operative Agreements, to issue and deliver the Warrant and the Loan Note and to consummate the other transactions contemplated thereby. The execution and delivery by the Company of the Operative Agreements, the issuance and delivery by the Company of the Loan Note and the Warrant and the consummation by the Company of the transactions contemplated thereby have been duly authorized by all necessary corporate action on the part of the Company and its stockholders. This Agreement has been duly executed and delivered by the company and constitutes, and the other Operative Agreements, the Loan Note and the Warrant when duly executed by the Company and delivered to IBM will constitute, the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally and by general equitable principles. The execution and delivery of this Agreement does not, and the execution and delivery of the other Operative Agreements, the issuance and delivery of the Loan Note and the Warrant, and the consummation of the transactions contemplated hereby and thereby and compliance with the terms hereof and thereof will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to the loss of any benefit under, or result in the creation or imposition of any Lien of any nature

whatsoever upon any of the properties or assets of the Company under, (a) any loan or credit agreement, note, bond, mortgage, indenture, deed of trust, license, lease, contract, commitment, agreement, understanding or arrangement to which the Company is a party or by which the Company or any of its properties or assets is bound, (b) any provision of the Certificate of Incorporation or By-laws of the Company or (C) any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company or any of its properties or assets. No consent, approval, order, license, permit or authorization of, or registration, declaration or filing with, any Governmental Authority or any other Person is required to be obtained or made by or with respect to the Company or any of its Affiliates in connection with the execution and delivery of any of the Operative Agreements, the issuance and delivery of the Loan Note or the Warrant or the consummation of the transactions contemplated thereby.

SECTION 3.03. Capital Stock of the Company. (a) The authorized capital stock of the Company consists of (A) 7,000,000 shares of Common Stock, of which 500,000 shares are to be issued to the Founders on or prior to the First Closing Date, as set forth on Schedule 3.03, 150,000 shares are reserved for issuance under a Management Incentive Stock Option Plan, 500,000 shares are reserved for issuance upon exercise of the Warrant, 666,667 shares are reserved for issuance upon conversion of the Preferred Stock issuable upon conversion of the Loan Note and 100,000 shares are reserved for purchase by the president and chief operating officer of the Company, and (B) 666,667 shares of Preferred Stock, of which no shares are issued and outstanding as of the date of this Agreement and 666,667 are reserved for issuance upon conversion of the Loan Note; and there are no other shares of capital stock of the Company issued, or reserved for issuance, or outstanding. The issuance of the shares of Preferred Stock issuable upon conversion of the Loan Note and the issuance of the shares of Common Stock issuable upon conversion of such shares of Preferred Stock and upon exercise of the Warrant have been duly and validly authorized, and such shares of Preferred Stock, when issued and delivered upon conversion of the Loan Note, and such shares of Common Stock, when issued and delivered upon conversion of such shares of Preferred Stock and upon exercise of the Warrant, will be validly issued, fully paid and nonassessable and will not have been issued in violation of, and will not be subject to, any preemptive or subscription rights and will not result in the antidilution provisions of any security of the Company becoming

applicable. The issuance of the Loan Note and the Warrant as contemplated hereby, the issuance of the Preferred Stock issuable upon conversion of the Loan Note, and the issuance of the Common Stock issuable upon conversion of such Preferred Stock or exercise of the Warrant will not violate, and is not subject to, any preemptive or subscription rights and will not result in the antidilution provisions of any security of the Company becoming applicable.

(b) Except as disclosed on Schedule 3.03, there are no outstanding warrants, options, rights, securities, agreements, subscriptions or other commitments pursuant to which the Company is or may become obligated to issue, deliver or sell any additional shares of capital stock of the Company or to issue, grant, extend or enter into any such warrant, option, right, security, agreement, subscription or other commitment. Other than as provided the Stockholders Agreement, there are no outstanding options, rights, securities, agreements or other commitments pursuant to which the Company is or may become obligated to redeem, repurchase or otherwise acquire or retire any shares of capital stock of the Company which are presently outstanding or may be issued in the future.

(c) Set forth on Schedule 3.03 is a true and complete list of the record holders of Common Stock and the persons purchasing shares of Common Stock at or prior to the First Closing, including the number of shares of Common Stock to be purchased by each such person and the amount and type of consideration to be paid therefor.

(d) Other than the rights granted to IBM pursuant to this Agreement, there are no outstanding rights which permit the holder thereof to cause the Company to file a registration statement under the Securities Act or which permit the holder thereof to include securities of the Company in a registration statement filed by the Company under the Securities Act, and there are no outstanding agreements or other commitments which otherwise relate to the registration of any securities of the Company under the Securities Act.

(e) All securities of the Company heretofore issued and sold by the Company were issued and sold in compliance with all applicable Federal and state securities laws. Assuming that the representations and warranties of IBM set forth in Section 4.02 are true and correct, the offering, issuance and delivery of the Loan Note and the Warrant, the issuance of shares of Preferred Stock issuable

upon conversion of the Loan Note and the issuance of the shares of Common Stock issuable upon conversion of such shares of Preferred Stock and upon exercise of the Warrant are and will be exempt from the registration and prospectus delivery requirements of the securities Act.

SECTION 3.04. Equity Interests. The Company does not directly or indirectly own any capital stock of or other equity interests in any corporation, partnership or other entity, and the Company is not a member of or participant in any partnership, joint venture or similar entity.

SECTION 3.05. Financial Statements. The Company has delivered to IBM the unaudited balance sheet of the Company as of December 31, 1990 (the "Balance Sheet"), and the related unaudited statements of operations and stockholders' equity of the Company from the date of incorporation through December 31, 1990, all certified by the chief financial officer of the Company (collectively, the "Financial Statements"). The Financial Statements are correct and complete, are in accordance with the books and records of the Company, have been prepared in conformity with generally accepted accounting principles consistently applied (except as described in the notes included therein) and fairly present the financial condition of the Company as of the date thereof and the results of its operations for the period then ended. The Company does not have any liabilities or obligations of any nature (whether accrued, absolute, contingent, unasserted or otherwise) except (a) as set forth or reflected on the Balance Sheet (or described in the notes thereto) or (b) liabilities and obligations incidental to its formation incurred since the date of the Balance Sheet and not in violation of this Agreement. Since December 31, 1990, there has not been any material adverse change with respect to the Company, and the Company has not declared or paid or made, or agreed to declare or pay or make, any dividends or other distributions in cash or property to the stockholders of the Company.

SECTION 3.06. Taxes. The Company, and all members of any affiliated group within the meaning of Section 1504 of the Code (an "Affiliated Group") of which the Company is or has been a member, has filed or caused to be filed in a timely manner (within any applicable extension periods) all returns, reports and forms required to be filed under the Code or under applicable state, local or foreign laws relating to Taxes and has paid or set up adequate reserves for payment of all Taxes required to be paid with respect to the periods covered by such returns, reports and

forms. No Liens have been filed and no material claims are being asserted or, to the best knowledge of the Company, might be asserted, with respect to any Taxes. Neither the Company nor any member of any Affiliated Group of which the Company is a member is delinquent in the payment of any amount of Taxes or other governmental charges. No restrictions on assessment or collection of Taxes have been waived with respect to the Company or any member of any Affiliated Group of which the Company is a member and neither the Company nor any other Person has consented to the extension of any statute of limitations with respect to the Company or any member of any Affiliated Group of which the Company is a member relating to Taxes. The Company has no notice of any Taxes claimed to be owed by it or any other Person or entity on its behalf. No returns, reports or forms filed by or on behalf of the Company with respect to Taxes are currently being audited or examined, nor has notice been received by the Company of any audit or examination.

SECTION 3.07. Assets Other than Real Property. The Company has good and marketable title to all tangible assets reflected on the Balance Sheet or acquired after the date thereof, except those since sold or otherwise disposed of for fair value in the ordinary course of business consistent with past practice, in each case free and clear of all Liens except Permitted Liens. All the tangible personal property owned by the Company is in all material respects in good operating condition and repair, ordinary wear and tear excepted, and all personal property leased by the Company is in all material respects in the condition required of such property by the terms of the lease applicable thereto during the term of such lease and upon the expiration thereof. This Section 3.07 does not relate to real property or interests in real property; such items are covered under Section 3.08.

SECTION 3.08. Title to Real Property. Schedule 3.08 sets forth a complete list of all interests in real property leased by the Company. The Company does not own any real property or interests in real property in fee. The Company has a good and valid leasehold interest in all real property and interests in real property shown on Schedule 3.08 to be leased by it, in each case free and clear of all Liens except Permitted Liens.

SECTION 3.09. Intellectual Property, etc. Schedule 3.09 sets forth a true and complete list of all patents, trademarks, trade names, service marks and

copyrights and applications therefor owned by or licensed to the Company. The Company owns or has the right to use, without payment to any other Person, all patents, trademarks, trade names, service marks, copyrights and other intellectual property rights used in its business as presently conducted and to be used in its business as proposed to be conducted. Except as set forth in Schedule 3.09, all patents, trademarks, trade names, service marks and copyrights of the Company have been duly registered and filed in or issued by each appropriate Governmental Authority in the jurisdictions indicated, all necessary affidavits of continuing use have been filed, and all necessary maintenance fees have been paid to continue all such rights in effect. The Company has no notice or knowledge of any objection or claim being asserted by any Person with respect to the ownership, validity, enforceability or use of any such patents, trademarks, trade names, service marks, copyrights, applications therefor, trade secrets or other intellectual property rights or challenging or questioning the validity or effectiveness of any license relating to any such right.

SECTION 3.10. Contracts. Except as set forth on Schedule 3.10, the Company is not a party to or bound by any written or oral:

(a) material agreement or contract not made in the ordinary course of business;

(b) employment agreement or employment contract that is not terminable at will by the Company;

(c) (i) employee collective bargaining agreement or other contract with any labor union, (ii) plan, program, arrangement or agreement that provides for the payment of severance, termination or similar type of compensation or benefits upon the termination or resignation of any employee of the Company or (iii) plan, program, arrangement or agreement that provides for medical or life insurance benefits for former employees of the Company or for current employees of the Company upon their retirement from, or termination of employment with, the Company;

(d) covenant not to compete;

(e) agreement, contract or other arrangement with (i) any stockholder of the Company, (ii) any Affiliate of the Company or any Affiliate of any stockholder of

the Company or (iii) any officer, director or employee of the Company (other than employment agreements covered by clause (b) above), of any stockholder of the Company or of any Affiliate of the Company;

(f) license or other agreement relating in whole or in part to patents, trademarks, trade names, service marks, copyrights or other intellectual property rights (including, but not limited to, any license or other agreement under which the Company has the right to use any of the same owned or held by any other Person);

(g) agreement or contract under which the Company has (i) incurred any Indebtedness or (ii) given any Guarantee;

(h) mortgage, pledge, security agreement, deed of trust or other document granting a Lien or security interest (including, but not limited to, Liens upon properties acquired under conditional sales, capital leases or other title retention or security devices); or

(i) other agreement, contract, lease, license, commitment or instrument to which the Company is a party or by or to which it or any of its properties or assets or businesses is bound or subject which (i) has an aggregate future liability in excess of $50,000 and is not terminable by the Company for a cost of less than $50,000 or (ii) is otherwise material to the business of the Company as presently conducted or as proposed to be conducted.

Each agreement, contract, lease, license, commitment or instrument of the Company set forth on Schedule 3.10 or one of the other Schedules hereto (collectively, the "Contracts") is in full force and effect and is a legal, valid and binding agreement of the Company and, to the best knowledge of the Company, of each other party thereto, enforceable in accordance with its terms, except as set forth on Schedule 3.10. Except as disclosed on Schedule 3.10, the Company has performed or is performing all material obligations required to be performed by it under the Contracts and is not (with or without notice or lapse of time or both) in breach or default in any material respect thereunder and, to the best knowledge of the Company, no other party to any of the Contracts is (with or without notice or lapse of time or both) in breach or default in any material respect thereunder.

SECTION 3.11. Litigation; Decrees. There are no lawsuits, claims, arbitration or other proceedings or investigations (a) pending or, to the best knowledge of the Company, threatened by or against or affecting the Company or any of its properties or assets or (b) to the best knowledge of the Company, pending or threatened by or against any of the officers or employees of the Company which relate to or involve the termination by such person of his employment with any of such person's former employers. To the best knowledge of the Company, there is no basis for any such lawsuit, claim, arbitration or other proceeding or investigation. There is no outstanding judgment, order or decree of any Governmental Authority or arbitrator applicable to the Company or any of its properties, assets or business having, or which, insofar as can be reasonably foreseen, in the future may have, a material adverse effect on the Company or its business as proposed to be conducted.

SECTION 3.12. Compliance with Applicable Laws. The Company and its properties, assets, operations and business are in compliance in all material respects with all applicable statutes, laws, ordinances, rules and regulations of any Governmental Authority and any filing requirements relating thereto, including laws and regulations relating to environmental requirements (including requirements with respect to air, water and noise pollution).

SECTION 3.13. Certain Employee Matters. (a) No officer or director of the Company is, and, to the best knowledge of the Company, no other employee of the Company is, a party to or bound by any contract (including licenses, covenants or agreements of any nature) or other commitment or obligation, or subject to any judgment, decree or order of any Governmental Authority, that may interfere with the use of such director's, officer's or other employee's best efforts to promote the interests of the Company, conflict with the business of the Company (as now conducted or as proposed to be conducted) or the transactions contemplated by the Operative Agreements or have a material adverse effect on the Company. No activity of any employee of the Company as or while an employee of the Company has caused a violation of any employment contract, confidentiality agreement, patent disclosure agreement or other contract or agreement. Neither the execution and delivery of the Operative Agreements, nor the conduct of the business of the Company as presently conducted, or as proposed to be conducted, will conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default

under, any contract, covenant or instrument under which any such employees are now obligated.

(b) All former and current members of management and key personnel of and consultants to the Company have executed and delivered to the Company a confidential information agreement restricting such person's right to disclose confidential information of the Company. All such members of management and key personnel of and consultants to the Company have been party to a "work-for-hire" arrangement or agreement with the Company pursuant to which either (i), in accordance with applicable Federal and state law, the Company has been accorded full, effective, exclusive and original ownership of all tangible and intangible property thereby arising or (ii) there has been conveyed to the Company by appropriately executed instruments of assignment full, effective and exclusive ownership of all tangible and intangible property thereby arising. No employee, agent, consultant or contractor associated with any of the members of management or key personnel of the Company who has contributed to or participated in the conception and development of software or other proprietary rights of the Company has any claim against the Company in connection with such person's involvement in the conception and development of the software or other proprietary rights of the Company and no such claim has been asserted or is threatened.

(c) Neither the Company nor any of its officers or employees have any patents issued or applications pending for any device, process, design or invention of any kind now used or needed by the Company in the furtherance of its business operations as presently conducted or as proposed to be conducted, which patents or applications have not been assigned to the Company with such assignment duly recorded in the United States Patent Office.

SECTION 3.14. Insurance. Schedule 3.14 sets forth a complete and accurate list and description, including, but not limited to, annual premiums and the deductibles, of all policies of fire, liability, product liability, workmen's compensation, health and other forms of insurance presently in effect with respect to the Company's business, true copies of which have been delivered to, or made available for review by, IBM. All such policies are valid, outstanding and enforceable policies and provide insurance coverage for the properties, assets and operations of the Company, of the kinds, in the amounts and against the risks (a) required to comply with laws and (b) customarily

maintained by organizations similarly situated. The Company has not been refused any insurance with respect to any aspect of the operations of its business nor has its coverage been limited by any insurance carrier to which it has applied for insurance or with which it has carried insurance. No notice of cancellation or termination has been received with respect to any such policy. The activities and operations of the Company have been conducted in a manner so as to conform in all material respects to all applicable provisions of such insurance policies.

SECTION 3.15. Benefit Plans. (a) Schedule 3.15 sets forth a list and brief description of all "employee pension benefit plans" (as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), "employee welfare benefit plans" (as defined in Section 3(1) of ERISA), bonus, deferred compensation plans or arrangements, and other employee fringe benefit plans (all the foregoing being herein called "Benefit Plans") maintained, or contributed to, by the Company for the benefit of any officers or employees of the Company, whether of a legally binding nature or in the nature of informal understandings. The Company has delivered to IBM true, complete and correct copies of (i) each Benefit Plan (or, in the case of any unwritten Benefit Plan, a brief description thereof), (ii) the most recent annual report on Form 5500 filed with the Internal Revenue Service with respect to any Benefit Plan (if any such report was required) and (iii) each trust agreement and group annuity contract relating to any Benefit Plan.

(b) The Company is in compliance in all material respects with the provisions of ERISA and the regulations and published interpretations thereunder. No "reportable event" (as defined in Section 4043 of ERISA and the regulations thereunder) has occurred with respect to any Benefit Plan which is subject to the provisions of Title IV of ERISA and which is maintained for employees of the Company or any of its Affiliates. There are no unfunded vested liabilities under any such Benefit Plan.

SECTION 3.16. Effect of Transaction. No creditor, supplier, employee, client or other customer or other Person having a material business relationship with the Company has informed the Company that such Person intends to change the relationship because of the transactions contemplated by this Agreement.

SECTION 3.17. Disclosure. The Company has not knowingly failed to disclose to IBM any facts material to its condition (financial or otherwise), properties, assets, liabilities, earnings, operations, prospects or businesses. No representation or warranty of the Company contained in this Agreement, and no statement contained in any document, certificate or Schedule furnished or to be furnished by or on behalf of the Company to IBM or any of its representatives pursuant to any of the Operative Agreements, contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact necessary, in light of the circumstances under which it was or will be made, in order to make the statements herein or therein not misleading or necessary in order to fully and fairly provide the information required to be provided in any such document, certificate or Schedule. There is no fact which the Company has not disclosed to IBM in writing which materially adversely affects, or (insofar as reasonably can be foreseen) in the future will materially adversely affect, the business, properties, assets, liabilities, earnings, capitalization, stockholders' equity, condition (financial or otherwise), operations, licenses or franchises, results of operations or prospects of the Company or the ability of the Company to perform the Operative Agreements or its obligations in respect of the Loan Note and the Warrant (and the shares of Preferred Stock issuable upon conversion of the Loan Note and the shares of Common Stock issuable upon conversion of such shares of Preferred Stock and upon exercise of the Warrant) .

SECTION 3.18. Proprietary Rights. The conduct of the Company's business as presently conducted and as proposed to be conducted will not violate or conflict with the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information or other proprietary rights or processes of any other Person. Except in the ordinary course of business or as disclosed on Schedule 3.18, the Company has not granted any options, licenses or agreements of any kind relating to its intellectual property, nor is the Company bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information or other proprietary rights or processes of any other Person. The Company has not received any communications alleging that the Company has violated or, by conducting its business as proposed, would violate any of the patents, trademarks, service marks, trade names, copyrights or trade secrets or other proprietary rights or processes of any other Person.

ARTICLE IV

Representations and Warranties of IBM

IBM hereby represents and warrants to the Company as follows:

SECTION 4.01. Organization and Authority. IBM is a corporation duly organized, validly existing and in good standing under the laws of the State of New York. IBM has all requisite corporate power and authority to enter into the Operative Agreements and to consummate the transactions contemplated thereby. The execution and delivery by IBM of the Operative Agreements and the consummation by IBM of the transactions contemplated thereby have been duly authorized by all necessary corporate action on the part of IBM. The Operative Agreements, when duly executed and delivered by IBM, will constitute valid and binding obligations of IBM, enforceable against IBM in accordance with their terms except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally and by general equitable principles.

SECTION 4.02. Securities Act. IBM is acquiring the Loan Note and the Warrant for investment only and not with a view to any public distribution of all or any portion of the Loan Note, the Warrant, the Preferred Stock issuable upon conversion of the Loan Note or the Common Stock issuable upon the conversion of such Preferred Stock or the exercise of such Warrant, and IBM will not offer to sell or otherwise dispose of all or any portion of the Loan Note, the Warrant, such Preferred Stock or such Common Stock in violation of any of the registration requirements of the Securities Act. The certificates evidencing the Loan Note, the Warrant, such Preferred Stock and such Common Stock will bear a legend reading substantially as follows:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN COMPLIANCE WITH THAT ACT. THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE PROVISIONS OF A LOAN AND WARRANT PURCHASE AGREEMENT DATED AS OF FEBRUARY 6, 1991, BETWEEN INTEGRATED SURGICAL SYSTEMS, INC. (THE "COMPANY"), AND INTERNATIONAL BUSINESS MACHINES CORPORATION,

COPIES OF WHICH ARE ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE COMPANY.

SECTION 4.03. Accredited Investor. IBM represents that it is an "accredited investor" as such term is defined in Regulation D under the Securities Act.

ARTICLE V

Conditions of Purchaser's Obligations

The obligations of IBM to extend or increase the Loan, and to purchase the Loan Note and the Warrant, are subject to the satisfaction (or waiver by IBM) as of the First Closing Date or the relevant Additional Closing Date, as the case may be, of the following conditions in Sections 5.01-5.15:

SECTION 5.01. Representations and Warranties. The representations and warranties of the Company made in this Agreement shall be true and correct in all material respects as of the date of this Agreement and as of such Closing Date with the same effect as if made at and as of such Closing Date, except (a) to the extent such representations and warranties expressly relate to an earlier time, (b) with respect to the Additional Closing Dates, to the extent such representations relate to the completeness and accuracy of the Schedules to the representations of the Company in Article III, in which case the Company shall be entitled to update such Schedules by providing IBM replacement schedules dated such Closing Date, and (c) with respect to the Additional Closing Dates, the Financial Statements and Balance Sheet, for the purpose of Section 3.05, shall be the most recent financial statements and balance sheet delivered by the Company to IBM prior to such Closing Date. The Company shall have performed in all material respects the covenants and agreements of the Company contained in the Operative Agreements required to be performed at or prior to the Closing.

SECTION 5.02. No Defaults. The Company shall not be in default (with or without notice or lapse of time or both) under, and shall not have breached, this Agreement or any of the other Operative Agreements, and no Default or Event of Default shall have occurred and be continuing.

SECTION 5.03. Consents and Approvals. The Company shall have obtained or made all consents, approvals,

orders, licenses, permits and authorizations of, and registrations, declarations and filings with, any Governmental Authority or any other Person required to be obtained or made by or with respect to the Company in connection with the execution and delivery of the Operative Agreements or the consummation of the transactions contemplated thereby.

SECTION 5.04. Operative Agreements. The Company, IBM and the Founders (in the case of the Stockholders Agreement) shall have entered into each of the Operative Agreements in form and substance satisfactory to IBM and each Operative Agreement shall be in full force and effect.

SECTION 5.05. Due Diligence. Prior to the First Closing Date, IBM shall have completed its due diligence and business review of the Company and the results of such review shall be satisfactory to IBM in its sole discretion.

SECTION 5.06. Injunctions, etc. No injunction or order of any Governmental Authority shall be in effect as of the Closing, and no lawsuit, claim, proceeding or investigation shall be pending or threatened by or before any Governmental Authority as of the Closing, which would restrain or prohibit the making of the Loan or the issuance of the Loan Note or the consummation of any of the other transactions contemplated by the Operative Agreements or invalidate or suspend any provision of the Operative Agreements.

SECTION 5.07. Certificate of Incorporation. The Certificate of Incorporation of the Company shall have been amended to include the provisions of Exhibit C (the "Certificate of Amendment") and shall not have been further amended in any respect except as consented to by IBM in writing.

SECTION 5.08. By-laws. The By-laws of the Company shall contain provisions which effect the arrangements contemplated in Section 7.10 and such other provisions as IBM or its counsel may reasonably request relating to the transactions contemplated hereby.

SECTION 5.09. Closing Documents. The Company shall have delivered to IBM the following:

(a) a certificate of the chief executive officer and the chief financial officer of the Company, dated the First Closing Date or the Additional Closing Date, as the case may be, to the effect that the conditions specified in Sections 5.01, 5.02, 5.03, 5.06, 5.07,

5.08, 5.11 and 5.12, and in the case of the Additional Closings, the conditions therefor specified in Section 5.14, have been satisfied;

(b) incumbency certificates dated the First Closing Date or the Additional Closing Date, as the case may be, for the officers of the Company executing the Operative Agreements and any documents delivered in connection with the Operative Agreements and the Closing;

(c) a certificate of the Secretary or an Assistant Secretary of the Company, dated the First Closing Date or the Additional Closing Date, as the case may be, certifying the attached copies of the By-laws of the Company and the resolutions adopted by the Board of Directors of the Company authorizing the execution and delivery by the Company of the Operative Agreements and the consummation by the Company of the transactions contemplated thereby, including the issuance and delivery of the Loan Note and the Warrant;

(d) a certified copy of the Certificate of Incorporation of the Company as filed with the Secretary of State of the State of Delaware, as amended to a recent date;

(e) a certificate of the Secretary of State of the State of Delaware, dated a recent date, certifying that the Company is in good standing in the State of Delaware and that all annual reports, if any, have been filed as required and that all fees have been paid in connection therewith; and

(f) such other certificates or documents as IBM or its counsel may reasonably request relating to the transactions contemplated hereby.

SECTION 5.10. Opinion of Counsel. IBM shall have received an opinion dated the First Closing Date or the Additional Closing Date, as the case may be, of Wilson, Sonsini, Goodrich & Rosati, counsel to the Company, in the form of Exhibit G.

SECTION 5.11. Employment and Consulting Agreements. The Company shall have entered into (i) an employment contract in the form of Exhibit H with Dr. Howard Paul as Chairman and Chief Technical Officer and (ii) a consulting agreement in the form of Exhibit I with Dr. William

Bargar, and such contract and such consulting agreement shall each be in full force and effect.

SECTION 5.12. Founders Subscription Agreements. The Company shall have entered into the Founders Subscription Agreements with the Founders.

SECTION 5.13. Proceedings. All corporate and legal proceedings taken by the Company in connection with the transactions contemplated by the Operative Agreements and all documents and papers relating to such transactions shall be reasonably satisfactory in form and substance to IBM and its counsel, and IBM shall have received all such certified or other copies of all such documents as it shall have reasonably requested.

SECTION 5.14. Additional Closings. The obligation of IBM to increase the Loan on the Additional Closing Dates is subject to the condition that there does not exist any Default on the applicable Additional Closing Date and to the following additional conditions:

(a) Prior to the Second Closing Date designated in the Notice IBM shall have received from the Company as required by Section 2.01(b), the Company shall have demonstrated to the satisfaction of IBM that:

(i) the Company shall have hired a president and chief operating officer acceptable to IBM;

(ii) the Company shall have received letters of intent from three hospitals to purchase complete hip systems for use in human clinical trials under the Investigational Device Exemption; and

(iii) the Company shall have obtained the life insurance and disability policies referred to in Section 7.16.

(b) Prior to the Third Closing Date designated in the Notice IBM shall have received from the Company as required by Section 2.01(b), the Company shall have demonstrated to the satisfaction of IBM that the Company shall have completed the design and testing of a final complete hip system to be delivered for the first human clinical use.

(c) Prior to the Fourth Closing Date designated in the Notice IBM shall have received from the Company

as required by Section 2.01(b), the Company shall have demonstrated to the satisfaction of IBM that there has been a successful completion of the first human clinical hip operation using a complete system of the Company.

ARTICLE VI

Conditions of Company's Obligations

The obligation of the Company to issue and deliver the Loan Note and the Warrant to IBM is subject to the satisfaction (or waiver by the Company) as of the First Closing Date of the following conditions:

SECTION 6.01. Representations and Warranties. The representations and warranties of IBM made in this Agreement shall be true and correct in all material respects as of the date of this Agreement and as of the Closing with the same effect as if made at and as of the Closing, except to the extent such representations and warranties expressly relate to an earlier time.

SECTION 6.02. Injunctions, etc. No injunction or order of any Governmental Authority shall be in effect with respect to IBM as of the Closing, and no lawsuit, claim, proceeding or investigation shall be pending or threatened by or before any Governmental Authority with respect to IBM as of the Closing, which would restrain or prohibit the making of the Loan or the issuance of the Warrant or the consummation of any of the other transactions contemplated by the Operative Agreements or invalidate or suspend any provision of the Operative Agreements.

SECTION 6.03. Closing Documents. IBM shall have delivered to the Company a certificate of an officer or other person duly authorized to sign contracts on behalf of IBM to the effect that the conditions specified in Sections 6.01 and 6.02 have been satisfied.

ARTICLE VII

Affirmative Covenants

The Company covenants and agrees with IBM that (1) so long as the principal of or interest on the Loan Note

or any other expenses or amounts payable under this Agreement or the Loan Note shall be unpaid, or (2) IBM beneficially owns Voting Securities representing at least 5% of the Actual Voting Power of the Company (or, in the case of Section 7.13, 25% of the Actual Voting Power of the Company), unless IBM shall otherwise consent in writing:

SECTION 7.01. Accounting System. The Company shall maintain all its financial records in accordance with generally accepted accounting principles consistently applied.

SECTION 7.02. Periodic Reports; Budgets. (a) The Company shall furnish to IBM within 60 days after the end of each fiscal year of the Company, an annual report of the Company, including an audited balance sheet as of the end of such fiscal year and the related audited statements of operations, stockholders' equity and cash flows for such fiscal year (or similar statements if the foregoing statements change as the result of changes in generally accepted accounting principles), setting forth in each case in comparative form the corresponding figures for the preceding fiscal year and for the budget for the fiscal year just completed (provided, however, that information as to the budgeted figures need not be audited), all of which shall fairly present the financial condition of the Company as of the dates shown and the results of its operations for the periods then ended. Such financial statements shall be accompanied by the report thereon of nationally recognized independent public accountants reasonably satisfactory to IBM to the effect that such financial statements have been prepared in conformity with generally accepted accounting principles applied on a basis consistent with prior years (except as otherwise specified in such report). The Company shall conduct its business so that such report of the independent public accountants shall not contain any qualifications as to the scope of the audit or with respect to the Company's compliance with generally accepted accounting principles consistently applied, except for changes in methods of accounting in which such accountants concur. The Company shall also include with such financial statements a calculation of primary and fully diluted earnings per share, a schedule showing the calculation of conversion rates applying to any convertible securities of the Company and a schedule of sales and repurchases of securities of the Company showing the amount and type of, and the price received or paid for, such security and the seller and purchaser.

(b) The Company shall furnish to IBM within 30 days after the end of each calendar quarter, a quarterly report of the Company consisting of an unaudited balance sheet as of the end of such quarter and the related unaudited statements of operations, stockholders' equity and cash flows for such quarter and for the fiscal year to date, setting forth in each case in comparative form the corresponding figures for the preceding fiscal year and for the budget for the current fiscal year. All such reports shall be certified by the chief financial officer of the Company to fairly present the financial condition of the Company as of the dates shown and the results of its operations for the periods then ended and to have been prepared in conformity with generally accepted accounting principles consistently applied except for normal, recurring, year-end audit adjustments and the absence of footnotes.

(c) The Company shall furnish to IBM, as soon as practicable and in any event within 30 days after the end of each calendar month, a monthly report of the Company consisting of an unaudited balance sheet as of the end of such month and the related unaudited statements of operations, stockholders' equity and cash flows for such month and for the fiscal year to date, setting forth in each case in comparative form the corresponding figures for the preceding fiscal year and for the budget for the current fiscal year. All such reports shall be certified by the chief financial officer of the Company to fairly present the financial condition of the Company as of the dates shown and the results of its operations for the periods then ended and to have been prepared in conformity with generally accepted accounting principles consistently applied except for normal, recurring, year-end audit adjustments and the absence of footnotes.

(d) The Company shall furnish to IBM, as soon as practicable and in any event not less than 30 days prior to the commencement of each fiscal year of the Company, (i) an annual operating budget for the Company, approved by the Board of Directors of the Company, for the succeeding fiscal year, containing projections of profit and loss, cash flow and ending balance sheets for each month of such fiscal year and (ii) a business plan for the Company relating to the succeeding fiscal year setting forth in reasonable detail a development plan, financial plan and marketing plan, budgeted and projected figures and other information. Promptly upon preparation thereof, the Company shall furnish to IBM any other operating budgets or business plans that the

Company may prepare and any revisions of such previously furnished budgets or business plans.

(e) The annual reports, quarterly reports and monthly reports furnished pursuant to Section 7.02 (a), (b) and (c) shall include a narrative discussion prepared by the Company describing the business operations of the Company during the period covered by such reports.

SECTION 7.03. Certificates of Compliance. Concurrently with the furnishing of the reports pursuant to Sections 7.02 (a), (b) and (c), the Company shall furnish to IBM a certificate of the chief executive officer or the chief financial officer of the Company stating that to such officer's best knowledge the Company is not in default (with or without notice or lapse of time or both) under, and has not breached, any material agreements or obligations, including, without limitation, any of the Operative Agreements, or if any such default or breach exists, specifying in detail the nature and period of existence thereof and what actions the Company has taken and proposes to take with respect thereto. The Company covenants that promptly after the occurrence of any default (with or without notice or lapse of time or both) under, or breach of, any Operative Agreement or any other material agreement or obligation, it shall deliver to IBM a certificate of an officer of the Company specifying in detail the nature and period of existence thereof and what actions the Company has taken and proposes to take with respect thereto.

SECTION 7.04. Other Reports and Inspection. The Company shall furnish promptly to IBM copies of any financial statements or financial or other reports prepared by the Company for or otherwise furnished to or filed with its stockholders or any lender to the Company or any Governmental Authority. The Company shall furnish promptly to IBM such other documents, reports, financial data and other information as IBM may reasonably request. The Company shall, upon reasonable prior notice and during normal business hours, make available to IBM or its representatives or designees all properties, assets, books of accounts, corporate records and contracts of the Company, and any other material reasonably requested by IBM, for inspection and shall use its best efforts to make available to IBM (with the approval of the Company which shall not be unreasonably withheld) the directors, officers, employees, customers, independent accountants and vendors of the Company for interviews to verify all information furnished

and otherwise to become familiar with the Company and its business, operations, properties and assets.

SECTION 7.05. Insurance. The Company shall maintain valid policies of workers' compensation, fire and casualty, liability and other forms of insurance with financially sound and reputable insurers in such amounts, with such deductibles and against such risks and losses as are reasonable for the business and assets of the Company, and the Company shall maintain such other insurance as may be required by law. Prior to the first human clinical trial, the Company shall obtain, and thereafter maintain, an additional product liability insurance policy covering IBM as an additional named insured in the amount of $5 million. The activities and operations of the Company shall be conducted in a manner so as to conform in all material respects to all applicable provisions of such insurance policies.

SECTION 7.06. Licenses; Other Property. The Company shall obtain, preserve, renew and keep in full force and effect all rights, licenses, permits, patents, copyrights, trademarks, service marks, trade names and other authorizations, from Governmental Authorities or any other Person, utilized by the Company which shall be necessary in any material respect to the conduct of its business, unless such rights, licenses, permits, patents, copyrights, trademarks, service marks, trade names and authorizations are not in full force and effect and such is contested diligently and in good faith by the Company. The Company shall maintain and preserve all property material to the conduct of its business and keep such property in good repair, working order and condition and from time to time make, and cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times.

SECTION 7.07. Material Changes and Other Notices. The Company shall promptly notify IBM of (a) any material adverse change with respect to the Company, (b) any lawsuit, claim, proceeding or investigation pending or, to the best knowledge of the Company, threatened, or any judgment, order or decree involving the Company which would have a material adverse effect on the Company and (c) any Event of Default or Default, specifying the nature and extent thereof and the corrective action proposed to be taken with respect thereto.

SECTION 7.08. Compliance with Applicable Laws. The Company shall comply in all material respects with all applicable statutes, laws, ordinances, rules and regulations of any Governmental Authority (whether now in effect or hereinafter enacted) and any filing requirements relating thereto. Such obligation shall include complying in all material respects with the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, and filing in a timely manner (within any applicable extension periods) all returns, reports and forms required to be filed under the Code or under applicable state, local or foreign laws relating to Taxes and timely paying in full all Taxes required to be paid in respect of the periods covered by such returns, reports and forms, except to the extent such statutes, laws, ordinances, rules, regulations, filing requirements or Taxes are being contested diligently and in good faith by the Company (and, in the case of Taxes, adequate reserves for payment thereof have been set up). The Company shall do all things necessary to preserve, renew and keep in full force and effect and in good standing its corporate existence and authority necessary to continue its business.

SECTION 7.09. Agreements with Employees. The Company shall cause all members of management and all professional employees of the Company, including all employees involved in the development of its products, to enter into agreements, in form and substance satisfactory to IBM, relating to nondisclosure of confidential information and assignment of patents, trademarks and copyrights to the Company. In addition, the Company shall cause the Founders and, unless the Company's board of directors otherwise unanimously agrees, executive officers of the Company to enter into noncompetition agreements in form and substance reasonably satisfactory to IBM.

SECTION 7.10. Board of Directors; Committees. The Company covenants that at all times its Certificate of Incorporation or By-laws will contain provisions (i) authorizing five directors and (ii) indemnifying its directors to the fullest extent permitted under applicable law. The Company shall reimburse members of the Board for their reasonable out-of-pocket expenses incurred to attend meetings of the Board or any committee thereof. The Company shall at all times maintain a Compensation Committee and an Audit Committee of the Board. All the members of the Audit Committee and a majority of the members of the Compensation Committee shall consist of directors who are not members of management of or consultants to the Company. The

Compensation Committee shall make recommendations to the Board regarding all matters of compensation, including stock options for officers and employees of the Company. The By-laws of the Company shall always contain provisions consistent with the provisions of this Section 7.10.

SECTION 7.11. Use of Proceeds. The Company shall use the proceeds of the Loan for purposes of conducting the business of the Company in accordance with the Business Plan.

SECTION 7.12. Obligations. The Company shall pay its Indebtedness and other obligations promptly and in accordance with their terms before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise which, if unpaid, might give rise to a Lien upon its income or profits or in respect of its property or any part thereof.

SECTION 7.13. Business Plan. The Company shall conduct its operations in accordance with the Business Plan, as it may be amended with IBM's consent from time to time, and the Company shall submit to IBM for review any changes to the Business Plan that it proposes to implement. The Company shall not make a substantive change in strategic direction from the Business Plan without IBM'S approval.

SECTION 7.14. Agreements with Stockholders. The Company shall use its best efforts to cause all Significant Stockholders to enter into an agreement with IBM and the Company substantially in the form of the Stockholder's Agreement.

SECTION 7.15. Additional Purchase Rights. Whenever the Company proposes to issue, deliver or sell any Voting Securities, other than the 150,000 shares of Common Stock reserved for issuance under the Management Incentive Stock Option Plan or the 100,000 shares of Common Stock reserved for purchase by the President and Chief Operating Officer, as a result of which IBM's percentage interest in the Total Voting Power of the Company would be reduced, the Company shall give IBM written notice at least 60 days prior to such issuance and shall offer to sell to IBM and, if such offer is accepted in writing by IBM within 60 days of receipt by IBM of such offer, shall sell to IBM, at a purchase price per share equal to the sale price of such Voting Securities, up to and including that amount of such Voting Securities which, if purchased by IBM, would result in IBM retaining its percentage interest in the Total Voting

Power of the Company in effect prior to such issuance, delivery or sale of Voting Securities. For the purpose of the preceding sentence, if the sale price at which the Company proposes to issue, deliver or sell any Voting Securities is to be paid with consideration other than cash, then the purchase price at which IBM may acquire such Voting Securities shall be equal in value but payable entirely in cash. Within 30 days after the end of each calendar quarter, the Company shall give IBM written notice of the number of Voting Securities issued, delivered or sold during such calendar quarter pursuant to the Company's employee stock plans (including upon the exercise, but not upon the issuance, of stock options but excluding the 250,000 shares of Common Stock reserved for issuance and referred to in the first sentence of this Section 7.15) and shall offer to sell to IBM and, if such offer is accepted in writing by IBM within 60 days of receipt by IBM of such offer, shall sell to IBM at a purchase price per share equal to the weighted average exercise price for the Voting Securities issued, delivered or sold during such calendar quarter pursuant to the employee stock plans or such other stock options up to and including that amount of such Voting Securities which, if purchased by IBM, would result in IBM retaining such percentage interest in the Actual Voting Power of the Company that it would have had if the Voting Securities issued, delivered or sold during such calendar quarter pursuant to the employee stock plans or such other stock options had not been so issued, delivered or sold. The closing of any purchase and sale of Voting Securities pursuant to this Section 7.15 shall take place on such date, within 30 days after acceptance by IBM of an offer by the Company, as shall be specified by IBM in such acceptance.

SECTION 7.16. Key-Person Insurance. The Company shall use its best efforts to obtain, and maintain in effect, at the expense of the Company, a key-person life insurance policy and a disability policy with respect to Dr. Howard Paul, each in the amount of not less than the outstanding balance of the Loan Note. Such insurance policies shall be in addition to any policies maintained prior to obtaining such policies. The proceeds of the insurance under such policies shall be held in escrow for the benefit of IBM, under escrow arrangements satisfactory in form and substance to IBM, for repayment of principal of and interest on the Loan Note, and otherwise shall be payable to the Company.

SECTION 7.17. Appointment of President and Chief Operating Officer. The Company shall and shall cause

Dr. Paul and Dr. Bargar to work together with IBM to identify, qualify and negotiate to hire, on behalf of the Company, a mutually acceptable president and chief operating officer to manage the daily operations of the Company.

SECTION 7.18. Additional Closings. The Company shall use all reasonable efforts to cause the Additional Closing Dates to occur by the estimated dates therefor set forth in Section 2.01, or as soon thereafter as possible.

ARTICLE VIII

Negative Covenants

The Company covenants and agrees with IBM that, so long as the principal of or interest on the Loan Note or any other expenses or amounts payable under this Agreement or the Loan Note shall remain unpaid, or (except in the case of Section 8.07) so long as IBM beneficially owns Voting Securities representing at least 25% or the Actual Voting Power of the Company, or, in the case of Section 8.07, so long as IBM beneficially owns Voting Securities representing at least 40% of the Total Voting Power of the Company, unless IBM shall otherwise consent in writing:

SECTION 8.01. Indebtedness. The Company shall not incur, create, assume or permit to exist any Indebtedness to any stockholder of the Company other than IBM unless, in the instrument creating or evidencing the Indebtedness or pursuant to which the Indebtedness is outstanding, it is provided that such Indebtedness is subordinated in right of payment to the Loan and the Loan Note in a manner satisfactory to IBM.

SECTION 8.02. Liens. The Company shall not create, incur, assume or permit to exist any Lien on any property or assets now owned or hereafter acquired by it or on any income or rights in respect of any thereof, except Permitted Liens.

SECTION 8.03. Sale and Lease-Back Transactions. The Company shall not enter into any arrangement, directly or indirectly, with any Person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred.

SECTION 8.04. Investments, Loans and Advances. The Company shall not purchase, hold or acquire any capital stock, evidences of Indebtedness or other securities of, make or permit to exist any loans or advances to, or make or permit to exist any investment or any other interest in, any other Person.

SECTION 8.05. Mergers, Consolidations, Sales of Assets and Acquisitions. The Company shall not (i) merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, (ii) dissolve or liquidate, (iii) enter into any transaction or series of related transactions which would result in a Change of Control, or (iv) sell, transfer, license, lease or otherwise dispose of (in one transaction or in a series of transactions) more than 5% of its assets (whether now owned or hereafter acquired) except in the ordinary course of business or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or any substantial part of the assets of any other Person.

SECTION 8.06. Transactions with Affiliates. The Company shall not sell or transfer any property or assets to, or purchase or acquire any property or assets of, or otherwise engage in any other transactions with, any of its stockholders or Affiliates, except that as long as no Default or Event of Default shall have occurred and be continuing, the Company may engage in any of the foregoing transactions in the ordinary course of business at prices and on terms and conditions not less favorable to the Company than could be obtained on an arm's-length basis from unrelated third parties.

SECTION 8.07. Initial Public Offering. The Company will not file a registration statement for the initial registration of any of its securities under the Securities Act.

SECTION 8.08. Senior Debt. The Company will not incur or suffer to exist any Indebtedness that would result in the Company's Senior Debt (as defined in Section 2(b) of the Loan Note, but without regard to the proviso thereto) exceeding $3 million.

SECTION 8.09. Management Incentive Stock Option Plan. The Company will not amend the terms of the Company's Management Incentive Stock Option Plan.

SECTION 8.10. Founders Subscription Agreements. The Company will not amend or waive any requirements under the Founders Subscription Agreements.

ARTICLE IX

Events of Default

SECTION 9.01. In case of the happening of any of the following events ("Events of Default"):

(a) any representation or warranty made in or in connection with this Agreement or the Loan Note, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished in connection with or pursuant to this Agreement or the Loan Note, shall prove to have been false or misleading in any material respect when so made or furnished;

(b) the Company shall fail to pay any installment of interest or any principal on the Loan on the due date thereof, and such default shall continue unremedied for a period of 15 days in the case of interest or 5 days in the case of principal;

(c) default shall be made in any material respect in the due observance or performance by the Company of any covenant, condition or agreement contained in Section 7.07, 7.08, 7.10, 7.11, 7.13, 7.14, 7.15 or 7.16 or in Article VIII;

(d) default shall be made in any material respect in the due observance or performance by the Company of any term, covenant, condition or agreement contained in this Agreement, the Loan Note or any other Operative Agreement (other than those specified in (b) or (c) above), and such default shall continue unremedied for a period of 30 days after notice thereof from IBM to the Company;

(e) the Company shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Indebtedness (other than the Loan Note) in a principal amount in excess of $50,000, when and as the same shall become due and payable, or. (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument

evidencing or governing any such Indebtedness if the effect of any failure referred to in this clause (ii) is to cause (pursuant to action by the holder or holders of such Indebtedness or a trustee on its or their behalf or otherwise) such Indebtedness to become due prior to its stated maturity;

(f) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Company, or of a substantial part of the property or assets of the Company, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Company or for a substantial part of the property or assets of the Company or (iii) the winding-up or liquidation of the Company; and such proceeding or petition shall continue undismissed for 90 days or an order or decree approving or ordering any of the foregoing shall be entered;

(g) the Company shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (f) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Company or for a substantial part of the property or assets of the Company, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take any action for the purpose of effecting any of the foregoing;

(h) one or more final and unappealable judgments for the payment of money in an aggregate amount in excess of $50,000 shall be rendered against the Company and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally

taken by a judgment creditor to levy upon assets or properties of the Company to enforce any such judgment; or

(i) there shall have occurred a Change in Control not consented to by IBM;

then, and in every such event, and at any time thereafter during the continuance of such event, IBM may, in addition to any other remedy available at law or in equity, by notice to the Company, take any and all of the following actions, at the same or different times: (i) terminate its commitment to increase the amount of the Loan, if any Additional Closing Date shall have not yet occurred, and (ii) declare the Loan Note to be forthwith due and payable in whole or in part, whereupon the principal of the Loan Note so declared to be due and payable, together with accrued interest thereon and all other liabilities of the Company accrued hereunder and under the Loan Note, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Company, anything contained herein or in the Loan Note to the contrary notwithstanding. Notwithstanding the foregoing, if an Event of Default specified in paragraphs (f) or (g) above occurs with respect to the Company, the principal of the Loan Note then outstanding, together with accrued interest thereon and all other liabilities of the Company accrued hereunder and under the Loan Note, shall automatically become due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Company, anything contained herein or in the Loan Note to the contrary notwithstanding.

ARTICLE X

Registration Rights

SECTION 10.01. Demand Registrations. The Company shall, upon the written demand of IBM, use its best efforts to effect the registration (a "Demand Registration") under the Securities Act of such number of Registration Shares (as defined below) then beneficially owned by IBM as shall be indicated in a written demand sent to the Company by IBM; provided, however, that (a) the Company shall be obligated to effect a total of no more than three Demand Registrations; (b) a Demand Registration. shall not count as such until it has become effective, except that if, after it

has become effective, the offering of Registration Shares pursuant to such registration is interfered with by any stop orderer, injunction or other order or requirement of the SEC or any other Governmental Authority, such registration shall be deemed not to have been effected unless such stop orderer, injunction or other order or requirement shall subsequently have been vacated or otherwise removed; (c) a Demand Registration shall not count as such if the Company (or any other stockholder of the Company) offers any of its securities pursuant to the registration in accordance with the next sentence and IBM does not sell in the offering all Registration Shares it requested to register; (d) the Company shall not be obligated to effect a Demand Registration of a number of shares representing less than 10% of the total number of shares of Common Stock then outstanding unless the Demand Registration is requested for all the shares of Common Stock then held by IBM; and (e) the Company shall not be required to effect a Demand Registration if counsel for the Company reasonably acceptable to IBM shall deliver an opinion reasonably acceptable to counsel for IBM that, pursuant to Rule 144 under the Securities Act or otherwise, IBM can sell the Registration Shares without registration under the Securities Act and without any limitation with respect to offerees or the size of the transaction. If a Demand Registration is initiated by IBM and the Company (or any other stockholder of the Company with registration rights) then wishes to offer any of its securities in connection with the registration, no such securities may be offered by the Company or any other stockholder unless the managing underwriters advise IBM in writing that in their opinion the number of securities requested to be included in the Demand Registration does not exceed the number which can be sold in the offering. Upon receipt of IBM's written demand, the Company shall expeditiously effect the registration under the Securities Act of the Registration Shares and use its best efforts to have such registration become and remain effective as provided in Section 10.09. IBM shall have the right to select the underwriters for a Demand Registration, subject to the approval of such selection by the Company (which approval by the Company shall not be unreasonably withheld).

As used in this Agreement, "Registration Shares" shall mean (a) any shares of Common Stock issued upon conversion of the shares of Preferred Stock issuable upon conversion of the Loan Note, (b) any shares of Common Stock issued upon the exercise of the Warrant, (c) any securities issued or issuable with respect to any such Common Stock by way of stock dividend or stock split or in connection with a

combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise and (d) any other Voting Securities acquired by IBM pursuant to Section 7.15.

SECTION 10.02. Piggyback Registrations. (a) If the Company proposes to register any of its securities under the Securities Act for sale for cash (otherwise than in connection with the registration of securities issuable pursuant to an employee stock option, stock purchase or similar plan or pursuant to a merger, exchange offer or a transaction of the type specified in Rule 145(a) under the Securities Act), the Company shall give IBM notice of such proposed registration at least 30 days prior to the filing of a registration statement. At the written request of IBM delivered to the Company within 25 days after the receipt of the notice from the Company, which request shall state the number of Registration Shares that IBM wishes to sell or distribute publicly under the registration statement proposed to be filed by the Company, the Company shall use its best efforts to register under the Securities Act such Registration Shares, and to cause such registration (a "Piggyback Registration") to become and remain effective as provided in Section 10.09.

(b) If a Piggyback Registration is an underwritten primary registration on behalf of the Company, and the managing underwriters thereof advise the Company in writing that in their opinion the number of securities requested to be included in the registration exceeds the number which can be sold in the offering, the Company shall include in the registration (i) first, that portion of the Registration Shares that IBM proposes to sell representing 25% of such offering (or in the case of an initial public offering, 15% of such offering), (ii) second, the securities the Company proposes to sell and (iii) third, the remaining Registration Shares IBM proposes to sell and the securities each other holder of the Company's securities who has registration rights and has exercised such rights proposes to sell in proportion to the number of shares each proposes to sell pursuant to this clause (iii).

(c) If a Piggyback Registration is an underwritten secondary registration on behalf of holders of the Company's securities who have demand registration rights and the managing underwriters thereof advise the Company in writing that in their opinion the number or securities requested to be included in the registration exceeds the number which can be sold in the offering, the Company shall include in the registration (i) first, that portion of the

Registration Shares that IBM proposes to sell representing 25% of such offering (or in the case or an initial public offering, 15% of such offering), (ii) second, the securities of the holders of the Company's securities who have exercised their demand registration rights and (iii) third, the securities any other securityholders of the Company (including any additional Registration Shares IBM desires to sell) propose to sell in proportion to the number of securities each proposes to sell. In the event the Company subsequently desires to participate in such a registration of securities, the Company shall include in the registration (A) first, that portion of the Registration Shares IBM proposes to sell representing 25% of such offering (or, in the case of an initial public offering, 15% of such offering) , (B) second, the securities of the holders of the Company's securities who have exercised their demand registration rights and (C) third, the securities the Company and any other securityholders of the Company propose to sell (including any additional Registration Shares IBM desires to sell) in proportion to the number of shares each proposes to sell.

SECTION 10.03. Indemnification by the Company. In the event of any registration of any Registration Shares under the Securities Act, the Company shall, and hereby does, indemnify and hold harmless IBM, its directors and officers, each other Person who participates as an underwriter in the offering or sale of such Registration Shares and each other Person, if any, who controls IBM or any such underwriter within the meaning of Section 15 of the Securities Act against any losses, claims, damages or liabilities, joint or several, to which IBM or any such director or officer or underwriter or controlling Person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which the Registration Shares were registered under the Securities Act, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein in light of the circumstances in which they were made not misleading, and the Company shall reimburse IBM, and each such director, officer, underwriter and controlling Person for any legal or any other expenses reasonably incurred by them in connection with investigating

or defending any such loss, claim, liability, action or proceeding; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information about IBM as a stockholder of the Company furnished to the Company through an instrument duly executed by or on behalf of IBM specifically stating that it is for use in the preparation thereof; and provided further, however, that the Company shall not be liable to any Person who participates as an underwriter in the offering or sale of Registration Shares or any other Person, if any, who controls such underwriter within the meaning of the Securities Act, in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of such Person's failure to send or give a copy of the final prospectus, as the same may be then supplemented or amended, to the Person asserting an untrue statement or alleged untrue statement or omission or alleged omission at or prior to the written confirmation of the sale of Registration Shares to such Person if such statement or omission was corrected in such final prospectus. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of IBM or any such director, officer or controlling Person and shall survive the transfer of the Registration Shares by IBM.

SECTION 10.04. Indemnification by IBM. The Company may require, as a condition to including any Registration Shares in any registration statement filed pursuant to Section 10.01 or 10.02, that the Company shall have received an undertaking satisfactory to it from IBM to indemnify and hold harmless (in the same manner and to the same extent as set forth in Section 10.03) the Company, each director of the Company, each officer of the Company signing such registration statement and each other Person, if any, who controls the Company within the meaning of Section 15 of the Securities Act with respect to any untrue statement or alleged untrue statement in or omission or alleged omission from such registration statement, any preliminary prospectus, final prospectus or summary prospectus contained therein or any amendment or supplement thereto, if such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity

with written information about IBM as a stockholder of the company furnished to the Company through an instrument duly executed by IBM specifically stating that it is for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement. Such indemnity shall remain in full force and effect, regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling Person and shall survive the transfer by the seller of the securities of the Company being registered.

SECTION 10.05. Notices of Claims, etc. Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding involving a claim referred to in Section 10.03 or 10.04, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give notice to the latter of the commencement of such action; provided, however, that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under Section 10.03 or 10.04, except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any such action is brought against an indemnified party, unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist or the indemnified party may have defenses not available to the indemnifying party in respect of such claim, the indemnifying party shall be entitled to participate in and to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall be liable for any settlement of any action or proceeding effected without its written consent. No indemnifying party shall, without the consent of the indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

SECTION 10.06. Other Indemnification. Indemnification similar to that specified in this Article X (with appropriate modifications) shall be given by the Company and IBM with respect to any required registration or other

qualification of Registration Shares under any Federal or state law or regulation of any Governmental Authority other than the Securities Act.

SECTION 10.07. Indemnification Payments. The indemnification required by this Article X shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or expense, loss, damage or liability is incurred.

SECTION 10.08. Adjustments Affecting Registration Shares. The Company shall not effect or permit to occur any combination, subdivision or other recapitalization of any of its securities (a) which would materially adversely affect the ability of IBM to include its Registration Shares, or which would reduce the number of Registration Shares that IBM would otherwise be entitled to include pursuant to this Article X, in any registration of securities of the Company contemplated by this Article X or (b) which would materially adversely affect the marketability of such Registration Shares under any such registration.

SECTION 10.09. Registration Covenants of the Company. In the event that any Registration Shares of IBM are to be registered pursuant to Section 10.01 or 10.02, the Company covenants and agrees that it shall use its best efforts to effect the registration and cooperate in the sale of the Registration Shares to be registered and shall as expeditiously as possible:

(a) (i) prepare and file with the SEC a registration statement with respect to the Registration Shares (as well as any necessary amendments or supplements thereto) (a "Registration Statement") and (ii) use its best efforts to cause the Registration Statement to become effective;

(b) prior to the filing described above in Section 10.09(a), furnish to IBM copies of the Registration Statement and any amendments or supplements thereto and any prospectus forming a part thereof, which documents shall be subject to the review of counsel for IBM (but not approval of such counsel except with respect to any statement in the Registration Statement which relates to IBM);

(c) notify IBM, promptly after the Company shall receive notice thereof, of the time when the Registration Statement becomes effective or when any amendment

or supplement or any prospectus forming a part of the Registration Statement has been filed;

(d) notify IBM promptly of any request by the SEC for the amending or supplementing of the Registration Statement or prospectus or for additional information;

(e) (i) advise IBM after the Company shall receive notice or otherwise obtain knowledge of the issuance of any order by the SEC suspending the effectiveness of the Registration Statement or amendment thereto or of the initiation or threatening of any proceeding for that purpose and (ii) promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal promptly if a stop order should be issued;

(f) (i) prepare and file with the SEC such amendments and supplements to the Registration Statement and the prospectus forming a part thereof as may be necessary to keep the Registration Statement effective for the lesser of (A) a period of time necessary to permit IBM to dispose of all its Registration Shares and (B) the maximum period of time permitted by law to keep effective a registration statement without filing an amendment containing new audited financial statements and (ii) comply with the provisions of the Securities Act with respect to the disposition of all Registration Shares covered by the Registration Statement during such period in accordance with the intended methods of disposition by IBM set forth in the Registration Statement;

(g) furnish to IBM such number of copies of the Registration Statement, each amendment and supplement thereto, the prospectus included in the Registration Statement (including each preliminary prospectus) and such other documents as IBM may reasonably request in order to facilitate the disposition of the Registration Shares owned by IBM;

(h) use its best efforts to register or qualify such Registration Shares under such other securities or blue sky laws of such jurisdictions as determined by the underwriters after consultation with the Company and IBM and do any and all other acts and things which may be reasonably necessary or advisable to enable IBM to consummate the disposition in such jurisdictions of the Registration Shares (provided that the Company shall not be required to (i) qualify generally to do

business in any jurisdiction in which it would not otherwise be required to qualify but for this Section 10.09(h), (ii) subject itself to taxation in any such jurisdiction or (iii) consent to general service of process in any such jurisdiction);

(i) notify IBM, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event as a result of which the Registration Statement would contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and, at the request of IBM, prepare a supplement or amendment to the Registration Statement so that the Registration Statement shall not, to the Company's knowledge, contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading;

(j) if the Common Stock is not then listed on a securities exchange, and if the NASD is reasonably likely to permit the reporting of the Common Stock on NASDAQ, use its best efforts to facilitate the reporting of the Common Stock on NASDAQ;

(k) provide a transfer agent and registrar, which may be a single entity, for all the Registration Shares not later than the effective date of the Registration Statement;

(l) enter into such customary agreements (including an underwriting agreement in customary form) and take all such other action, if any, as IBM or the underwriters shall reasonably request in order to expedite or facilitate the disposition of the Registration Shares;

(m) (i) make available for inspection by IBM, any underwriter participating in any disposition pursuant to the Registration Statement and any attorney, accountant or other agent retained by IBM or any such underwriter all financial and other records, pertinent corporate documents and properties of the Company and (ii) cause the Company's officers, directors and employees to supply all information reasonably requested by IBM or any such underwriter, attorney,

accountant or agent in connection with the Registration Statement;

(n) use its best efforts to cause the Registration Shares covered by the Registration Statement to be registered with or approved by such other Governmental Authorities as may be necessary to enable IBM to consummate the disposition of such Registration Shares; and

(o) obtain a comfort letter from the Company's independent public accountants in customary form and covering such matters of the type customarily covered by comfort letters as IBM may reasonably request.

SECTION 10.10. Expenses. The Company shall pay, on behalf of IBM, all of the expenses in connection with any Demand Registration or Piggyback Registration pursuant to Section 10.01 or 10.02, including all registration, filing and NASD fees, all fees and expenses of complying with securities or blue sky laws, all word processing, duplicating and printing expenses, all messenger and delivery expenses, the fees and disbursements of counsel for the Company and of its independent public accountants (including the expenses of comfort letters required by or incident to such performance and compliance), the reasonable fees, not to exceed $25,000, and disbursements of any counsel retained by IBM, premiums and other costs of policies of insurance against liabilities arising out of the public offering of the Registration Shares and any fees and disbursements of underwriters customarily paid by issuers or sellers of securities, but excluding any underwriting discounts and commissions and transfer taxes, if any. In any registration, IBM shall pay for its own underwriting discounts and commissions and transfer taxes.

SECTION 10.11. Assignment of Registration Rights. IBM may assign its rights under this Article X to anyone to whom IBM sells, transfers or assigns any of the Registration Shares (other than sales pursuant to Rule 144 or a Demand Registration or a Piggyback Registration effected pursuant to this Article X); provided, however, that no assignment shall increase the Company's obligations to effect registrations or pay expenses thereof.

SECTION 10.12. No Preferential Registration Rights. Notwithstanding any other provision of this Agreement, if the Company grants registration rights to any other Person on terms which IBM considers preferential to the

terms in this Article X, then IBM shall be entitled to registration rights with such preferential terms.

SECTION 10.13. Other Registration Rights. The Company shall not grant any right of registration under the Securities Act relating to any of its securities to any Person other than IBM unless IBM shall be entitled to have included in any Piggyback Registration effected pursuant to Section 10.02 a number of Registration Shares requested by IBM to be so included representing at least 25% of such offering (or in the case of an initial public offering, 15% of such offering) prior to the inclusion of any securities requested to be registered by the Persons entitled to any such other registration rights.

SECTION 10.14. Rule 144. After the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, but only for so long as the Company is so subject, the Company shall take all actions reasonably necessary to enable IBM to sell the Registration Shares without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC, including filing on a timely basis all reports required to be filed by the Exchange Act. Upon the request of IBM, the Company shall deliver to IBM a written statement as to whether it has complied with such requirements.

ARTICLE XI

Miscellaneous

SECTION 11.01. Notices. Notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed or sent by telex, graphic scanning or other telegraphic communications equipment of the sending party, as follows:

(a) if to IBM,

International Business Machines Corporation
2000 Purchase Street
Purchase, New York 10577
Telephone: 914-697-7600
Telecopier: 914-697-6014
Attention of M. W. Szeto

with a copy to:

Cravath, Swaine & Moore
Worldwide Plaza
825 Eighth Avenue
New York, New York 10019
Telephone: 212-474-1000
Telecopier: 212-474-3700
Attention of Martin L. Senzel

(b) if to the Company,

Integrated Surgical Systems, Inc.
829 West Stadium Lane
Sacramento, California 95834
Telephone: 916-646-3487
Telecopier: 916-646-4075
Attention of Dr. Howard A. Paul

with a copy to:

Wilson, Sonsini, Goodrich & Rosati
2 Palo Alto Square
Palo Alto, California 94304
Telephone: 415-493-9300
Telecopier: 415-493-6838
Attention of J. Casey McGlynn

All notices and other communications given to either party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service or sent by telex, graphic scanning or other telegraphic communications equipment of the sender, or on the date five Business Days after dispatch by certified or registered mail if mailed, in each case delivered, sent or mailed (properly addressed) to such party as provided in this Section 11.01 or in accordance with the latest unrevised direction from such party given in accordance with this Section 11.01.

SECTION 11.02. Survival of Agreement: Termination. All covenants, agreements, representations and warranties made by the Company herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or the Loan Note shall be considered to have been relied upon by IBM and shall survive the making by IBM of the Loan, and the execution and delivery to IBM of the Loan Note, regardless of any investigation made by IBM or on its behalf. This Agreement shall terminate in its entirety (except for the provisions

of Sections 10.03, 10.04, 10.05, 10.06, 10.07 and 11.05) when (a) the principal of and any accrued interest on the Loan Note and any other amount payable under this Agreement or the Loan Note has been paid in full and (b) IBM (including its Affiliates and assignees under Section 11.03) no longer beneficially owns the Warrant, any Registration Shares or any other voting Securities of the Company.

SECTION 11.03. Assignment. This Agreement and the rights hereunder shall not be assignable or transferable by either party (except by operation of law in connection with a merger, consolidation or sale of substantially all the assets of such party) without the prior written consent of the other party hereto; provided that IBM may assign, in its sole discretion, any or all of its rights, interests and obligations under this Agreement to any of its Affiliates or to any transferee of Registration Shares, the Loan Note, the Warrant or the Preferred Stock issuable upon conversion of the Loan Note other than a transferee who shall acquire such Registration Shares in a public offering pursuant to a registration statement declared effective under the Securities Act of 1933 or pursuant to Rule 144 thereunder. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns.

SECTION 11.04. No Third-Party Beneficiaries. This Agreement is for the sole benefit of the parties hereto and their permitted assigns and nothing herein expressed or implied shall give or be construed to give to any Person, other than the parties hereto and such assigns, any legal or equitable rights hereunder.

SECTION 11.05. Expenses and Indemnity. (a) Whether or not the transactions contemplated hereby are consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs or expenses, except as otherwise provided in this Agreement. In the event the transactions contemplated hereby are consummated, the Company agrees to pay all reasonable out-of-pocket expenses incurred by IBM in connection with any amendments, modifications or waivers of the provisions hereof or of the Loan Note or the Warrant, or incurred by IBM in connection with the enforcement or protection of IBM's rights in connection with this Agreement, the Loan Note or the Warrant, including the reasonable fees and disbursements of counsel for IBM. The Company further agrees that it shall

indemnify IBM from and hold it harmless against any documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution or delivery of this Agreement, the Loan Note or the Warrant, the issuance of Preferred Stock issuable upon conversion of the Loan Note or the issuance of Common Stock issuable upon conversion of such Preferred Stock or upon the exercise of the Warrant.

(b) The Company agrees to indemnify IBM and its directors, officers, employees and agents (each such person being called an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees and expenses, incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or the Loan Note or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto or thereto of their respective obligations hereunder and thereunder or the consummation of the other transactions contemplated hereby or thereby, (ii) the use of the proceeds of the Loan, (iii) any act or alleged failure to take appropriate action by any employee, consultant or agent of the Company in connection with, or any product liability claim arising out of, the conduct of the business of the Company or (iv) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence, bad faith or willful misconduct of such Indemnitee.

(c) The provisions of this Section 11.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement or the consummation of the transactions contemplated hereby, the repayment of the Loan, the invalidity or unenforceability of any term or provision of this Agreement, the Loan Note or the Warrant, or any investigation made by or on behalf of IBM. All amounts due under this Section 11.05 shall be payable on written demand therefor.

SECTION 11.06. Applicable Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York applicable to

agreements made and to be performed entirely within such State, without regard to the conflicts of law principles of such State.

SECTION 11.07. Waivers; Amendment. (a) No failure or delay of IBM or the Company in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of IBM hereunder and under the Loan Note are cumulative and are not exclusive of any rights or remedies which IBM would otherwise have. No waiver of any provision of this Agreement or the Loan Note or consent to any departure by the Company therefrom shall in any event be effective unless the same shall be permitted by Section 11.07(b), and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Company in any case shall entitle the Company to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Company and IBM.

SECTION 11.08. Entire Agreement. This Agreement (including the Exhibits hereto) and the other Operative Agreements constitute the entire agreement between the parties relative to the subject matter hereof. Any previous agreement among the parties with respect to the subject matter hereof is superseded by this Agreement.

SECTION 11.09. Waiver of Jury Trial. Each party hereto hereby waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any litigation directly or indirectly arising out of, under or in connection with any of the Operative Agreements, the Loan Note or the Warrant. Each party hereto (a) certifies that no representative, agent or attorney of the other party has represented, expressly or otherwise, that the other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other party hereto have been induced to enter into this Agreement, by, among other things, the mutual waivers and certifications in this Section 11.09.

SECTION 11.10. Severability. In the event any one or more of the provisions contained in this Agreement or the Loan Note should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 11.11. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract, and shall become effective when one or more such counterparts have been signed by each of the parties and delivered to the other party.

SECTION 11.12. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 11.13. Jurisdiction; Consent to Service of Process. (a) The Company hereby irrevocably and unconditionally submits, for itself and its property, to the jurisdiction of any New York State court sitting in the County of New York or Westchester or any Federal court of the United States of America sitting in the Southern District of New York, and any appellate court from any such court, in any suit, action or proceeding arising out of or relating to the Operative Agreements, the Loan Note or the Warrant, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such suit, action or proceeding may be heard and determined in such New York State court or, to the extent permitted by law, by removal or otherwise, in such Federal court. It shall be a condition precedent to each party's right to bring any such suit, action or proceeding that such suit, action or proceeding, in the first instance, be brought in such New York State court or, to the extent permitted by law, by removal or otherwise, in such Federal court (unless such suit, action or proceeding is brought solely to obtain discovery or to enforce a judgment), and if each of such New York State court and such Federal court refuses to accept jurisdiction with respect thereto, such suit, action or

proceeding may be brought in any other court with jurisdiction. No party to this Agreement may move to (i) transfer any such suit, action or proceeding from such New York State court or Federal court to another jurisdiction, (ii) consolidate any such suit, action or proceeding brought in such New York State court or Federal court with a suit, action or proceeding in another jurisdiction or (iii) dismiss any such suit, action or proceeding brought in such New York State court or Federal court for the purpose of bringing the same in another jurisdiction. Each party agrees that a final judgment in any such suit, action or proceeding shall be conclusive and may be enforced in any other jurisdiction by suit on the judgment or in any other manner provided by law.

(b) The Company hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to the Operative Documents in any New York State court sitting in the County of New York or Westchester or any Federal court sitting in the Southern District of New York. Each party hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such suit, action or proceeding in any such court and further waives the right to object, with respect to such suit, action or proceeding, that such court does not have jurisdiction over such party.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 11.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 11.14. Publicity. Except as may otherwise be agreed to by the parties, no publicity regarding the transactions contemplated hereby is contemplated by the parties hereto. The Company and IBM agree that (a) no public release, announcement or other form of publicity concerning the transactions contemplated hereby shall be issued by either party without the prior consent of the other party, except as such release or announcement may be required by law or the rules or regulations of any securities exchange or except as would be disclosed in proxy materials prepared in conformance with Regulation 14A under the Exchange Act, in which case the party required to make the release or announcement shall allow the other party

reasonable time to comment on such release or announcement in advance of such issuance and (b) without the prior consent of IBM, the Company shall not issue any public release or announcement or issue or distribute any document to be used in connection with the private or public sale of debt or equity securities of the Company if such release, announcement or document refers to IBM'S loans to or contracts or other arrangements with the Company, except as may be required by law or the rules or regulations of any securities exchange or by any Governmental Authority, in which case the Company shall allow IBM reasonable time to comment on the relevant portions of such release, announcement or document.

SECTION 11.15. Further Assurances. The Company shall use its best efforts to obtain and to assist IBM in obtaining promptly all necessary waivers, consents and approvals from any Governmental Authority or any other Person (including the approval of the stockholders of the Company, if necessary) for any exercise by IBM of its rights under any of the Operative Agreements. The period of time provided for any closing of any transactions pursuant to such rights may, at the option of IBM, be extended as necessary in order to obtain any such waivers, consents and approvals.

IN WITNESS WHEREOF, the Company and IBM have duly executed this Loan and Warrant Purchase Agreement as of the day and year first above written.

INTEGRATED SURGICAL SYSTEMS, INC.,

by /s/ Howard Paul

Name: Howard Paul
Title: Chairman

INTERNATIONAL BUSINESS MACHINES CORPORATION,

by

Name:
Title:

Exhibit 10.3

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INTEGRATED SURGICAL SYSTEMS, INC.

SERIES B PREFERRED STOCK

PURCHASE AGREEMENT

April 10, 1992

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G Registration Rights Agreement

STOCK PURCHASE AGREEMENT

THIS SERIES B PREFERRED STOCK PURCHASE AGREEMENT (the "Agreement") is made as of the 10th day of April, 1992, by and between Integrated Surgical Systems, Inc., a Delaware corporation located at 829 West Stadium Lane, Sacramento, CA 95834 (the "Company"), and the investors listed on Exhibit A hereto, each of which is herein referred to as an "Investor."

THE PARTIES HEREBY AGREE AS FOLLOWS:

1. Purchase and Sale of Stock.

1.1 Sale of Stock.

(a) The Company shall adopt and file with the Secretary of State of Delaware on or before the Closing (as defined below) Restated Certificate of Incorporation in the form attached hereto as Exhibit B.

(b) Subject to the terms and conditions of this Agreement, each Investor agrees, severally, to purchase at the Closing and the Company agrees to sell and issue to each Investor at the Closing, that number of shares of the Company's Series B Preferred Stock set forth opposite each Investor's name in column 2 at the purchase price set forth in column 3 of Exhibit A attached hereto.

(c) The shares of Series B Preferred Stock sold to the Investors pursuant to this Agreement are hereinafter referred to as the "Shares." The total amount of Common Stock and other securities issuable upon conversion of the Shares is hereinafter referred to as the "Conversion Stock." The Shares and the Conversion Stock are hereinafter collectively referred to as the "Securities."

1.2 Closing. The purchase and sale of the Shares shall take place at the offices of McDonough, Holland & Allen, 555 Capitol Mall, Suite 950, Sacramento, California, at 10:00 A.M., on April 22, 1992 or at such other time and place as the Company and Investors acquiring in the aggregate more than half the Shares sold pursuant hereto mutually agree upon (which time and place are designated as the "Closing"). At the Closing the Company shall deliver to each Investor certificate(s) representing the Shares which such Investor is purchasing against delivery to the Company by such Investor of a check or wire transfer in the aggregate amount of the purchase price therefor payable to the Company's order.

2. Representations and Warranties of the Company. The Company hereby represents and warrants to each Investor that, except as set forth on a Schedule of Exceptions attached hereto as Exhibit C, which exceptions shall be deemed to be representations and warranties as if made hereunder:

2.1 Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to carry on its business as now conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure so to qualify would have a material adverse effect on its business or properties.

2.2 Capitalization. The authorized capital of the Company consists, or will consist prior to the Closing, of:

(a) 1,117,667 shares of Preferred Stock, $0.01 par value (the "Preferred Stock"), of which 666,667 shares have been designated Series A Preferred Stock, and 451,000 shares have been designated Series B Preferred Stock. As of the date hereof, no shares of Series A Preferred Stock are outstanding. Immediately prior to the Closing, no shares of Series B Preferred Stock will be outstanding. Up to 451,000 shares of Series B Preferred Stock will be sold pursuant to this Agreement. The rights, preferences, privileges and restrictions of the Shares will be as stated in the Company's Restated Certificate of Incorporation attached hereto as Exhibit B.

(b) 7,000,000 shares of Common Stock, $0.01 par value (the "Common Stock"). Immediately prior to the Closing, 500,000 shares will be outstanding.

(c) A Convertible Subordinated Loan Note ("IBM Note") convertible into 666,667 shares of Series A Preferred Stock.

(d) Warrant to purchase up to 500,000 shares of Common Stock (the "Common Warrants").

(e) Except for (i) the conversion privileges of the Preferred Stock (ii) the rights set forth in the Amended and Restated Stockholders Agreement attached hereto as Exhibit F ("Stockholders Agreement") and (iii) as set forth in the Schedule of Exceptions, there are no other outstanding options, warrants, rights (including conversion or preemptive rights) or agreements for the purchase or acquisition from the Company of any shares of its capital stock.

2.3 Subsidiaries. The Company does not presently own or control, directly or indirectly, any interest in any other corporation, association, or other business entity.

2.4 Authorization. All corporate action on the part of the Company, its officers, directors and stockholders necessary for the authorization, execution and delivery of this Agreement, the performance of all obligations of the Company hereunder and the authorization, issuance (or reservation for issuance) and delivery of the Shares being sold hereunder and the Conversion Stock has been taken or will be taken prior to the Closing, and this Agreement constitutes a valid and legally binding obligation of the Company, enforceable in accordance with its terms.

2.5 Shares and Conversion Stock.

(a) The Shares which are being purchased by the Investors hereunder, when issued, sold and delivered in accordance with the terms hereof for the consideration expressed herein, will be duly and validly issued, fully paid and nonassessable and, based in part upon the representations of the Investors in this Agreement, will be issued in compliance with all applicable federal and state securities laws. The Conversion Stock has been duly and validly reserved for issuance and, upon issuance in accordance with the terms of the Restated Certificate of Incorporation, shall be duly and validly issued, fully paid and nonassessable, and issued in compliance with all applicable securities laws, as presently in effect, of the United States and each of the states whose securities laws govern the issuance of any of the Shares hereunder. Neither the issuance, initial sale or delivery of the Shares by the Company nor the Conversion Stock is subject to any preemptive right of stockholders of the Company which has not been or will not prior to the Closing be waived.

(b) The outstanding shares of Common Stock are all duly and validly authorized and issued, fully paid and nonassessable, and were issued in compliance with all applicable federal and state securities laws. The shares of Series A Preferred Stock when issued, upon conversion and in accordance with the terms of the IBM Note, shall be duly and validly authorized and issued, fully paid and nonassessable, and shall have been issued in compliance with applicable federal and state securities laws. The Common Stock issuable upon conversion of the Series A Preferred Stock has been duly and validly reserved for issuance, and upon issuance in accordance with the terms of the Restated Certificate of Incorporation shall be duly and validly issued, fully paid and nonassessable, and issued in compliance with all applicable securities laws, as presently in effect, of the United States and each of the states whose securities laws govern the issuance of such Common Stock.

2.6 Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state, local or provincial governmental authority on the part of the Company is required in connection with the consummation of the transactions contemplated by this Agreement, except qualification (or taking such action as may be necessary to secure an exemption from qualification, if available) of the offer and sale of the shares (and the Conversion Stock) under the California Corporate Securities law of 1968, as amended, and other Blue Sky laws, which filings and qualifications, if required, will be accomplished in a timely manner.

2.7 Litigation. There is no action, suit, proceeding or investigation pending or currently threatened against the Company which questions the validity of this Agreement or the right of the Company to enter into it, or to consummate the transactions contemplated hereby, or which might result, either individually or in the aggregate, in any material adverse changes in the assets, condition, affairs or prospects of the Company, financially or otherwise, or any change in the current equity ownership of the Company, nor is the Company aware that there is any basis for the foregoing. The foregoing includes, without limitation, actions pending or threatened (or any basis therefor known to the Company) involving the prior employment of any of the Company's employees, their use in connection with the Company's business of any information or techniques allegedly proprietary to any of their former employers, or their obligations under any agreements with prior employers. The Company is not a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no action, suit, proceeding or investigation by the Company currently pending or which the Company intends to initiate.

2.8 Proprietary Information Agreements. Each key employee and officer of the Company has executed a Proprietary Information Agreement in the form attached hereto as Exhibit D, and no exceptions have been taken by any such employee or officer to the terms of such agreement. The Company, after reasonable investigation, is not aware that any of its employees are in violation thereof, and the Company will use its best efforts to prevent any such violation.

2.9 Patents and Trademarks. The Company has sufficient title and ownership of, or has the right to use without payment to any other person, all patents, trademarks, service marks, trade names, copyrights, trade secrets, information, proprietary rights and processes necessary for its business as now conducted and as proposed to be conducted without any conflict with or infringement of the rights of others. The Company has not granted any options, licenses, or agreements of any kind relating to the foregoing, nor

is the Company bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information, proprietary rights and processes of any other person or entity. The Company has not received any communications alleging that the Company has violated or, by conducting its business as proposed, would violate any of the patents, trademarks, service marks, trade names, copyrights or trade secrets or other proprietary rights of any other person or entity. The Company is not aware that any of its employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with the use of his or her best efforts to promote the interests of the Company or that would conflict with the Company's business as proposed to be conducted. Neither the execution nor the delivery of this Agreement, nor the carrying on of the Company's business by the employees of the Company, nor the conduct of the Company's business as proposed, will, to the Company's knowledge, conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which any of such employees is now obligated. The Company does not believe it is or will be necessary to utilize any inventions of any of its employees (or people it currently intends to hire) made prior to their employment by the Company which the Company does not have the right to utilize under license.

2.10 Compliance with Other Instruments.

(a) The Company is not in violation or default in any material respect of any provisions of its Certificate of Incorporation, as amended, or Bylaws or of any material instrument, judgment, order, writ, decree or contract to which it is a party or by which it is bound or, to its knowledge, of any provision of federal or state statute, rule or regulation applicable to the Company. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not result in any such violation or be in conflict with or constitute, with or without the passage of time and giving of notice, either a default under any such provision, instrument, judgment, order, writ, decree or contract or an event which results in the creation of any lien, charge or encumbrance upon any assets of the Company.

(b) The Company has avoided every condition, and has not performed any act, the occurrence of which would result in the Company's loss of any material right granted under any license, distribution or other agreement.

2.11 Agreements; Action.

(a) Except for agreements explicitly contemplated hereby, there are no agreements, understandings or proposed transactions between the Company and any of its officers, directors, affiliates, or any affiliate thereof. For purposes of the foregoing, an "affiliate" shall include, but not be limited to, those persons and entities who fall within the definition "Affiliate" contained in Section 6.5.

(b) There are no agreements, understandings, instruments, contracts or proposed transactions to which the Company is a party or by which it is bound which involve (i) obligations of, or payments to the Company in excess of $25,000, or (ii) the license of any patent, copyright, trade secret or other proprietary right to or from the Company.

(c) The Company has not (i) declared or paid any dividends, or authorized or made any distribution upon or with respect to any class or series of its capital stock, (ii) incurred any indebtedness for money borrowed or incurred any other liabilities individually in excess of $25,000 or in excess of $100,000 in the aggregate, (iii) made any loans or advances to any person, other than ordinary advances for travel expenses, or (iv) sold, exchanged or otherwise disposed of any of its assets or rights, other than in the ordinary course of business.

(d) The Company has not engaged in the past twelve (12) months in any discussion (i) with any representative of any corporation or corporations regarding the consolidation or merger of the Company with or into any such corporation or corporations, (ii) with any corporation, partnership, association or other business entity or any individual regarding the sale, conveyance or disposition of all or substantially all of the assets of the Company, or a transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Company is disposed of, or (iii) regarding any other form of liquidation, dissolution or winding up of the Company.

(e) The Company is not a party to or aware of any voting trust or agreement, stockholders' agreement, pledge agreement, buy-sell agreement or first refusal or preemptive rights agreement relating to securities of Company.

2.12 Disclosure. The Company has fully provided each Investor with all the information which such Investor has requested for deciding whether to purchase the Shares and all information which the Company believes is reasonably necessary to enable such Investor to make such decision. Neither this Agreement nor any other statements or certificates made or delivered in connection

herewith contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements herein or therein not misleading.

2.13 Registration Rights. Except as provided in the Registration Rights Agreement attached hereto as Exhibit G and the IBM Loan Agreement, the Company has not granted or agreed to grant any registration rights, including piggyback rights, to any person or entity.

2.14 Corporate Documents. As of the Closing, the Restated Certificate of Incorporation will be in the form attached hereto as Exhibit B. The Bylaws of the Company are in the form previously provided to the Investors.

2.15 Title to Property and Assets. The Company owns its property and assets free and clear of all mortgages, liens, loans and encumbrances, except such encumbrances and liens which arise in the ordinary course of business and do not materially impair the Company's ownership or use of such property or assets. With respect to the property and assets it leases, the Company is in compliance with such leases and, to its knowledge, holds a valid leasehold interest free of any liens, claims or encumbrances.

2.16 Employee Benefit Plans. The Company does not have any Employee Benefit Plan as defined in the Employee Retirement Income Security Act of 1974.

2.17 Tax Returns, Payments and Elections. The Company has filed all tax returns and reports as required by law. As of their respective filing dates, these returns and reports are true and correct in all material respects. The Company has paid all taxes and other assessments due, except those contested by it in good faith which are listed in the Schedule of Exceptions. The Company has not elected pursuant to the Internal Revenue Code of 1986, as amended (the "Code"), to be treated as a Subchapter S corporation or a collapsible corporation pursuant to Section 341(f) or Section 1362(a) of the Code, nor has it made any other elections pursuant to the Code (other than elections which relate solely to methods of accounting, depreciation or amortization) which would have a material effect on the Company, its financial condition, its business as presently conducted or proposed to be conducted or any of its properties or material assets.

2.18 Pro Formas. The projections and expressions of opinion contained in the Pro Formas, dated December 11, 1991, contained in the Business Plan previously delivered to the Investors were made in good faith and the Company believes there is a reasonable basis therefor.

2.19 Financial Statements. The Company has delivered to the Investors its audited financial statements for the year ended December 31, 1991 (the "Financial Statements"). The Financial Statements have been prepared in accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods indicated and with each other. The Financial Statements fairly present the financial condition and operating results of the Company as of the dates, and for the periods, indicated therein. Except as set forth in the Financial Statements, the Company has no material liabilities, contingent or otherwise, other than: (a) liabilities incurred in the ordinary course of business subsequent to December 31, 1991; and (b) obligations under contracts and commitments incurred in the ordinary course of business and not required under GAAP to be reflected in the Financial Statements which, in both cases, individually or in the aggregate, are not material to the financial condition or operating results of the Company. Except as disclosed in the Financial Statements, the Company is not a guarantor or indemnitor of any indebtedness of any other person, firm or corporation. The Company maintains and will continue to maintain a standard system of accounting established and administered in accordance with GAAP.

2.20 Changes. To the Company's knowledge, since December 31, 1991, there has not been any event of any type that has materially and adversely affected the business, properties, or financial condition of the Company.

2.21 Environmental and Safety Laws. To its knowledge, the Company is not in violation of any applicable statute, law or regulation relating to the environment or occupational health and safety, and to its knowledge, no material expenditures are or will be required in order to comply with any such existing statute, law or regulation.

2.22 Minute Books. The copies of the minute book of the Company made available to counsel to the Investors contain minutes of all meetings of directors and stockholders and all actions by written consent without a meeting by the directors and stockholders since the date of incorporation and reflect all actions by the directors (and any committee of directors) and stockholders with respect to all transactions referred to in such minutes accurately in all material respects.

2.23 Insurance. Section 2.23 of the Schedule of Exceptions sets forth a complete and accurate list and description, including, but not limited to, annual premiums and the deductibles, of all policies of fire, liability, product liability, workmen's compensation, health and other forms of insurance presently in effect with respect to the Company's business. All such policies are valid, outstanding and enforceable policies and provide insur-

ance coverage for the properties, assets and operations of the Company, of the kinds, in the amounts and against the risks (a) required to comply with laws and (b) customarily maintained by organizations similarly situated. The Company has not been refused any insurance with respect to any aspect of the operations of its business nor has its coverage been limited by any insurance carrier to which it has applied for insurance or with which it has carried insurance. No notice of cancellation or termination has been received with respect to any such policy. The activities and operations of the Company have been conducted in a manner so as to conform in all material respects to all applicable provisions of such insurance policies.

2.24 Effect of Transaction. No creditor, supplier, employee, client or other customer or other person having a material business relationship with the Company has informed the Company that such person intends to change the relationship because of the transactions contemplated by this Agreement.

2.25 Finder's Fee. The Company and its officers, directors or representatives have not incurred any liabilities for any commission or compensation in the nature of a finder's fee other than its obligations to Southport Partners. A copy of the agreement with Southport Partners has been delivered to special counsel for the Investors.

3. Representations and Warranties of the Investor. Each Investor hereby represents and warrants (with respect to itself) that:

3.1 Due Organization and Authorization.

(a) The John N. Kapoor Trust (the "Trust"), established under an agreement dated September 20, 1989 (the "Trust Agreement") with John N. Kapoor as trustee (the "Trustee"), is duly established and validly existing under the laws of the State of Illinois. Each of the Trust and the Trustee, on behalf of the Trust, has all requisite power and authority to enter into this Agreement and the Stockholders Agreement and to consummate the transactions contemplated hereby and thereby. The execution and delivery by the Trustee on behalf of the Trust of this Agreement and the Stockholders Agreement and the consummation by the Trustee on behalf of the Trust of the transactions contemplated hereby and thereby have been duly authorized by all necessary actions, if any, pursuant to the Trust Agreement and applicable law, and this Agreement and the Stockholders Agreement each constitutes the valid and legally binding obligation of the Trust, enforceable in accordance with its terms.

(b) Sutter Health is a nonprofit public benefit corporation duly organized, validly existing and in good standing under the laws of the State of California. Sutter Health has all requisite power and authority to enter into this Agreement and the Stockholders Agreement and to consummate the transactions contemplated hereby and thereby, and the execution and delivery of this Agreement and the Stockholders Agreement and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary action pursuant to the articles of incorporation and other governing instruments of Sutter Health and applicable law. This Agreement and the Stockholders Agreement each constitutes the valid and legally binding obligation of Sutter Health, enforceable in accordance with its terms.

3.2 Purchase Entirely for Own Account. This Agreement is made with each Investor in reliance upon such Investor's representation to the Company, which by such Investor's execution of this Agreement such Investor hereby confirms, that the Shares will be acquired for investment for such Investor's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that such Investor has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, each Investor further represents that such Investor does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person or to any third person, with respect to any of the Securities. Each Investor represents that it has full power and authority to enter into this Agreement.

3.3 Disclosure of Information. Each Investor believes it has received all the information it considers necessary or appropriate for deciding whether to purchase the Shares. Each Investor further represents that it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Shares. The foregoing, however, does not limit or modify the representations and warranties of the Company in Section 2 of this Agreement or the right of the Investors to rely thereon.

3.4 Investment Experience. Each Investor is an investor in securities of companies in the development stage and acknowledges that it is able to fend for itself, and bear the economic risk of its investment and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in the Shares. If other than an individual, the Investor also represents it has not been organized for the purpose of acquiring the Shares.

3.5 Restricted Securities. Each investor understands that the Shares it is purchasing are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act of 1933, as amended (the "Act") only in certain limited circumstances. In this connection, each Investor represents that it is familiar with Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Act.

3.6 Further Limitations on Disposition. Without in any way limiting the representations set forth above, each Investor further agrees not to make any disposition of all or any portion of the Shares (or the Conversion Stock) unless and until:

(a) There is then in effect a Registration Statement under the Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or

(b) Such Investor shall have notified the Company of the proposed disposition and if requested by the Company, such Investor shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such shares under the Act. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144 except in unusual circumstances.

3.7 Legends. It is understood that the certificates evidencing the Shares (and the Conversion Stock) may bear one or all of the following legends:

(a) "THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT."

(b) Any legend required by the laws of any applicable state and by the Stockholders Agreement.

3.8 Finder's Fee. The Investors and its officers, partners, employees or representatives have not incurred any liabilities for any commission or compensation in the nature of a finder's fee.

4. Conditions of Investor's Obligations at Closing. The obligations of each Investor under Section 1.1(b) of this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions, the waiver of which shall not be effective against any Investor who does not consent in writing thereto:

4.1 Representations and Warranties. The representations and warranties of the Company contained in Section 2 shall be true on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the date of such Closing.

4.2 Performance. The Company shall have performed and complied with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing.

4.3 Compliance Certificate. The President of the Company shall deliver to each Investor at the Closing a certificate date as of the Closing date certifying as to the fulfillment of the conditions specified in Sections 4.1 and 4.2.

4.4 Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated at the Closing and all documents incident thereto shall be reasonably satisfactory in form and substance to each Investor and counsel to any of the Investors, and they shall have received all such counterpart original and certified or other copies of such documents as they may reasonably request.

4.5 Opinion of Company Counsel. Each Investor shall have received from Wilson, Sonsini, Goodrich & Rosati, counsel for the Company, an opinion, dated as of the Closing, in the form attached hereto as Exhibit E.

4.6 Stockholders Agreement. The Stockholders Agreement in the form attached hereto as Exhibit F shall have been executed and delivered by all of the parties thereto.

4.7 Registration Rights Agreement. The Company and each Investor under this Agreement shall have executed and delivered the Registration Rights Agreement attached hereto as Exhibit G.

4.8 Employment Agreement. The Company and Howard Paul, Chairman of the Board and President of the Company, shall have entered into an employment agreement.

4.9 Regulatory Opinions. The Company shall deliver to each Investor an opinion letter from Advanced Biosearch Associates ("ABA"), substantially in the form of the letter dated March 10,

1992 delivered to August Saibeni. In addition, the Company shall deliver any additional opinion letters from ABA reasonably requested by the Investors.

4.10 Restated Certificate of Incorporation. The Restated Certificate of Incorporation attached hereto as Exhibit B shall have been accepted for filing by the Delaware Secretary of State.

4.11 Stock Certificates. The Company shall have delivered to the Investors the certificate referred to Section 1.2.

4.12 Future Financing. It is generally acceptable to the Investors that new series of Preferred Stock issued in future financings be on terms which are pari passu with the rights of the Series B Preferred Stock.

5. Conditions of the Company's Obligations at Closing. The obligations of the Company to each Investor under this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions, the waiver of which shall not be effective unless consented to in writing by the Company:

5.1 Representations and Warranties. The representations and warranties of each Investor contained in Section 3 shall be true on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the Closing.

5.2 Payment of Purchase Price. All of the Investors shall have delivered the purchase price provided for in Section 1.1(b).

5.3 Restated Certificate of Incorporation. The Restated Certificate of Incorporation attached hereto as Exhibit B shall have been accepted for filing by the Delaware Secretary of State.

5.4 Stockholders Agreement. The Amended and Restated Stockholders Agreement in the form attached hereto as Exhibit F shall have been executed and delivered by all of the parties thereto.

6. Covenants of the Company.

6.1 Delivery of Financial Statements. The Company shall deliver to each Investor which holds, together with its affiliates, an aggregate of 100,000 shares of the Securities:

(a) as soon as practicable, but in any event within ninety (90) days after the end of each fiscal year of the Company commencing with the fiscal year ending December 31, 1992, a balance

sheet, and statements of operations and cash flow for such fiscal year. Such year-end financial reports to be in reasonable detail, prepared in accordance with generally accepted accounting principles ("gaap"), and audited and certified by independent public accountants of nationally recognized standing selected by the Company. In addition, within ninety (90) days after the end of each fiscal year of the Company, a capitalization chart setting forth the principal stockholders of the Company;

(b) within thirty (30) days of the end of each month, and until a public offering of Common Stock of the Company, an unaudited statement of operations and balance sheet for and as of the end of such month, in reasonable detail and prepared in accordance with gaap, subject to year end audit adjustments and the absence of footnotes;

(c) within forty-five (45) days prior to the end of each fiscal year, a budget and business plan for the next fiscal year, prepared on a monthly basis, including a balance sheet and statement of operations for such months and, as soon as prepared, any other budgets or revised budgets prepared by the Company;

(d) with respect to the financial statements called for in subsection (b) of this Section 6.1, an instrument executed by the Chief Financial Officer, President or Chairman of the Company and certifying that such Financial Statements were prepared in accordance with gaap consistently applied with prior practice for earlier periods and fairly present the financial condition of the Company and its results of operation for the period specified, subject to year-end audit adjustments and the absence of footnotes;

(e) such other information relating to the financial condition, business, prospects or corporate affairs of the Company as each Investor may from time to time request, provided, however, that the Company shall not be obligated to provide information which it deems in good faith to be proprietary.

6.2 Inspection. The Company shall permit each Investor which holds, together with its affiliates, an aggregate of 100,000 shares of the Securities, to visit and inspect the Company's properties, to examine its books of account and records and to discuss the Company's affairs, finances and accounts with its officers, all at such reasonable times as may be requested by the Investor; provided, however, that the Company shall not be obligated pursuant to this Section 6.2 to provide access to any information which it reasonably considers to be a trade secret or similar confidential information.

6.3 Restrictive Agreements Prohibited. Neither the Company nor any of its subsidiaries shall become a party to any

agreement which by its terms restricts the Company's performance of this Agreement.

6.4 Proprietary Information Agreements. The Company shall use its best efforts to obtain, and shall cause its subsidiaries, if any, to use their best efforts to obtain, a Proprietary Information Agreement in substantially the form of Exhibit D from all future officers, key employees and other employees who will have access to confidential information of the Company or any of its subsidiaries, upon their employment by the Company or any of its subsidiaries.

6.5 Transactions with Affiliates. Except for transactions contemplated by this Agreement or as otherwise approved by a majority of directors, neither the Company nor any of its subsidiaries shall enter into any transaction with any director, officer, employee or holder of more than 5% of the outstanding capital stock of any class of the Company or any of its subsidiaries, member of the family of any such person, or any corporation, partnership, trust or other entity in which any such person, or member of the family of any such person, either alone or together with other persons affiliated with the Company, is a director, officer, trustee, partner or holder of more than 5% of the outstanding capital stock thereof (collectively, "Affiliates"), except for transactions on customary terms negotiated on an arms-length basis or related to such person's employment.

6.6 Visitation Rights. For so long as 100,000 Shares (as presently constituted) remain outstanding, the Company shall give notice of all meetings of the Board of Directors to one designee appointed by the Investors holding a majority of the outstanding Shares ("Designee"). The Investors agree that the Designee shall be either Patrick G. Hays, August Saibeni, John Kapoor, Robert May or such other individual reasonably acceptable to the Company. The Designee shall be allowed to attend all meetings of the Board of Directors of the Company in a non-voting capacity and, in this respect, the Company shall give the Designee, whether or not present at such meetings, copies of all notices, minutes, consents and all other materials that it provides to its directors; provided, however, that the Designee shall agree to hold in confidence and trust and to act in a fiduciary manner with respect to all information so provided and to sign the Company's confidential information agreement, if requested; and, provided further, that the Company reserves the right to withhold any information and to exclude the Designee from any meeting or portion thereof if access to such information or attendance at such meeting could adversely affect the attorney/client privilege between the Company and its counsel or if the information being discussed is deemed highly confidential.

6.7 Purchase Rights.

(a) Whenever the Company proposes to issue, deliver or sell any Voting Securities (as defined below), other than (i) shares of Common Stock (or options therefor) to employees, consultants and directors of the Company, (ii) securities issuable upon exercise or conversion of outstanding securities, or (iii) securities issued in connection with any stock split, stock dividend or recapitalization of the Company as a result of which an Investor's percentage interest in the Total Voting Power of the Company (as defined below) would be reduced, the Company shall give each Investor written notice at least sixty (60) days prior to such issuance and shall offer to sell to each Investor and, if such offer is accepted in writing by an Investor within sixty (60) days of receipt by the Investor of such offer, shall sell to the Investor, at a purchase price per share equal to the sale price of such Voting Securities, up to and including that amount of such Voting Securities which, if purchased by an Investor, would result in the Investor retaining its percentage interest in the Total Voting Power of the Company in effect prior to such issuance, of Voting Securities. For the purpose of the preceding sentence, if the sale price at which the Company proposes to issue, deliver or sell any Voting Securities is to be paid with consideration other than cash, then the purchase price at which the Investor may acquire such Voting Securities shall be equal in value but payable entirely in cash. The closing of any purchase and sale of Voting Securities pursuant to this Section 6.7 shall take place on such date, within thirty (30) days after acceptance by the Investor of an offer by the Company, as shall be specified by the Investor in such acceptance.

(b) The term "Total Voting Power of the Company" shall mean the total number of votes which may be cast in the election of directors of the Company at any meeting of stockholders of the Company if all Voting Securities assuming full conversion, exchange or exercise of all securities (including rights, warrants, options, convertible notes and other convertible securities) convertible into, exchangeable for or exercisable for any securities of the Company entitled to vote generally in the election of directors of the Company who are present and voted at such meeting, other than votes that may be cast only by one class or series of stock (other than Common Stock) or upon the happening of a contingency.

(c) The term "Voting Securities" shall mean the shares of Common Stock and other securities of the Company entitled to vote generally in the election of directors of the Company, and any other securities (including rights, warrants, options, convertible notes and other convertible securities) convertible into, exchangeable for or exercisable for any Common Stock or other

securities referred to above (whether or not presently convertible, exchangeable or exercisable).

(d) The rights granted under this Section 6.7 are not transferable and shall terminate with respect to each Investor when such Investor holds less than 100,000 shares of the Securities.

6.8 Purchase Rights on Next Financing. If at any time prior to April 30, 1993, the Company desires to raise at least $1,000,000 through the sale of any Voting Securities ("Offered Securities") the following provisions shall apply:

(a) The Company shall first submit a written offer to sell ("Offer") the Offered Securities to the Investors at a price per share in cash specified by the Company ("Specified Price"). The Offered Securities shall possess dividend payment and liquidation preference provision which are pari passu with the Series A Preferred Stock and Series B Preferred Stock and shall include registration rights which are not in preference to the rights held by the Series B Preferred Stock. Within ten (10) days after receipt of the Offer, and if no notice of acceptance or rejection is given to the Company within such 10 day period, the Investors shall be deemed to have rejected the Offer.

(b) If the Offer is rejected or deemed rejected, the Company may, sell all the Offered Securities to any person or group at a price per share that is not less than the Specified Price at any time during the 12 month period following the date of such rejection.

(c) If one or more of the Investors accepts the Offer in writing, it or they shall purchase and the Company shall sell to such Investor or Investors all the Offered Securities at the Specified Price per share no later than thirty (30) days after receipt of such acceptance. At the closing, the Company shall deliver to such Investors a certificate or certificates representing the Offered Securities in exchange for the purchase price therefor by certified check or wire transfer. If the Investors do not agree on the allocation of Offered Securities between them, then the allocation shall be made on a pro rata basis.

(d) The rights granted under this Section 6.8 are not transferable and shall terminate with respect to each Investor when such Investor holds less than 100,000 shares of the Securities.

(e) At the Closing, the Investors shall receive documents substantially similar (subject to appropriate revisions)

to those set forth in Section 4.3, 4.4 and 4.5 herein, dated as of such Closing.

(f) The rights set forth in this Section 6.8 shall only apply to the next financing of at least $1,000,000.

6.9 Termination of Covenants. The covenants set forth in this Section 6 shall terminate and be of no further force or effect when (a)(i) the sale of securities pursuant to a registration statement filed by the Company under the Act in connection with a firm commitment underwritten offering of its securities to the general public is consummated and (ii) such offering results in the automatic conversion of the Shares pursuant to the Restated Certificate of Incorporation or (b) when the Company first becomes subject to the periodic reporting requirements of Sections 12(g) or 15(d) of the Securities Exchange Act of 1934, whichever event shall first occur.

7. Miscellaneous.

7.1 Survival of Warranties. The warranties, representations and covenants of the Company and Investors contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the Investors or the Company.

7.2 Successors and Assigns. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

7.3 Governing Law. This Agreement shall be governed by and construed under the laws of the State of California as applied to agreements among California residents entered into and to be performed entirely within California.

7.4 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

7.5 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

7.6 Notices. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified or upon deposit with the United States Post Office, by registered or certified mail, postage prepaid and addressed to the party to be notified at the address indicated for such party in Exhibit A or in the case of the Company on the first page of this Agreement, or at such other address as such party may designate by ten (10) days' advance written notice to the other parties.

7.7 Payment of Fees and Expenses. The Company and the Investors shall each bear their own legal and other expenses incurred with respect to this transaction.

7.8 Finder's Fee. Each Investor agrees to indemnify and to hold harmless the Company from any liability for any commission or compensation in the nature of a finders' fee (and the costs and expenses of defending against such liability or asserted liability) for which the Investor or any of its officers, partners, employees, or representatives is responsible. The Company agrees to indemnify and hold harmless each Investor from any liability for any commission or compensation in the nature of a finders' fee (and the costs and expenses of defending against such liability or asserted liability) for which the Company or any of its officers, employees or representatives is responsible.

7.9 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of at least a majority of the Shares or Conversion Stock. Any amendment or waiver effected in accordance with this Section shall be binding upon each holder of any securities purchased under this Agreement at the time outstanding (including securities into which such securities are convertible), each future holder of all such securities, and the Company; provided, however, that no condition set forth in Section 5 hereof may be waived with respect to any Investor who does not consent thereto.

7.10 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

7.11 Aggregation of Stock. All Shares held or acquired by affiliated entities or persons shall be aggregated together for

the purpose of determining the availability of any rights under this Agreement.

7.12 Ambiguities. The provisions of this Agreement shall be interpreted without regard to the drafting source and as if both parties drafted this Agreement in a reasonable manner to effect the purpose of the parties.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

INTEGRATED SURGICAL SYSTEMS, INC.

By: /s/ HOWARD A. PAUL

Howard A. Paul, President

SUTTER HEALTH

By:

Title:

John N. Kapoor Trust

By:

Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

INTEGRATED SURGICAL SYSTEMS, INC.

By:

Howard A. Paul, President

SUTTER HEALTH

By: /s/ AUGUST C. SAIBENI

Title: Senior Vice President, Diversification

John N. Kapoor Trust

By:

Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

INTEGRATED SURGICAL SYSTEMS, INC.

By: -------------------------------------
Howard A. Paul, President

SUTTER HEALTH

By: -------------------------------------

Title: -----------------------------------

John N. Kapoor Trust

By: /s/ JOHN N. KAPOOR

Title: Trustee

Exhibit 10.4

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INTEGRATED SURGICAL SYSTEMS, INC.

SERIES C PREFERRED STOCK

PURCHASE AGREEMENT

NOVEMBER 13, 1992

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STOCK PURCHASE AGREEMENT

THIS SERIES C PREFERRED STOCK PURCHASE AGREEMENT (the "Agreement") is made as of the 13th day of November, 1992, by and between Integrated Surgical Systems, Inc., a Delaware corporation located at 829 West Stadium Lane, Sacramento, California 95834 (the "Company"), and the investors listed on the signature pages hereof, each of which is herein referred to as an "Investor." Exhibit A attached hereto lists each Investor's investments pursuant to this Agreement.

THE PARTIES HEREBY AGREE AS FOLLOWS:

1. Purchase and Sale of Stock.

1.1 Sale of Stock.

(a) The Company shall adopt and file with the Secretary of State of Delaware on or before the Closing (as defined below) the Restated Certificate of Incorporation in the form attached hereto as Exhibit B.

(b) Subject to the terms and conditions of this Agreement, each Investor agrees, severally, to purchase at the Closing and the Company agrees to sell and issue to each Investor at the Closing, that number of shares of the Company's Series C Preferred Stock set forth opposite each Investor's name on the dates and at the purchase prices set forth in Exhibit A attached hereto.

(c) The shares of Series C Preferred Stock sold to the Investors pursuant to this Agreement are hereinafter referred to as the "Shares." The total amount of Common Stock and other securities issuable upon conversion of the Shares is hereinafter referred to as the "Conversion Stock." The Shares and the Conversion Stock are hereinafter collectively referred to as the "Securities."

1.2 Closing.

(a) The initial purchase and sale of 189,394 shares of the Shares shall take place at the offices of McDonough, Holland & Allen, A Professional Corporation, 555 Capitol Mall, 9th Floor, Sacramento, CA 95814 at 10:00 A.M., on November 13, 1992 or at such other time and place as the Company and Investors acquiring in the aggregate more than half the shares of Series C Preferred Stock being sold on that date pursuant hereto mutually agree upon (which time and place are designated as the "Closing"). At the Closing the Company shall deliver to each Investor certificate(s)

representing the Shares which such Investor is purchasing against delivery to the Company by such Investor of a check or wire transfer in the amount of the purchase price therefor payable to the Company's order.

(b) 568,182 shares of the Series C Preferred Stock will be sold at 10:00 A.M. on the dates listed in Exhibit A at the office specified in Section 1.2(a) or at such other place as the Company and Sutter Health, a California nonprofit public benefit corporation ("Sutter Health") mutually agree upon (which times and places are designated as the "Subsequent Closings"). Such sales shall be made on the terms and conditions set forth on this Agreement. The shares of Series C Preferred Stock sold pursuant to this Section 1.2(b) shall be deemed to be "Shares" sold pursuant to this Agreement. At the Subsequent Closings the Company shall deliver to each Investor certificate(s) representing the Shares which such Investor is purchasing against delivery to the Company by such Investor of a check or wire transfer in the amount of the purchase price therefor payable to the Company's order.

(c) At any time on or before the 90th day following the Closing, Sutter Health may purchase up to 94,697 but not less than 23,675 additional shares of Series C Preferred Stock (the "Option Shares"). Such sale shall be made on the terms and conditions set forth on this Agreement. Any shares of Series C Preferred Stock sold pursuant to this Section 1.2(c) shall be deemed to be "Shares" sold pursuant to this Agreement. Sutter Health may not assign its right to purchase Option Shares without the consent of the Company and International Business Machines Corporation ("IBM") except that (subject to the following sentence) Sutter Health, without the consent of the Company or IBM, may assign its right to purchase the Option Shares to a limited partnership, the sole general partner of which is Sutter Health and the limited partners of which are certain individuals who are officers of or employed by Sutter Health (a "Sutter Limited Partnership"). The right to purchase the Option Shares may be assigned only if (i) the assignee is an "Accredited Investor" as defined in Regulation D under the Securities Act of 1933, as amended, and (ii) the assignee executes a counterpart of this Agreement, the Stockholders Agreement and the Registration Rights Agreement.

2. Representations and Warranties of the Company. The Company hereby represents and warrants to each Investor that, as of the date of this Agreement, except as set forth on a Schedule of Exceptions attached hereto as Exhibit C, which exceptions shall be deemed to be representations and warranties as if made hereunder.

2.1 Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all

requisite corporate power and authority to carry on its business as now conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure so to qualify would have a material adverse effect on its business or properties.

2.2 Capitalization. The authorized capital of the Company consists, or will consist prior to the Closing, of:

(a) 1,969,940 shares of Preferred Stock, $0.01 par value (the "Preferred Stock"), of which 666,667 shares have been designated Series A Preferred Stock, 451,000 shares have been designated Series B Preferred Stock and 852,273 shares have been designated Series C Preferred Stock. As of the date hereof, no shares of Series A Preferred Stock and 451,000 shares of Series B Preferred Stock are outstanding. Immediately prior to the Closing, no shares of Series C Preferred Stock will be outstanding. Up to 852,273 shares of Series C Preferred Stock will be sold pursuant to this Agreement. The rights, preferences, privileges and restrictions of the Shares will be as stated in the Company's Restated Certificate of Incorporation attached hereto as Exhibit B.

(b) 7,000,000 shares of Common Stock, $0.01 par value (the "Common Stock"). Immediately prior to the Closing, 500,000 shares will be outstanding.

(c) A Convertible Subordinated Loan Note ("IBM Note") convertible into 666,667 shares of Series A Preferred Stock.

(d) Warrant to purchase up to 500,000 shares of Common Stock (the "Common Warrants").

(e) Options to purchase up to 134,150 shares of Common Stock (the "Options") pursuant to the Company's 1991 Incentive Stock Option Plan, leaving 115,850 shares reserved for future grants thereunder.

(f) Except for (i) the conversion privileges of the Preferred Stock (ii) the rights set forth in the Amended and Restated Stockholders Agreement attached hereto as Exhibit F ("Stockholders Agreement") and (iii) as set forth in the Schedule of Exceptions, there are no other outstanding options, warrants, rights (including conversion or preemptive rights) or agreements for the purchase or acquisition from the Company of any shares of its capital stock.

2.3 Subsidiaries. The Company does not presently own or control, directly or indirectly, any interest in any other corporation, association, or other business entity.

2.4 Authorization. All corporate action on the part of the Company, its officers, directors and stockholders necessary for the authorization, execution and delivery of this Agreement, the performance of all obligations of the Company hereunder and the authorization, issuance (or reservation for issuance) and delivery of the Shares being sold hereunder and the Conversion Stock has been taken or will be taken prior to the Closing, and this Agreement constitutes a valid and legally binding obligation of the Company, enforceable in accordance with its terms.

2.5 Shares and Conversion Stock.

(a) The Shares which are being purchased by the Investors hereunder, when issued, sold and delivered in accordance with the terms hereof for the consideration expressed herein, will be duly validly issued, fully paid and nonassessable and, based in part upon the representations of the Investors in this Agreement, will be issued in compliance with all applicable federal and state securities laws. The Conversion Stock has been duly and validly reserved for issuance and, upon issuance in accordance with the terms of the Restated Certificate of Incorporation, shall be duly and validly issued, fully paid and nonassessable, and issued in compliance with all applicable securities laws, as presently in effect, of the United States and each of the states whose securities laws govern the issuance of any of the Shares hereunder. Neither the issuance, initial sale or delivery of the Shares by the Company nor the Conversion Stock is subject to any preemptive right of stockholders of the Company which has not been waived.

(b) The outstanding shares of Common Stock are all duly and validly authorized and issued, fully paid and nonassessable and were issued in compliance with all applicable federal and state securities laws. The shares of Series A Preferred Stock when issued, upon conversion and in accordance with the terms of the IBM Note, shall be duly and validly authorized and issued, fully paid nonassessable, and shall have been issued in compliance with applicable federal and state securities laws. The outstanding shares of Series B Preferred Stock are all duly and validly authorized and issued, fully paid nonassessable and were issued in compliance with all applicable federal and state securities laws. The Common Stock issuable upon conversion of the Series A Preferred Stock and Series B Preferred Stock has been duly and validly reserved for issuance, and upon issuance in accordance with the terms of the Restated Certificate of Incorporation shall be duly and validly issued, fully paid and nonassessable, and issued in compliance with all applicable securities laws, as presently in effect, of the United States and each of the states whose securities laws govern the issuance of such Common Stock.

2.6 Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with any federal, state, local or provincial governmental authority on the part of the Company is required in connection with the consummation of the transactions contemplated by this Agreement, except qualification (or taking such action as may be necessary to secure an exemption from qualification, if available) of the offer and sale of the Shares (and the Conversion Stock) under the California Corporate Securities law of 1968, as amended, and other Blue Sky laws, which filings and qualifications, if required, will be accomplished in a timely manner.

2.7 Litigation. There is no action, suit, proceeding or investigation pending or currently threatened against the Company which questions the validly of this Agreement or the right of the Company to enter into it, to perform this Agreement or to consummate the transactions contemplated hereby, or which might result, either individually or in the aggregate, in any material adverse changes in the assets, condition, affairs or prospects of the Company, financially or otherwise, or any change in the current equity ownership of the Company, nor is the Company aware that there is any basis for the foregoing. The foregoing includes, without limitation, actions pending or threatened (or any basis therefor known to the Company) involving the prior employment of any of the Company's employees, their use in connection with the Company's business of any information or techniques allegedly proprietary to any of their former employers, or their obligations under any agreements with prior employers. The Company is not a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no action, suit, proceeding or investigation by the Company currently pending or which the Company intends to initiate.

2.8 Proprietary Information Agreements. Each key employee and officer of the Company has executed a Proprietary Information Agreement in the form attached hereto as Exhibit D, and no exceptions have been taken by any such employee or officer to the terms of such agreement. The Company, after reasonable investigation, is not aware that any of its employees are in violation thereof, and the Company will use its best efforts to prevent any such violation.

2.9 Patents and Trademarks. The Company has sufficient title and ownership of, or has the right to use without payment to any other person, all patents, trademarks, service marks, trade names, copyrights, trade secrets, information, proprietary rights and process necessary for its business as now conducted and as proposed to be conducted without any conflict with or infringement of the rights of others. The Company has not granted any options, licenses, or agreements of any kind relating to the foregoing, nor

is the Company bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information, proprietary rights and processes of any other person or entity. The Company has not received any communications alleging that the Company has violated or, by conducting its business as proposed, would violate any of the patents, trademarks, service marks, trade names, copyrights or trade secrets or other proprietary rights of any other person or entity. The Company is not aware that any of its employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with the use of his or her best efforts to promote the interests of the Company or that would conflict with the Company's business by the employees of the Company, nor the conduct of the Company's business as proposed, will, to the Company's knowledge, conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which any of such employees is now obligated. The Company does not believe it is or will be necessary to utilize any inventions of any of its employees (or people it currently intends to hire) made prior to their employment by the Company.

2.10 Compliance with Other Instruments

(a) The Company is not in violation or default in any material respect of any provisions of its Certificate of Incorporation, as amended, or Bylaws or of any material instrument, by which it is bound or, to its knowledge, of any provision of federal or state statute, rule or regulation applicable to the Company. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not result in any such violation or be in conflict with or constitute, with or without the passage of time and giving of notice, either a default under any such provision, instrument, judgment, order, writ, decree or contract or an event which results in the creation of any lien, charge or encumbrance upon any assets of the Company.

(b) The Company has avoided every condition, and has not performed any act, the occurrence of which would result in the Company's loss of any material right granted under any license, distribution or other agreement.

2.11 Agreements; Action.

(a) Except for agreements explicitly contemplated hereby, there are no agreements, understandings or proposed transactions between the Company and any of its officers, directors, affiliates, or any affiliate thereof. For purposes of the foregoing, an "affiliate" shall include, but not be limited to, those persons and entities who fall within the definition of "Affiliate" contained in Section 6.5.

(b) There are no agreements, understandings, instruments, contracts or proposed transactions to which the Company is a party or by which it is bound which involve (i) obligations of, or payments to the Company in excess of $25,000, or (ii) the license of any patent, copyright, trade secret or other proprietary right to or from the Company.

(c) The Company has not (i) declared or paid any dividend, or authorized or made any distribution upon or with respect to any class or series of its capital stock, (ii) incurred any indebtedness for money borrowed or incurred any other liabilities individually in excess of $25,000 or in excess of $100,000 in the aggregate, (iii) made any loans or advances to any person, other than ordinary advances for travel expenses, or (iv) sold, exchanged or otherwise disposed of any of its assets or rights, other than in the ordinary course of business.

(d) The Company has not engaged in the past twelve (12) months in any discussion (i) with any representative of any corporation or corporations regarding the consolidation or merger of the Company with or into any such corporation or corporations, (ii) with any corporation, partnership, association or other business entity or any individual regarding the sale, conveyance or disposition of all or substantially all of the assets of the Company, or a transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Company is disposed of, (iii) regarding any other form of liquidation, dissolution or winding up of the Company.

(e) Except for the Stockholders Agreement, the Company is not a party to or aware of any voting trust or agreement, stockholders agreement, pledge agreement, buy-sell agreement or first refusal or preemptive rights agreement relating to securities of Company.

2.12 Disclosure. The Company has fully provided each Investor with all the information which such Investor has requested for deciding whether to purchase the Shares and all information which the Company believes is reasonably necessary to enable such Investor to make such decision. Neither this Agreement nor any other statements or certificates made or delivered in connection

herewith contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements herein or therein not misleading.

2.13 Registration Rights. Except as provided in the Registration Rights Agreement attached hereto as Exhibit G and the registration rights granted under the IBM Loan and Warrant Purchase Agreement dated February 6, 1991 (the "IBM Loan Agreement"), the Company has not granted or agreed to grant any registration rights, including piggyback rights, to any person or entity.

2.14 Corporate Documents. As of the Closing, the Restated Certificate of Incorporation will be in the form attached hereto as Exhibit B. The Bylaws of the Company are in the form previously provided to the Investors.

2.15 Title to Property and Assets. The Company owns its property and assets free and clear of all mortgages, liens, loans and encumbrances, except such encumbrances and liens which arise in the ordinary course of business and do not materially impair the Company's ownership or use of such property or assets. With respect to the property and assets it leases, the Company is in compliance with such leases and, to its knowledge, holds a valid leasehold interest free of any liens, claims or encumbrances.

2.16 Employee Benefit Plans Other than the 401 (k) Profit Sharing Plan, Company does not have any other Employee Benefit Plan as defined in the Employee Retirement Income Security Act to 1974.

2.17 Tax Returns, Payments and Elections. The Company had filled all tax returns and reports as required by law. As of their respective filing dated, these returns and reports are true and correct in all material respects. The Company has paid all taxes and other assessments due, except those contested by it in good faith which are listed in the Schedule of Exceptions. The Company has not elected pursuant to the Internal Revenue Code of 1986, as amended (the "Code"), to be treated as a Subchapter S corporation or a collapsible corporation pursuant to Section 341(f) or Sections 1362(a) of the Code, nor has it made any other elections pursuant to the Code (other than elections which relate solely to methods of accounting, depreciation or amortization) which would have a material effect on the Company, its financial condition, its business as presently conducted or proposed to be conducted or any of its properties or material assets.

2.18 Financial Statements. The Company has delivered to the Investors its unaudited financial statements for the month ended September 30, 1992 (the "Financial Statements"). The Financial Statements have been prepared in accordance with generally accepted accounting principles ("GAAP") applied on a

consistent basis throughout the periods indicated and with each other. The Financial Statements fairly present the financial condition and operating results of the Company as of the dates, and for the periods, indicated therein. Except as set forth in the Financial Statements, the Company has no material liabilities, contingent or otherwise, other than: (a) liabilities incurred in the ordinary course of business subsequent to September 30, 1992; and (b) obligations under contracts and commitments incurred in the ordinary course of business and not required under GAAP to be reflected in the Financial Statements which, in both cases, individually or in the aggregate, are not material to the financial condition or operating results of the Company. Except as disclosed in the Financial Statements, the Company is not a guarantor or indemnitor of any indebtedness of any other person, firm or corporation. The Company maintains and will continue to maintain a standard system of accounting established and administered in accordance with GAAP.

2.19 Changes. To the Company's knowledge, since August 31, 1992, there has not been any event of any type that has materially and adversely affected the business, properties, or financial condition of the Company.

2.20 Environmental and Safety Laws. To its knowledge, the Company is not in violation of any applicable statute, law or regulation relating to the environment or occupational health and safety, and to its knowledge, no material expenditures are or will be required in order to comply with any such existing statute, law or regulation.

2.21 Minute Books. The copies of the minute book of the Company made available to counsel to the Investors contain minutes of all meetings of directors and stockholders and all actions by written consent without a meeting by the directors and stockholders since the date of incorporation and reflect all actions by the directors (and any committee of directors) and stockholders with respect to all transactions referred to in such minutes accurately in all material respects.

2.22 Insurance. The Schedule of Exceptions sets forth a complete and accurate list and description, including, but not limited to, annual premiums and the deductibles, of all policies of fire, liability, product liability, workmen's compensation, health and other forms of insurance presently in effect with respect to the Company's business. All such policies are valid, outstanding and enforceable policies and provide insurance coverage for the properties, assets and operations of the Company, if the kinds, in the amounts and against the risks (a) required to comply with laws and (b) customarily maintained by organizations similarly situated. The Company has not been refused any insurance with respect to any aspect of the operations of its business nor has its coverage been

limited by any insurance carrier to which it has applied for insurance or with which it has carried insurance. No notice of cancellation or termination has been received with respect to any such policy. The activities and operations of the Company have been conducted in a manner so as to conform in all material respects to all applicable provisions of such insurance policies.

2.23 Effect of Transaction. No creditor, supplier, employee, client or other customer or other person having a material business relationship with the Company has informed the Company that such person intends to change the relationship because of the transactions contemplated by this Agreement.

2.24 Finder's Fee. The Company and its officers, directors or representatives have not incurred any liabilities for any commission or compensation in the nature of a finder's fee other than its obligations to Southport Partners. A copy of the agreement with Southport Partners has been delivered to special counsel for the Investors.

3. Representations and Warranties of the Investor. Each Investor hereby represents and warrants (with respect to itself) that:

3.1 Due Organization and Authorization. Each Investor has all requisite power and authority to enter into this agreement and the Stockholders Agreement and to consummate the transactions contemplated hereby and thereby. The execution and delivery by each Investor of this Agreement and the consummation by each Investor of the transactions contemplated hereby and thereby have been duly authorized by all necessary action pursuant to applicable law, and this Agreement and the Stockholders' Agreement each constitutes the valid and legally binding obligation of each Investor, enforceable in accordance with its terms.

3.2 Purchase Entirely for Own Account. This Agreement is made with each Investor in reliance upon such Investor's representation to the Company, which by such Investor's execution of this Agreement such Investor hereby confirms that the Shares will be acquired for investment for such Investor's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that such Investor has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, each Investor further represents that such Investor does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person or to any third person, with respect to any of the Securities. Each Investor represents that it has full power and authority to enter into this Agreement.

3.3 Disclosure of Information. Each Investor believes it has received all the information it considers necessary or appropriate for deciding whether to purchase the Shares. Each Investor further represents that it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Shares. The foregoing, however, does not limit or modify the representations and warranties of the Company in Section 2 of this Agreement or the right of the Investors to rely thereon.

3.4 Investment Experience. Each Investor is an investor in securities of companies in the development stage and acknowledges that it is able to fend for itself, and bear the economic risk of its investment and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in the Shares. If other than an individual, the Investor also represents it has not been organized for the purpose of acquiring the Shares.

3.5 Restricted Securities. Each investor understands that the Shares it is purchasing are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act of 1933, as amended (the "Act") only in certain limited circumstances. In this connection, each Investor represents that it is familiar with Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Act.

3.6 Further Limitations on Disposition. Without in any way limiting the representations set forth above, each Investor further agrees not to make any disposition of all or any portion of the Shares (or the Conversion Stock) unless and until:

(a) There is then in effect a Registration Statement under the Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or

(b) Such Investor shall have notified the Company of the proposed disposition and if requested by the Company, such Investor shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such shares under the Act. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144 except in unusual circumstances.

3.7 Legends. It is understood that the certificates evidencing the Shares (and the Conversion Stock) may bear one or all of the following legends:

(a) "THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT."

(b) Any legend required by the laws of any applicable state and by the Stockholders' Agreement.

3.8 Finder's Fee. The Investors and its officers, partners, employees or representatives have not incurred any liabilities for any commission or compensation in the nature of a finder's fee.

4. Conditions of Investor's Obligations at Closing. The obligations of each Investor under Section 1.1(b) of this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions, the waiver of which shall not be effective against any Investor who does not consent in writing thereto:

4.1 Representations and Warranties. The representations and warranties of the Company contained in Section 2 shall be true on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the date of such Closing.

4.2 Performance. The Company shall have performed and complied with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing.

4.3 Compliance Certificate. The President of the Company shall deliver to each Investor at the Closing a certificate date as of the Closing date certifying as to the fulfillment of the conditions specified in Sections 4.1 and 4.2.

4.4 Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated at the Closing and all documents incident thereto shall be reasonably satisfactory in form and substance to each Investor and counsel to any of the Investors, and they shall have received all such counterpart original and certified or other copies of such documents as they may reasonably request.

4.5 Opinion of Company Counsel. Each Investor shall have received from Wilson, Sonsini, Goodrich & Rosati, counsel for the Company, an opinion, dated as of the Closing, in the form attached hereto as Exhibit E.

4.6 Stockholders Agreement. The Stockholders Agreement in the form attached hereto as Exhibit F shall have been executed and delivered by all of the parties thereto.

4.7 Registration Rights Agreement. The Company and each Investor under this Agreement shall have executed and delivered the Registration Rights Agreement attached hereto as Exhibit G.

4.8 Restated Certificate of Incorporation. The Restated Certificate of Incorporation attached hereto as Exhibit B shall have been accepted for filing by the Delaware Secretary of State.

4.9 Stock Certificates. The Company shall have delivered to the Investors the certificate referred to Section 1.2.

4.10 Future Financing. It is generally acceptable to the Investors that new series of Preferred Stock issued in future financings be on terms which are pari passu with the rights of the Series B Preferred Stock and Series C Preferred Stock.

5. Conditions of the Company's Obligations at Closing. The obligations of the Company to each Investor under this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions, the waiver of which shall not be effective unless consented to in writing by the Company:

5.1 Representations and Warranties. The representations and warranties of each Investor contained in Section 3 shall be true on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the Closing.

5.2 Payment of Purchase Price. All of the Investors shall have delivered the purchase price provided for in Section 1.1(b).

5.3 Restated Certificate of Incorporation. The Restated Certificate of Incorporation attached hereto as Exhibit B shall have been accepted for filing by the Delaware Secretary of State.

5.4 Stockholders Agreement. The Stockholders' Agreement in the form attached hereto as Exhibit F shall have been executed and delivered by all of the parties thereto.

6. Covenants of the Company.

6.1 Delivery of Financial Statements. The Company shall deliver to each Investor which holds, together with its affiliates, an aggregate of 90,000 shares of the Securities:

(a) as soon as practicable, but in any event within ninety (90) days after the end of each fiscal year of the Company commencing with the fiscal year ending December 31, 1992, a balance sheet, and statements of operations and cash flow for such fiscal year. Such year-end financial reports to be in reasonable detail, prepared in accordance with generally accepted accounting principles ("GAAP"), and audited and certified by independent public accountants of nationally recognized standing selected by the Company. In addition, within ninety (90) days after the end of each fiscal year of the Company, a capitalization chart setting forth the principal stockholders of the Company;

(b) within thirty (30) days of the end of each month, and until a public offering of Common Stock of the Company, an unaudited statement of operations and balance sheet for and as of the end of such month, in reasonable detail and prepared in accordance with GAAP, subject to year end audit adjustments and the absence of footnotes;

(c) within forty-five (45) days prior to the end of each fiscal year, a budget and business plan for the next fiscal year, prepared on a monthly basis, including a balance sheet and statement of operations for such months and, as soon as prepared, any other budgets or revised budgets prepared by the Company;

(d) with respect to the financial statements called for in subsection (b) of this Section 6.1, an instrument executed by the Chief Financial Officer, President or Chairman of the Company and certifying that such Financial Statements were prepared in accordance with GAAP consistently applied with prior practice for earlier periods and fairly present the financial condition of the Company and its results of operation for the period specified, subject to year-end audit adjustments and the absence of footnotes;

(e) such other information relating to the financial condition, business, prospects or corporate affairs of the Company as each Investor may from time to time request, provided, however, that the Company shall not be obligated to provide information which it deems in good faith to be proprietary.

6.2 Inspection. The Company shall permit each Investor which holds, together with its affiliates, an aggregate of 90,000 shares of the Securities, to visit and inspect the Company's properties, to examine its books of account and records and to discuss

the Company's affairs, finances and accounts with its officers, all at such reasonable times as may be requested by the Investor; provided, however, that the Company shall not be obligated pursuant to this Section 6.2 to provide access to any information which it reasonably considers to be a trade secret or similar confidential information.

6.3 Restrictive Agreements Prohibited. Neither the Company nor any of its subsidiaries shall become a party to any agreement which by its terms restricts the Company's performance of this Agreement.

6.4 Proprietary Information Agreements. The Company shall use its best efforts to obtain, and shall cause its subsidiaries, if any, to use their best efforts to obtain, a Proprietary Information Agreement in substantially the form of Exhibit D from all future officers, key employees and other employees who will have access to confidential information of the Company or any of its subsidiaries, upon their employment by the Company or any of its subsidiaries.

6.5 Transactions with Affiliates. Except for transactions contemplated by this Agreement or as otherwise approved by a majority of directors, neither the Company nor any of its subsidiaries shall enter into any transaction with any director, officer, employee or holder of more than 5% of the outstanding capital stock of any class of the Company or any of its subsidiaries, member of the family of any such person, or any corporation, partnership, trust or other entity in which any such person, or member of the family of such person, either alone or together with other persons affiliated with Company, is a director, officer, trustee, partner or holder of more than 5% of the outstanding capital stock thereof (collectively, "Affiliates"), except for transactions on customary terms negotiated on an arms-length basis or related to such person's employment.

6.6 Purchase Rights.

(a) Whenever the Company proposes to issue, deliver or sell any Voting Securities (as defined below), other than (i) shares of Common Stock (or options therefor) to employees, consultants and directors of the Company, (ii) securities issuable upon exercise or conversion of outstanding securities, or (iii) securities issued in connection with any stock split, stock dividend or recapitalization of the Company as a result of which an Investor's percentage interest in the Total Voting Power of the Company (as defined below) would be reduced, the Company shall give each Investor written notice at least sixty (60) days prior to such issuance and shall offer to sell to each Investor and, if such offer is accepted in writing by an Investor within sixty (60) days of receipt by the Investor of such offer, shall sell to the

Investor, at a purchase price per share equal to the sale price of such Voting Securities, up to and including that amount of such Voting Securities which, if purchased by an Investor, would result in the Investor retaining its percentage interest in the Total Voting Power of the Company in effect prior to such issuance, of Voting Securities. For the purpose of the preceding sentence, if the sale price at which the Company proposes to issue, deliver or sell any Voting Securities is to be paid with consideration other than cash, then the purchase price at which the Investor may acquire such Voting Securities shall be equal in value but payable entirely in cash. The closing of any purchase and sale of Voting Securities pursuant to this Section 6.6 shall take place on such date, within thirty (30) days after acceptance by the Investor of an offer by the Company, as shall be specified by the Investor in such acceptance.

(b) The term "Total Voting Power of the Company" shall mean the total number of votes which may be cast in the election of directors of the Company at any meeting of stockholders of the Company if all Voting Securities assuming full conversion, exchange or exercise of all securities (including rights, warrants, options, convertible notes and other convertible securities) convertible into, exchangeable for or exercisable for any securities of the Company entitled to vote generally in the election of directors of the Company who are present and voted at such meeting, other than votes that may be cast only by one class or series of stock (other than Common Stock) or upon the happening of a contingency.

(c) The term "Voting Securities" shall mean the shares of Common Stock and other securities of the Company entitled to vote generally in the election of directors of the Company, and any other securities (including rights, warrants, options, convertible notes and other convertible securities) convertible into, exchangeable for or exercisable for any Common Stock or other securities referred to above (whether or not presently convertible, exchangeable or exercisable).

(d) The rights granted under this Section 6.6 are not transferable and shall terminate with respect to each Investor when such Investor holds less than 90,000 shares of the Securities.

6.7 Visitation Rights. For so long as 90,000 shares (as presently constituted) remain outstanding, the Company shall give notice of all meetings of the Board of Directors to one designee ("Designee") appointed by the Keystone Financial Group ("Keystone"). Keystone agrees that the Designee shall be Henry Murdoh or such other individual reasonably acceptable to the Company. The Designee shall be allowed to attend all meetings of the Board of Directors of the Company in a non-voting capacity and, in this respect, the Company shall give the Designee, whether or

not present at such meetings, copies of all notices, minutes, consents and all other materials that it provides to its directors; provided, however, that the Designee shall agree to hold in confidence and trust and to act in a fiduciary manner with respect to all information so provided and to sign the Company's confidential information agreement, if requested; and, provided further, that the Company reserves the right to withhold any information and to exclude the Designee from any meeting or portion thereof if access to such information or attendance at such meeting could adversely affect the attorney/client privilege between the Company and its counsel or if the information being discussed is deemed highly confidential.

6.8 Termination of Covenants. The covenants set forth in this Section 6 shall terminate and be of no further force or effect when (a) (i) the sale of securities pursuant to a registration statement filed by the Company under the Act in connection with a firm commitment underwritten offering of its securities to the general public is consummated and (ii) such offering results in the automatic conversion of the Shares pursuant to the Restated Certificate of Incorporation or (b) when the Company first becomes subject to the periodic reporting requirements of Sections 12(g) or 15(d) of the Securities Exchange Act of 1934, whichever event shall first occur.

7. Miscellaneous.

7.1 Survival of Warranties. The warranties, representations and covenants of the Company and Investors contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the Investors or the Company.

7.2 Successors and Assigns. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

7.3 Governing Law. This Agreement shall be governed by and construed under the laws of the State of California as applied to agreements among California residents entered into and to be performed entirely within California.

7.4 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

7.5 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

7.6 Notices. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified or upon deposit with the United States Post Office, by registered or certified mail, postage prepaid and addressed to the party to be notified at the address indicated for such party in Exhibit A or in the case of the Company on the first page of this Agreement, or at such other address as such party may designate by ten (10) days' advance written notice to the other parties.

7.7 Payment of Fees and Expenses. The Company and the Investors shall each bear their own legal and other expenses incurred with respect to this transaction.

7.8 Finder's Fee. Each Investor agrees to indemnify and to hold harmless the Company from any liability for any commission or compensation in the nature of a finders' fee (and the costs and expenses of defending against such liability or asserted liability) for which the Investor or any of its officers, partners, employees, or representatives is responsible. The Company agrees to indemnify and hold harmless each Investor from any liability for any commission or compensation in the nature of a finders' fee (and the costs and expenses of defending against such liability or asserted liability) for which the Company or any of its officers, employees or representatives is responsible.

7.9 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of at least a majority of the shares or Conversion Stock outstanding. Any amendment or waiver effected in accordance with this Section shall be binding upon each holder of any securities purchased under this Agreement at the time outstanding (including securities into which such securities are convertible), each future holder of all such securities, and the Company; provided, however, that no condition set forth in Section 5 hereof may be waived with respect to any Investor who does not consent thereto.

7.10 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

7.11 Aggregation of Stock. All Shares held or acquired by affiliated entities or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

7.12 Ambiguities. The provisions of this Agreement shall be interpreted without regard to the drafting source and as if both parties drafted this Agreement in a reasonable manner to effect the purpose of the parties.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

INTEGRATED SURGICAL SYSTEMS, INC.

By: Howard A. Paul

Howard A. Paul, President

SUTTER HEALTH, A CALIFORNIA NONPROFIT
PUBLIC BENEFIT CORPORATION

By: [sig]

Title: Sup - Finance

KEYSTONE FINANCIAL CORPORATION, A
PENNSYLVANIA NOT-FOR-PROFIT CORPORATION

By: Henry A. Murdoh

Henry A. Murdoh

Title: Vice President

EXHIBIT 10.8

ROBODOC/ORTHODOC LICENSE AGREEMENT
(with Appendices A and B)

THIS LICENSE AGREEMENT shall be deemed to have been entered into on the ____ of January, 1991 ("Effective Date"), by and between Integrated Surgical Systems, Inc. ("ISS"), a company organized under the laws of Delaware, with its principal offices at Sacramento, California, and International Business Machines Corporation ("IBM"), a New York corporation with its principal offices at Armonk, New York.

WHEREAS, ISS desires to obtain from IBM certain nonexclusive and partially exclusive rights and licenses necessary to develop and market robotic surgery software and presurgical planning software; and

WHEREAS, IBM and ISS have entered into a Loan and Warrant Purchase Agreement dated January ____, 1991 (the "Loan and Warrant Agreement") pursuant to which, among other things, ISS has agreed to issue to IBM a warrant for the purchase of Common Stock of ISS in consideration for IBM's execution and delivery of this Agreement.

NOW THEREFORE, in consideration of these premises and of the mutual representations, warranties and covenants set forth herein, IBM and ISS hereby agree as follows:

Article I

1. Definitions

1.1 "Active Robot Orthopedic Robotic Surgery" shall mean Active Robot Robotic Surgery in which the manipulator moves while it performs the drilling, milling, or cutting of bone to (i) correct or prevent skeletal deformities or fractures, or (ii) implant a prosthesis, or (iii) correct or prevent other joint diseases.

1.2 "Active Robot Robotic Surgery" shall mean surgery in which an automatically movable electromechanical manipulator performs at least one step in a surgical procedure.

1.3 "Contract Manager" shall mean an employee of each party designated in Section 5.4 to act as the liaison between IBM and ISS and to receive all notices and communications related to this Agreement which are sent between the parties. Either party may, upon written notice to the other, select a successor or designee for its Contract Manager.

1.4 "Derivative Work" shall mean a work which is based upon preexisting Software or supporting Documentation, such as a

revision, modification, translation, abridgement, condensation, expansion, compilation or any other form in which such Software and/or Documentation may be recast, transformed or adapted, and which, if prepared without authorization of the owners(s) of such Software and Documentation, would constitute a copyright infringement.

1.5 "Documentation" shall mean written or online materials, including operator manuals, technical reference handbooks, service pamphlets, and other materials, including any maintenance modifications made thereto, which are necessary to support a party's Software licensed under this Agreement.

1.6 "Medical Field" shall mean the research, diagnosis, or treatment of diseases and other bodily maladies.

1.7 "Object Code" shall mean Software in a machine executable format.

1.8 "Orthopedic Presurgical Planning" shall mean Presurgical Planning in which the surgery is orthopedic surgery.

1.9 "Orthopedic Robotic Surgery" shall mean (a) Active Robot Orthopedic Robotic Surgery, or (b) Active Robot Robotic Surgery involving the drilling, milling, or cutting of bone to (i) correct or prevent skeletal deformities or fractures, or (ii) implant a prosthesis, or (iii) correct or prevent other joint diseases where the automatically movable electromechanical manipulator may not itself be performing the drilling, milling, or cutting of bone.

1.10 "Orthodoc Software" shall mean Software delivered to ISS under Section 3.1 of this Agreement written in the "C" programming language and which, among other things, enables a user to manipulate and superimpose images, to identify calibration marks on images, and to derive surgical steps for modifying objects corresponding to the images.

1.11 "Presurgical Planning" shall mean manipulating and superimposing images, identifying calibration marks on images, and deriving surgical steps for modifying objects corresponding to the images for the purposes of planning surgery.

1.12 "Research Modified Motion Control Software" shall mean Software delivered to ISS under Section 3.1 of this Agreement written in the "C" and "assembler" programming languages and which, among other things, performs coordinate transformation computations to determine electromechanical manipulator motions, controls auxiliary tasks of an electromechanical manipulator, and constrains and enhances programmer and user ability to move an electromechanical manipulator.

1.13 "Robodoc Software" shall mean Software delivered to ISS under Section 3.1 of this Agreement written in the "C", "assembler, and "AML/2" programming languages and which, among other things, directs an electromechanical manipulator to automatically cut a cavity in a bone to precisely fit a selected prosthetic implant.

1.14 "Software" shall mean any instructions and associated data capable of being executed, compiled or interpreted by a data processing machine, whether or not such instructions and associated data are in Object Code or Source Code form.

1.15 "Source Code" shall mean a human readable format of Software that cannot be executed by a data processing machine but from which Object Code can be (i) produced by compilation, and/or assembly, or (ii) invoked by interpretation.

1.16 "Subsidiary" shall mean a corporation, company or other entity, which meets either of the following criteria:

(A) More than fifty percent (50%) of the outstanding shares or securities of such corporation, company or other entity (representing the right to vote for the election of directors or other managing authority) are, now or hereafter, owned or controlled, directly or indirectly, by a party hereto, but such corporation, company or other entity shall be deemed to be a subsidiary only so long as such ownership or control exists; or,

(B) Such corporation, company or other entity does not have outstanding shares or securities, as may be the case in a partnership, joint venture or unincorporated association, but more than fifty percent (50%) of the ownership interest representing the right to make the decisions for such corporation, company or other entity is now or hereafter, owned or controlled, directly or indirectly, by a party hereto, but such corporation, company or other entity shall be deemed to be a Subsidiary only so long as such ownership or control exists.

1.17 "Ultimate User" shall mean persons and business entities who acquire Software licensed under this Agreement for internal productive use.

Article II

2. Licenses

2.1 IBM hereby grants to ISS a non-exclusive, worldwide license under IBM copyrights to use, execute, reproduce, display, prepare (or have prepared as a work for hire for ISS) Derivative Works based upon, and distribute and have distributed in ISS' own name copies of Robodoc Software, Orthodoc Software, and Research Modified Motion Control Software and Derivative Works based on Robodoc Software, Orthodoc Software, and Research Modified Motion Control Software to Ultimate Users; provided however, that any such copies distributed by or for ISS shall be in Object Code form only, except for portions of Robodoc Software written in the "AML/2" programming language which may be distributed in Source Code form, and except as provided in Section 4.8 of this Agreement.

2.2 (A) The copyright licenses granted to ISS at Section 2.1 for Robodoc Software are limited to use in Orthopedic Robotic Surgery.

(B) The copyright licenses granted to ISS at Section 2.1 for Orthodoc Software are limited to use in Orthopedic Presurgical Planning.

(C) The copyright licenses granted to ISS at Section 2.1 for Research Modified Motion Control Software are limited to use in Orthopedic Robotic Surgery.

(D) IBM agrees not to grant a copyright license for Robodoc Software for commercial use for Active Robot Orthopedic Robotic Surgery for five years from the effective date of this Agreement; provided that IBM reserves the right to license portions (but not substantially all) of Robodoc Software for Active Robot Orthopedic Robotic Surgery at any time. IBM reserves the right to license Robodoc Software outside of Active Robot Orthopedic Robotic Surgery at any time.

2.3 IBM hereby grants to ISS a non-exclusive, worldwide, fully paid-up license under IBM copyrights to use, execute, reproduce, display, prepare (or have prepared as a work for hire for ISS) Derivative Works based upon, and sell, or otherwise transfer copies of, and distribute and have distributed in ISS' name, the Documentation for Robodoc Software, Orthodoc Software, and Research Modified Motion Control Software delivered to ISS under Section 3.1 of this Agreement and any Derivative Works made by or for ISS thereto; provided however, such Documentation shall be solely

used in support of Software licensed to ISS under this Agreement.

2.4 (A) "Invention" shall mean any idea, design, concept, technique, invention, discovery or improvement, whether or not patentable, conceived or first actually reduced to practice by ISS, alone or jointly with IBM or another, prior to the expiration of five (5) years from the Effective Date of this Agreement. An Invention made jointly by ISS and IBM is referred to as a "Joint Invention".

(B) Each patent for an Invention other than a Joint Invention, shall be the property of ISS subject to a license described in Paragraph (F) below, which ISS hereby grants to IBM under any such patent protection obtained therefor. ISS shall promptly make a complete written disclosure to IBM of each Invention it brings to the attention of its patent attorney for patent consideration specifically pointing out the features or concepts which it believes to be new or different.

(C) ISS shall notify IBM promptly as to each country in which it elects to seek protection for an Invention by obtaining patent rights, at its expense, and shall promptly provide IBM with a copy of each application so filed. Upon written request, ISS will advise IBM of the status of any such application.

(D) Title to all patents issued on Joint Inventions shall be joint, all expenses incurred in obtaining and maintaining such patents, except as provided hereinafter, shall be equally shared and each party shall have the unrestricted right to license third parties thereunder without accounting. In the event that one party elects not to seek or maintain patent protection for any Joint Invention, in any particular country or not to share equally in the expenses thereof with the other party, the other party shall have the right to seek or maintain such protection at its expense in such country and maintenance thereof even though title to any patent issuing therefrom shall be joint.

(E) Each party shall give the other party all reasonable assistance in obtaining patent protection on a Joint Invention and in preparing and prosecuting any patent application on a Joint Invention filed by the other party, and shall cause to be executed assignments and all other instruments and documents as the other party may consider necessary or appropriate to carry out the intent of this Section 2.4.

(F) All licenses granted to IBM under this Section 2.4 shall be worldwide, non-exclusive, non-transferable, and fully paid-up, and shall include the right to make, have made, use, have used, lease, sell or otherwise transfer any apparatus and/or program, and to practice and have practiced any method. All such licenses shall include the right of IBM to grant sublicenses to its Subsidiaries, such sublicenses to include the right of the sublicensed Subsidiaries to correspondingly sublicense other Subsidiaries. However, each such sublicense shall terminate automatically in the event the sublicensee ceases to be a Subsidiary of IBM.

(G) IBM, on behalf of itself and its Subsidiaries, hereby grants to ISS and its Subsidiaries, and to its and their customers of ISS products sold, leased, or otherwise transferred by ISS or any of its Subsidiaries, an immunity from suit under any patents owned by IBM which May issue based upon the application for U.S. Letters Patent Serial No. 07/523,611, filed by E. Glassman et al on May 11, 1990 entitled "Image-Directed Robotic System for Precise Robotic Surgery Including Redundant Consistency Checking", and upon any non-U.S. patent applications corresponding thereto. Said immunity to ISS and its Subsidiaries shall be for the making, using, and selling of ISS products. Said immunity to said customers of ISS and ISS Subsidiaries shall be for the formation and use of any combination of ISS software products with hardware products, whether or not said hardware products are furnished by ISS or any of its Subsidiaries, provided, however, that said immunity to said customers shall not extend to the manufacture, use, sale, lease or other transfer of any hardware product alone or any portion thereof.

(H) Other than as provided in this Section 2.4, nothing contained in this Agreement shall be deemed to grant either directly or by implication, estoppel, or otherwise, any license under any patents or patent application arising out of any other inventions of either party. This Section 2.4 shall not be deemed to grant either directly or by implication, estoppel, or otherwise, any license under any copyrights of either party.

2.5 ISS agrees that each copy of the Robodoc Software, Orthodoc Software, Research Modified Motion Control Software and Derivative Works thereof delivered to an Ultimate User will be licensed to the Ultimate User with an agreement having protective terms at least commensurate with the terms of the section entitled "License" of the IBM Program License Agreement (attached as Appendix A).

2.6 ISS agrees that any copies it makes of IBM copyrighted materials which are licensed to ISS under this Article II shall contain an appropriate copyright notice in the form specified below:

(C) Copyright 19___ International Business Machines Corporation

ISS shall review the form and placement of such notice with IBM prior to ISS's publication of such licensed materials. At the request and direction of IBM, ISS shall modify such notice in order to protect IBM's underlying copyright interest in the licensed materials.

2.7 ISS hereby grants to IBM a nonexclusive, worldwide, paid-up license under ISS copyrights to use, execute, reproduce, display, prepare or have prepared Derivative Works based upon, license and have licensed, distribute in its own name and have distributed, copies of ISS Derivative Works of Robodoc Software, ISS Derivative Works of Orthodoc Software, ISS Derivative Works of Research Modified Motion Control Software, Documentation for ISS Derivative Works of Robodoc Software, Orthodoc Software, and Research Modified Motion Control Software, and Derivative Works based on such ISS Derivative Works and Documentation made by or for IBM; provided however that IBM will not have any right or license to license or distribute copies of ISS Derivative Works of Robodoc Software or Orthodoc Software outside of IBM for use in the Medical Field. Any ISS Derivative Works of the programs created after the fifth anniversary will not be subject to this license to IBM.

2.8 The licenses granted to each party at Section 2.1, 2.3, and 2.7 shall commence upon the Effective Date of this Agreement and shall terminate upon the expiration of the underlying copyright interest in such works; provided however, if one party terminates this Agreement pursuant to the terms of Sections 5.8 or 5.9, then (i) the copyright Licenses granted to the other party shall also terminate, but (ii) licenses to Ultimate Users made prior to such termination, and on which any royalties due were paid, shall survive such termination.

2.9 Nothing contained in this Agreement shall be deemed to grant, either directly or by implication, estoppel or otherwise, any license under any trademarks or trade names of either party.

2.10 (A) For two (2) years from the Effective Date of this Agreement, ISS may submit a written Plan to the IBM Contract Manager, in a form to be agreed upon, requesting a nonexclusive license for Robodoc Software, Research Modified Motion Control Software, and Documentation for Robodoc Software and Research Modified Motion Control

Software, and Derivative Works thereof made by or for ISS under this Agreement, for use in specified applications in the Medical Field outside Orthopedic Robotic Surgery, and/or requesting a nonexclusive license for Orthodoc Software, Documentation for Orthodoc Software, and Derivative Works thereof made by or for ISS under this Agreement, for use in specified applications in the Medical Field outside Orthopedic Presurgical Planning. IBM will review the Plan and will respond to ISS within forty-five (45) days of IBM's receipt of the Plan as to whether IBM will grant the requested licenses with the proposed or with modified terms. IBM may accept or reject the Plan solely at IBM's discretion, and IBM's decision shall be final during this time period.

(B) ISS agrees that before ISS spends substantial resources exploiting or investigating additional applications of Robodoc Software and Research Modified Motion Control Software for use in specified applications in the Medical Field outside Orthopedic Robotic Surgery, and additional applications of Orthodoc Software for use in specified applications in the Medical Field outside Orthopedic Presurgical Planning, ISS will submit a written Plan to IBM in the manner specified in Section 2.10(A), above. ISS agrees that before ISS spends substantial resources exploiting or investigating additional applications of Robodoc Software and Research Modified Motion Control Software for use in Orthopedic Robotic Surgery outside Active Robot Orthopedic Robotic Surgery, ISS will submit a written Plan to IBM in a form to be agreed upon, and will consult with IBM on the potential and effects of that plan for ISS.

(C) After the expiration of two (2) years from the Effective Date of this Agreement, IBM agrees that within 60 days of a written request by ISS, it will grant to ISS additional nonexclusive licenses of the same scope as in Section 2.1 under IBM copyrights (i) on Robodoc Software, Research Modified Motion Control Software, and Documentation for Robodoc Software and Research Modified Motion Control Software, and Derivative Works thereof made by or for ISS under this Agreement, for use in specified applications in the Medical Field outside Active Robot Orthopedic Robotic Surgery, and/or (ii) on Orthodoc Software and Documentation for Orthodoc Software, and Derivative Works thereof made by or for ISS under this Agreement, for use in specified applications in the Medical Field outside Orthopedic Presurgical Planning by ISS and Ultimate Users. Unless otherwise agreed in writing signed by both parties, the additional licenses will provide a royalty payment by ISS to IBM of 5 percent of the gross revenue of ISS arising out of the

additional licenses and any associated unique hardware from the date of each additional license and for five (5) years thereafter.

(D) After the expiration of five (5) years from the Effective Date of this Agreement, IBM agrees that within 60 days of a written request by ISS, it will grant to ISS an additional nonexclusive license of the same scope as in Section 2.1 under IBM copyrights (i) on Robodoc Software, Research Modified Motion Control Software, and Documentation for Robodoc Software and Research Modified Motion Control Software, and Derivative Works thereof made by or for ISS under this Agreement, for use by ISS and Ultimate Users in all applications in the Medical Field not previously licensed to ISS, and (ii) on Orthodoc Software and Documentation for Orthodoc Software, and Derivative Works thereof made by or for ISS under this Agreement, for use by ISS and Ultimate Users in all applications in the Medical Field not previously licensed to ISS. The license granted under this part (D) of Section 2.10 will be royalty-free.

Article III

3. Source Code, Object Code, and Documentation

3.1 IBM shall convey to ISS a copy of the Source Code and Documentation for Robodoc Software, Orthodoc Software, and Research Modified Motion Control Software, such conveyance to be made upon the later of: (A) the Effective Date of this Agreement, or (B) such date as ISS provides written notice to IBM of its desire to receive such Source code materials. The Documentation for Robodoc Software, Orthodoc Software, and Research Modified Motion Control Software to be delivered to ISS under this Section 3.1 is described in Appendix B. No other Documentation will be delivered to ISS under this Agreement.

3.2 ISS shall treat the Source Code for Robodoc Software, Orthodoc Software, and Research Modified Motion Control Software as the confidential information of IBM, pursuant to the terms of Article IV ("Confidential Information"). ISS shall secure the Source Code for Robodoc Software, Orthodoc Software, and Research Modified Motion Control Software in the same manner in which ISS secures similar Source Code of its own and only share such Source Code with those ISS employees with a need to know.

3.3 ISS may share the Source Code for Robodoc Software, Orthodoc Software, and Research Modified Motion Control Software with ISS subcontractors with a need to know upon ISS's obtaining the prior written approval of IBM. Where IBM has consented

to such disclosure, ISS shall put into place with the subcontractor an appropriate confidential disclosure agreement, with terms at least commensurate with ISS' obligations under Article IV ("Confidential Information"), including the right of IBM to directly enforce the terms of such agreement against the subcontractor.

3.4 ISS agrees to deliver to IBM copies of Source Code, Object Code, and Documentation for ISS Derivative Works of Robodoc Software, ISS Derivative Works of Orthodoc Software and ISS Derivative Works of Research Modified Motion Control Software within thirty (30) days of receipt of a written request from IBM. IBM will treat the Source Code of ISS Derivative Works of Robodoc Software, Orthodoc Software, and Research Modified Manufacturing Control Software as the confidential information of ISS pursuant to the terms of Article IV ("Confidential Information").

3.5 The identity of Software licensed under this Agreement shall be determined by copies of the Software delivered by IBM to ISS under this Agreement. The identity of Software licensed under this Agreement shall not be determined by copies of the Software delivered by IBM to ISS under the Agreement between IBM and ISS dated October 18, 1990, as amended.

Article IV

4. Confidential Information

4.1 IBM and ISS agree that all information exchanged by the parties under this Agreement, other than Source Code for Robodoc Software, Orthodoc Software, Research Modified Motion Control Software, and Derivative Works thereof, shall be nonconfidential.

4.2 Each party agrees to use the same care and discretion to avoid disclosure, publication, or dissemination of Source Code of the disclosing party outside of those of its or its Subsidiaries' employees who have a need to know for purposes of this Agreement, as the receiving party employs with similar information of its own which it does not desire to publish, disclose, or disseminate.

4.3 Each party agrees that the actions listed below are the minimum steps that will be taken to secure the Source Code of the disclosing party and, if assumed, such actions shall meet the standard of care required under the foregoing Section 4.2. To the extent that either party does not presently employ such measures with respect to its own Source Code, each party agrees to initiate such actions.

(A) Maintain a record of the writings, resumes or other items that contain the Source Code of the other party;

(B) Secure all writings, resumes or other items, including work in progress, which contains the Source Code of the other party in a safe, file, desk, cabinet or other suitable container with locking device, or in a locked room with restricted access, when such writings, resumes or other items are not in use;

(C) Limit access to Source Code that is provided under this Agreement only to those employees and others with the need to know for purposes of this Agreement;

(D) Promptly report to the other party the loss or destruction of writings, resumes or other items which contain such other party's Source Code, and assist in the recovery and/or reconstruction of the same;

(E) Review, with those employees of the receiving party and others who have the need to know and who have access to the Source Code of the disclosing party, the responsibility of such employees with respect to such Source Code at the time such access is first granted and also at the time such employees are transferred or reassigned within the receiving party or at the time of termination of employment with the receiving party, whichever first occurs.

4.4 The receiving party and its Subsidiaries shall be free to use the Residuals resulting from access, examination, and use of any Source Code provided by the disclosing party and any ideas, concepts and/or techniques contained therein, for any purpose, including the use of such Source Code in the development, manufacture, marketing and maintenance of its products and services, subject only to: (1) the obligation not to disclose, publish or disseminate such Source Code during the applicable period of confidentiality, and (2) any patent, copyright, trademark, or other intellectual property rights (excluding trade secrets) of the disclosing party and (3) the scope of license granted to the receiving party with respect to copyright and patent rights of the disclosing party. As used in this Section, the term "Residuals" means that information in non-tangible form which may be mentally retained by those individuals who have had access to such Source Code.

4.5 It is understood that receipt of Source Code under this Agreement shall not create any obligation limiting or restricting the assignment and/or reassignment of IBM employees within IBM and its Subsidiaries, or ISS employees within ISS and its Subsidiaries.

4.6 A party's disclosure of Source Code shall not breach the obligations set forth in this Article IV if such disclosure:

(A) is made in response to a valid order of a court or other governmental body of the United States or any political subdivision thereof, or

(B) is otherwise required by law, or

(C) is necessary to establish a party's rights under this Agreement;

provided however, that the party making such a disclosure shall first have given notice to the other party and provided an opportunity for the other party to review the information to be disclosed; and provided further, that the party making such a disclosure shall exercise its reasonable best efforts to obtain a protective order which shall, to the maximum extent possible under the circumstances, limit the number of recipients, scope and use of information subject to such a disclosure.

4.7 (A) Notwithstanding any other provisions of this Agreement, the obligations specified in Section 4.2 shall not apply to any Source Code that is publicly disclosed with the disclosing party's written consent.

(B) IBM and ISS acknowledge that portions of Robodoc Software now or hereafter written in the "AML/2" programming language are not confidential.

4.8 Source Code received by a party under this Agreement may be disclosed to third parties for purposes related to this Agreement; provided however, that the party owning such Source Code shall have given its prior written consent to such disclosure, which consent shall not unreasonably be withheld; and further provided, that such third party shall have agreed in writing to hold and secure such Source Code under terms at least commensurate with the provisions of this Article IV, including the right of the owner of such Source Code to directly enforce the terms of such agreement against such third party. If ISS needs to disclose IBM Source Code to any third party, including an ISS customer in an escrow transaction solely for maintenance purposes, IBM shall have the right to require in such disclosure agreement additional terms protecting IBM and IBM's property rights, in such ISS disclosure agreement prior to IBM giving its written consent to the disclosure, which provisions shall include an IBM right to directly enforce such agreement.

4.9 Upon the termination of this Agreement, all copies of materials containing IBM Source Code shall be returned to IBM or destroyed, at the election of IBM.

Article V

5. General Provisions

5.1 Each party shall cooperate with the other party as is reasonably necessary to comply with all applicable United States, state and local laws, regulations and ordinances, including, but not limited to, the regulations of the United States Department of Commerce relating to the export from the United States of technical data. Both parties agree that they shall comply with all applicable U.S. regulations relating to export of IBM technical data from the United States.

5.2 Neither party shall, directly or indirectly, sell, transfer or assign, in whole or in part, this Agreement without the express prior written consent of the other party. Any such assignment, sale or transfer shall be void.

5.3 Neither this Agreement nor any activities hereunder will impair any right of either party to market directly or indirectly products or services similar to or competitive with those offered by the other party.

5.4 All notices, requests, consents and other communications under this Agreement shall be in writing. All such written notices shall be mailed by registered or certified mail, postage paid, to the Contract Managers at their respective addresses as set forth below, subject to the right of either party to change its address by written notice. All Source Code to be delivered under this Agreement shall be delivered to the Contract Managers at their respective addresses as set forth below.

For ISS:

Integrated Surgical Systems, Inc.
829 West Stadium Lane
Sacramento, California 95834
Attn. President

For IBM:

IBM Corporation
P.O. Box 218
Yorktown Heights, New York 10598
Attn. Program Director of Alternate Technology
Channels, Research Division

cc: Division Counsel
IBM Corporation
P. 0. Box 218
Yorktown Heights, New York 10598

5.5 This Agreement embodies the entire Agreement and understanding between the parties, and supersedes all prior agreements, written and oral, related to the subject matter hereof. No amendment or modification hereof will be valid or binding upon the parties, unless made in writing and signed by authorized representatives of both parties.

5.6 No forbearance on the part of ISS or IBM in enforcing their rights under any term of this Agreement, nor any renewal, extension or rearrangement of any payment or obligation by either party hereunder, shall constitute a waiver of any other term of this Agreement or a forfeiture of any other right.

5.7 This Agreement shall be governed in all respects by the laws of the State of New York as they apply to contracts executed and fully performed in New York.

5.8 At any time during the term of this Agreement, if either party shall believe that the other party has substantially breached any material representation, warranty, covenant or obligation contained herein, such party shall promptly so inform the other party in writing, specifying the nature of such breach, and such other party shall have a reasonable opportunity to correct the breach. However, the failure of a party to provide such notice of breach shall not release the party in default of its obligations hereunder. In the event that such breach is not corrected within a reasonable period of time, not to exceed forty-five (45) days, the party not in default may, at its sole election, terminate this Agreement.

5.9 Notwithstanding any other provision of this Article, this Agreement may be immediately terminated if either party is unable to meet its obligations under this Agreement, at the sole election of the party not in breach, if the other party's failure to perform arises out of any of the following circumstances:

(A) a receiver is appointed for either party or its property;

(B) if either party becomes insolvent or unable to pay its debts as they mature, or ceases to pay its debts as they mature in the ordinary course of business, or makes an assignment for the benefit of its creditors;

(C) any proceedings are commenced by or for either party under any bankruptcy, insolvency or debtor's relief law;

(D) any proceedings are commenced against either party under any bankruptcy, insolvency or debtor's relief law and such proceedings shall not be vacated or be set aside within sixty (60) days after the date of commencement thereof;

(E) either party is liquidated or dissolved;

(F) if either party engages in a pattern of using the other party's name commercially such that the other party's reputation is objectively injured, or the reputation of the other party's product offerings are objectively injured.

5.10 The furnishing of information, programs, or other material shall not constitute a representation, warranty, assurance, guarantee, or other inducement by either party that the use of such information, programs, or other material is free from infringement of any patent or copyright.

5.11 ISS agrees to indemnify IBM and its directors, officers, employees and agents (each such person being called an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees and expenses, incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of other transactions contemplated hereby, (ii) any act or alleged failure to take appropriate action by any employee, consultant, or agent of ISS in connection with, or any product liability claim arising out of, the conduct of the business of ISS, (iii) the use of Software licensed to ISS under this Agreement, or (iv) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and

nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

To the extent permitted by law, ISS shall enter into agreements with each licensee of Robodoc Software, Orthodoc Software, Research Modified Motion Control Software, or Derivative Works thereof sufficient to limit ISS' and ISS' component suppliers' (including IBM's) liability to the maximum extent possible with that customer, and at least equivalent to protective limitations that are customary practice within the medical industry.

IBM shall retain its own counsel and defend itself, subject to being reimbursed by ISS for reasonable attorneys' fees and expenses pursuant to this Section 5.11. IBM agrees to give ISS written notice of any claim, demand, action, suit, proceeding or discovery of fact upon which IBM intends to base a claim for indemnification under this Article. ISS shall have the right to participate jointly with IBM in IBM's defense of any claim for indemnification. The parties agree to cooperate in any defense or settlement and to give each other full access to all information relevant thereto.

Notwithstanding the foregoing, nothing in this Section 5.11 shall create any ISS obligation to indemnify IBM to the extent such obligation to indemnify would have resulted from a defect in IBM's title to (1) Robodoc Software, (2) Orthodoc Software, or (3) Research Modified Motion Control Software.

5.12 ISS understands and agrees that Robodoc Software, Orthodoc Software, Research Modified Motion Control Software, and Documentation for Robodoc Software, Orthodoc Software, and Research Modified Motion Control Software, are being licensed to ISS as-is. IBM will provide no support to ISS for any of the Software or Documentation licensed under this Agreement.

5.13 ISS UNDERSTANDS AND AGREES THAT IBM MAKES NO REPRESENTATIONS, EXTENDS NO WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO ALL IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND ASSUMES NO RESPONSIBILITIES WHATEVER WITH RESPECT TO THE USE, SALE, OR OTHER DISPOSITION OF PRODUCTS INCORPORATING SOFTWARE LICENSED UNDER THIS AGREEMENT.

In witness of the foregoing, the parties have caused their authorized officials to sign in the spaces provided below:

Integrated Surgical Systems, Inc.	International Business Machines Corporation
By /s/Harold A. Paul	By James C. McGroddy
Title	Title IBM V.P. & Director of Research
Date	Date February 4, 1991
X /s/Harold A. Paul	X /s/James C. McGroddy

APPENDIX A

IBM PROGRAM LICENSE AGREEMENT (12-90)

YOU SHOULD CAREFULLY READ THE FOLLOWING TERMS AND CONDITIONS BEFORE OPENING THIS PACKAGE. OPENING THIS PACKAGE INDICATES YOUR ACCEPTANCE OF THESE TERMS AND CONDITIONS. IF YOU DO NOT AGREE WITH THEM, YOU SHOULD PROMPTLY RETURN THE PACKAGE UNOPENED AND YOUR MONEY WILL BE REFUNDED.

IBM provides this program and licenses its use in the United States and Puerto Rico. Title to the media on which the program is recorded and to the documentation in support thereof is transferred to the Customer, but title to the program is retained by IBM. You assume responsibility for the selection of the program to achieve your intended results, and for the installation and use of, and results obtained from, the program.

LICENSE
You may:

a. use the program on only one machine at any one time
b. copy the program into machine readable or printed form for backup or modification purposes only in support of such use. (Certain programs, however, may include mechanisms to limit or inhibit copying. They are marked "copy protected".)
c. modify the program and/or merge it into another program for your use on the single machine. (Any portion of this program merged into another program will continue to be subject to the terms and conditions of this Agreement.) and
d. transfer the program with a copy of this Agreement to another party only if the other party agrees to accept from IBM the terms and conditions of this Agreement. If you transfer the program, you must at the same time either transfer all copies whether in printed or machine-readable form to the same party or destroy any copies not transferred. This includes all modifications and portions of the program contained or merged into other programs. IBM grants a license to such other party under this Agreement and the other party will accept license by its initial use of the program. If you transfer possession of any copy, modification or merged portion of the program, in whole or in part, to another party, your license is automatically terminated.

You must reproduce and include the copyright notice on any copy, modification or portion merged into another program.

You may not reverse assemble or reverse compile the program without IBM's prior written consent.

You may not use, copy, modify, or transfer the program, or any copy, modification, or merged portion, in whole or in part, except as expressly provided for in this Agreement.

You may not sublicense, rent or lease this program.

TERM

The license is effective until terminated. You may terminate it at any time by destroying the program together with all copies, modifications and merged portions in any form. It will also terminate upon conditions set forth elsewhere in this Agreement or if you fail to comply with any term or condition of this Agreement. You agree upon such termination to destroy the program together with all copies, modifications and merged portions in any form.

LIMITED WARRANTY AND DISCLAIMER OF WARRANTY

IBM warrants the media on which the program is furnished to be free from defects in materials and workmanship under normal use for 90 days from the date of delivery to you by IBM or IBM's authorize representative as evidenced by a copy of your receipt.

IBM warrants that each program which is designated by IBM as warranted in its program specification, supplied with program, will conform to such specifications provided that the program is property used on an IBM machine for which it was designed. If you believe that there is a defect in a warranted program such that it does not meet its specifications, you must notify IBM within the warranty period and in the manner set forth in the program specifications.

ALL OTHER PROGRAMS ARE PROVIDED "AS IS" WITHOUT WARRANTY OF ANY KIND, EITHER EXPRESS OR IMPLIED. THE ENTIRE RISK AS TO THE QUALITY AND PERFORMANCE OF THE PROGRAM IS WITH YOU. SHOULD THE PROGRAM PROVE DETECTIVE, YOU (AND NOT IBM OR AN IBM AUTHORIZED REPRESENTATIVE) ASSUME THE ENTIRE COST OF ALL NECESSARY SERVICING, REPAIR OR CORRECTION.

IBM does not warrant that the functions contained in any program will meet your requirements or that the operation of the program will be corrected.

THE FOREGOING WARRANTIES ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

SOME STATES DO NOT ALLOW THE EXCLUSION OF IMPLIED WARRANTIES, SO THE ABOVE EXCLUSION MAY NOT APPLY TO YOU. THIS WARRANTY GIVES YOU SPECIFIC LEGAL RIGHTS AND YOU MAY ALSO HAVE OTHER RIGHTS WHICH VARY FROM STATE TO STATE.

LIMITATION OF REMEDIES

IBM's entire liability and your exclusive remedy shall be as follows:

1. with respect to defective media during the warranty period:

    a. IBM will replace media not meeting IBM's Limited Warranty: if returned to IBM or an IBM authorized representative with a copy of your receipt.

    b. In the alternative, if IBM or such IBM authorized representative is unable to deliver replacement media free of defects in materials and workmanship, you may terminate this Agreement by returning the program and your money will be refunded.

2. With respect to warranted programs, in all situations involving performance or nonperformance during the warranty period, your remedy is (a) the correction or bypass by IBM of program defects, or (b) if, after repeated efforts, IBM is unable to make the program operate as warranted, you shall be entitled to a refund of the money paid or to recover actual damages to the limits set forth below.

For any other claim concerning performance or nonperformance by IBM pursuant to, or in any other way related to, the warranted programs under this Agreement, you shall be entitled to recover actual damages to the limits set forth below.

IN NO EVENT WILL IBM BE LIABLE TO YOU FOR ANY LOST PROFITS, LOST SAVINGS OR OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGES ARISING OUT OF THE USE OF OR AUTHORIZED REPRESENTATIVE HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, OR FOR ANY CLAIM BY ANY OTHER PARTY.

SOME STATES DO NOT ALLOW THE LIMITATION OR EXCLUSION OF LIABILITY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES SO THE ABOVE LIMITATION OR EXCLUSION MAY NOT APPLY TO YOU.

IBM's liability to you for actual damages for any cause whatsoever, and regardless of the form of action, shall be limited to the greater of $5,000 or the money paid for the program that caused the damages or that is the subject matter of, or is directly related to, the cause of action.

SERVICE

Service from IBM, if any, will be described in program specifications or in the statement of service, supplied with the program, if there are no program specifications.

IBM may also offer separate services under separate agreement for a fee.

GENERAL

Any attempt to sublicense, rent or lease, or, except as expressly provided for in this Agreement, to transfer any of the rights, duties or obligations hereunder is void.

This Agreement will be construed under the Uniform Commercial Code of the State of New York.

APPENDIX B

IBM Documentation for Robodoc Software, Orthodoc Software, and Research Modified Motion Control Software

NONE

EXHIBIT 10.9

AGREEMENT FOR THE PURCHASE AND USE

OF

SANKYO INDUSTRIAL PRODUCTS

BY

INTEGRATED SURGICAL SYSTEMS, INC.

April 12, 1993 Sankyo Confidential

AGREEMENT FOR THE PURCHASE AND USE

OF

SANKYO INDUSTRIAL PRODUCTS

BY

INTEGRATED SURGICAL SYSTEMS, INC.

This Agreement is made and entered into as of November 1, 1992 by and between Sankyo Seiki (America) Inc. (hereinafter called "Sankyo") with its office for industrial robotic products located at 1001-D Broken Sound Parkway Northwest, Boca Raton, Florida, 33487, and Integrated Surgical Systems, Inc. (hereinafter called "ISS") with its office located at 829 West Stadium Lane, Sacramento, California, 95834.

WHEREAS, ISS desires to purchase and use certain customized Sankyo industrial robotic products for integration into surgical tools developed by ISS; and

WHEREAS, Sankyo desires to sell certain customized Sankyo industrial robotic products to ISS for use in surgical tools developed by ISS;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties agree as follows:

1. DEFINITIONS

1.1 "Products" shall mean any item which Sankyo sells to ISS under the terms and conditions of this Agreement including, without limitation, Machines, spare parts and publications, as listed in Exhibit A attached hereto.

1.2 "Application" shall mean an integrated and working set of products, devices, controls and software supplied by ISS and combined by ISS with Products in order to perform a useful and desired task.

1.3 "End User" shall mean the ultimate user of the Application.

1.4 "Machine" shall mean a specific Product (robot, servo power module, robot controller) which shall be assigned a serial number and which is produced according to specifications furnished by ISS as set forth in Section 2.3.

1.5 "Delivery" shall mean the arrival of the Products FOB at the location designated by ISS on the related ISS purchase order.

1.6 "Ship Date" shall mean the date on which the Product leaves a Sankyo location for transit to the Delivery location.

1.7 "ISS Surgical Tool" shall mean an ISS-developed Application intended for or utilized in a surgical procedure and which incorporates, in whole or in part, one or more Products.

1.8 "Robot System" shall mean a configuration of Machines with other Sankyo Products and with hardware and software supplied by ISS.

1.9 "Surgical Robot" shall mean a certain robotic Machine designed to be used in an ISS Surgical Tool and identified in Exhibit F, "Machine Specifications".

1.10 "Engineering Change" shall mean any change in design to an existing Product which affects the fit, form, or function of the Product, including any Product feature which relates to the Product's safe use.

2. RELATIONSHIP OF THE PARTIES

2.1 The relationship between Sankyo and ISS is that of seller and buyer and independent contractors. Each party agrees that it will not make warranties or representations on the other party's behalf, except as the parties may agree to in writing, nor will either party assume or create any other obligations, express or implied, on the other party's behalf. Nothing contained in this Agreement shall be construed or implied to create an agency, partnership or joint venture.

2.2 Sankyo reserves the right, at any time and for any reason, to establish additional Sankyo relationships or to define or maintain additional channels of distribution for its Products, subject to the provisions of Section 24.

2.3 It is understood by the parties that Sankyo has no experience whatsoever in the design or application of its products to the field of human or veterinary surgery; therefore, Sankyo is acting under this Agreement solely as a manufacturer of robotic products according to ISS' furnished specifications. With respect to Machines and other appropriate Products as identified by ISS, it is understood that;

a) ISS shall be responsible for furnishing Sankyo with specifications, such specifications shall become part of this Agreement by incorporation into Exhibit F, "Machine Specifications";

b) Sankyo shall make its best effort to provide an electro-mechanical design to meet the specifications, including specifications of performance, provided by ISS;

c) ISS shall review Sankyo's design and shall provide feedback and direction as appropriate. When the design meets ISS specifications, ISS shall approve the performance of Sankyo's design and any other aspect of the design which ISS desires to specify as a requirement, in writing, when completed to ISS's satisfaction;

d) Sankyo shall make its best efforts to manufacture such Product according to the ISS-approved design;

e) upon Delivery, ISS shall perform an acceptance test. ISS' manner of acceptance of the Product shall be according to the terms of Section 11.2;

f) upon Acceptance, Sankyo shall provide a warranty to ISS as defined in Section 18, warranty service as defined in Section 19, and product maintenance as defined in Section 20.

ISS shall be responsible for the integration of any Machine and any other Product ordered pursuant to this Agreement into the ISS-developed Application, including the ISS Surgical Tool.

2.4 ISS shall, at all times, use reasonable efforts to conduct its business in a manner which will reflect favorably on the Products, on the good name, goodwill and reputation of Sankyo, and on the Sankyo trademarks. In particular, ISS will not knowingly make any representations concerning the Products' specifications, features or capabilities which are inconsistent with representations set forth in the Product materials provided to ISS by Sankyo, nor knowingly make, publish, cause to be published, encourage or approve of any advertising or practice related to the Products which might mislead or deceive the public or might be detrimental to the good name, the goodwill or reputation of Sankyo, of the Sankyo trademarks.

3. REPRESENTATIONS AND COVENANTS

3.1 ISS represents and warrants that it is not, at the present time, restricted from entering into this relationship with Sankyo or from entering into this Agreement, and ISS covenants that it will not enter into any agreement, arrangement or understanding which will be in conflict with the terms of this Agreement.

3.2 Sankyo represents and warrants that a) it is not, at the present time, restricted from entering into this relationship with ISS or from entering into this Agreement, b) it

will manufacture Products in a workmanlike manner, and c) it is trained and able to support any IBM products which shall be sold to ISS under this Agreement.

3.3 ISS represents that the ISS Surgical Tool is to be considered a surgical tool, as defined by the medical industry (human and veterinary), which is intended to operate only under a surgeon's direct control. Further, ISS represents that a surgeon will be able to intervene, at any time, during the surgical procedure to override the actions of the ISS Surgical Tool. ISS will use reasonable efforts to ensure that only surgeons who are properly trained in the use of the ISS Surgical Tool will be permitted to operate the ISS Surgical Tool.

3.4 ISS represents that it and its employees and agents possess all licenses, permits and other authorizations necessary to carry out the business of ISS and to sell Applications incorporating Products to U.S. Food and Drug Administration ("FDA") approved End Users, including ISS Surgical Tools. Without limiting the generality of the foregoing, ISS shall be responsible for filing all applications and obtaining all necessary approvals that may be required by health or regulatory authorities, including the U.S. Food and Drug Administration, relating to ISS-developed Applications, including ISS surgical Applications. The preparation of the required documentation to be submitted to the regulatory authorities, as well as all costs and expenses associated with such filings, shall be the responsibility of ISS. Upon ISS' request, Sankyo agrees to provide reasonable assistance to ISS regarding the preparation of such documentation and filings, however, Sankyo's assistance shall not include divulging Sankyo trade secrets or the trade secrets Sankyo has agreed to protect unless Sankyo otherwise agrees.

3.5 ISS represents that ISS has obtained and will keep in good standing all necessary licenses, code, specifications, and other related materials necessary to develop its own software to safely and properly control the Sankyo machines. Further, ISS represents that it understands the basics of the past and current relationship between IBM Corporation and Sankyo, especially the fact that IBM has transferred its robotics business to Sankyo effective December 4th, 1990. ISS understands that many of the Products being used by ISS and now obtained from Sankyo, were developed with the assistance of IBM.

4. ISS INSURANCE

4.1 Sankyo shall be designated as an additional insured to insurance policies acquired by ISS for Product Liability and Commercial General Liability (together to be defined as "Insurance").

4.2 Insurance carriers used by ISS to obtain coverage as defined in Section 4.1 shall be rated "A+ XII" or better by Best's Guide of Property/Casualty Insurance Companies, and shall be licensed to do business in the State of Florida.

4.3 ISS will provide Sankyo with current certificates of insurance during the time the Insurance is required by this Agreement.

4.4 The scope of the Insurance shall be worldwide, effective upon delivery of the first ISS Surgical Tool to an End User, and is to be maintained through the lifetime of any ISS Surgical Tool purchased pursuant to this Agreement.

4.5 The Product Liability insurance shall have limits of not less than $1.0 million per occurrence, nor less than $5.0 million aggregate per year. The limits of Product Liability insurance shall be reviewed on a yearly basis, or after every 50 systems which are sold, whichever occurs first, and ISS shall increase its coverage to an amount to be at least as much as is recommended by Medmarc Corporation. In no event shall ISS have Product Liability insurance with limits less than the $1.0 million per occurrence, $5.0 million aggregate per year, as set forth in this Section 4.5.

4.6 The Commercial General Liability insurance shall have initial limits of not less than $1.0 million per occurrence, nor less than $5.0 million aggregate per year. The limits of Commercial General Liability insurance shall be reviewed on a yearly basis and ISS shall increase its coverage to an amount to be at least as much as is recommended by its insurance carrier after analysis of ISS's business situation. In no event shall ISS have Commercial General Liability insurance with limits less than the $1.0 million per occurrence, $5.0 million aggregate per year, as set forth in this Section 4.6.

4.7 If any Insurance shall be limited to claims made during the term of the insurance, then the Insurance shall provide for, and ISS shall obtain, an extended reporting period to allow claims to be made for a period of not less than five years after the Insurance is terminated or canceled. The Insurance shall also provide that if ISS does not obtain the extended reporting period, then Sankyo, at Sankyo's option and expense, may obtain the extended reporting period without excusing ISS's noncompliance with this Agreement.

4.8 ISS shall be responsible for any Insurance deductible or self-insured retention.

4.9 Within ten business days of receiving knowledge of a damage or injury claim concerning a Product or a Product's use, ISS shall provide Sankyo with a copy of the claim and any reports concerning the incident which provide the basis of the claim.

4.10 If claims are made that could equal or exceed 75% of the aggregate limit of any Insurance, then ISS shall notify Sankyo about this situation and ISS shall exercise its reasonable efforts to obtain $5.0 million of additional applicable insurance within five business days. If additional insurance is not commercially practical,

then ISS shall so notify Sankyo and ISS shall immediately assist Sankyo in identifying how claims against Sankyo can be minimized.

4.11 If the situation should arise that ISS is unable to obtain Insurance, as defined in this Section 4, then ISS shall stop all efforts to utilize, market and sell ISS Surgical Tools until such time that the terms of this Agreement shall be met.

4.12 The Insurance shall provide that the insurer shall give Sankyo thirty days written notice prior to the Insurance's termination or cancellation, or if there is any change made to the Insurance provisions. The Insurance shall provide that during this period, Sankyo, at Sankyo's option and expense, may reinstate the Insurance without excusing ISS' noncompliance with this Agreement.

4.13 Subject to Sections 26.1, 27 and 29.10 below, attorney's fees incurred in the defense of claims made concerning or regarding the ISS Surgical Tool or its use, and/or any of its components or their use, shall be paid for by ISS.

5. SANKYO INSURANCE

Sankyo shall maintain and provide evidence of its existing general liability policy with The Sumitomo Marine and Fire Insurance Company, Limited, of Tokyo, Japan, or equivalent, for the duration of this Agreement, If Sankyo shall not be able to obtain equivalent insurance as direct result of this relationship with ISS, then Sankyo's obligation under this section shall be terminated. Sankyo agrees to provide ISS with thirty (30) days written notice prior to termination or cancellation of Sankyo's insurance, or if there is a change to its policy limits.

6. ISS RESPONSIBILITIES

ISS agrees to the following responsibilities in support of its relationship with Sankyo:

6.1 ISS shall be responsible (i) to sell any Products pursuant to this Agreement only for incorporation into ISS-developed Applications, (ii) for the integration of the Products into ISS-developed Applications, including but not limited to the ISS Surgical Tools, (iii) for determining that properly-manufactured Products are appropriate for use in ISS-developed Applications, including ISS Surgical Tools, and (iv) for the resulting performance of ISS-developed Applications, including a user interfaces.

6.2 ISS shall be responsible for determining which and obtaining all software to control the Products, including ISS' own implementation of International Business Machines Corporation's ("IBM") AML/2 Manufacturing Control System ("AML/2") and any application programs written in AML/2. ISS shall establish

its own agreements with IBM, if required, for the purposes of using, adapting, or modifying IBM's AML/2 software and shall be solely responsible for any license fees or royalties under these agreements.

6.3 ISS shall develop its own installation and operating instructions to properly instruct the End User in the safe installation and operation of the ISS-developed Applications, including ISS surgical Applications.

6.4 ISS shall develop its own maintenance procedures and maintenance documentation to properly and safely guide service personnel in the diagnosis and repair of non-functioning ISS-developed Applications, including ISS surgical Applications.

6.5 ISS shall develop a set of safety recommendations which are to be incorporated into each ISS publication and which are to be clearly identified as important reading for all users of ISS-developed Applications, including ISS surgical Applications.

6.6 ISS shall provide appropriate training sessions for its End Users in the installation, operation and maintenance of the ISS-developed Applications, including ISS surgical Applications.

6.7 ISS shall purchase the Products for incorporation into Applications for resale to End Users and for internal use. If ISS chooses to sell ISS-developed Applications through a remarketer, ISS shall so inform Sankyo, in writing, of these intentions prior to the establishment of an agreement between ISS and the remarketer. Sankyo shall have the right to disapprove of such sales through a remarketer, provided such disapproval is submitted to ISS in writing within five (5) business days of Sankyo's receipt of ISS' written notification. Such written disapproval by Sankyo shall contain a reasonable business-based explanation why Sankyo disapproves of an agreement between ISS and the remarketer. If Sankyo does not disapprove the remarketer then ISS shall be responsible for obtaining the remarketer's agreement, in writing, to comply with the terms of this Agreement. If ISS does receive Sankyo's disapproval within five (5) business days, then the sale to the remarketer shall not occur. ISS' obligation to purchase products shall cease upon termination of this Agreement.

6.8 ISS agrees that all marketing, Product selection, sale, ordering, installation, integration, warranty service, post-installation support and Application support required by ISS' End Users are solely the responsibility of ISS.

6.9 ISS agrees to maintain appropriately-trained employees in the marketing, Product selection, sales, ordering, installation, integration, warranty service, and on-going support and service of the Products.

6.10 ISS agrees to reasonably assist Sankyo in the investigation of any suspected Product problems.

6.11 ISS will maintain, for five (5) years from the date of the sale of the last Machine of a particular type, or for the life of the Machine, whichever is longer, a record of the End User, its address at the time of the sale, and the serial number of the Machine purchased by such End User. Further, ISS agrees to make such records and other information reasonably requested by Sankyo available to Sankyo upon reasonable notice to assist Sankyo in Product recall or engineering change programs.

6.12 ISS agrees to furnish the End User with an invoice, or other receipt, of all Products once they are delivered to the End User. This invoice, or other receipt, shall contain at least the date of the sale, the date of delivery and any serial numbers of the Products, and ISS shall provide this information to Sankyo at Sankyo's reasonable request.

6.13 ISS will comply with all applicable laws and regulations in conducting its business including, without limitation, the export regulations of the United States applicable to any export of Products from the United States and Puerto Rico.

6.14 ISS shall apply to IBM Corporation with Sankyo's assistance to become an IBM Authorized Distributor Product Integrator specifying Sankyo as its sponsor. Such agreement between ISS and IBM shall be in place before ISS places any orders for IBM-logoed products through Sankyo.

7. SANKYO RESPONSIBILITIES

7.1 Each Product Sankyo delivers to ISS will conform to the applicable specifications as defined in Exhibit F, "Machine Specifications".

7.2 Sankyo agrees to use its best efforts to meet reasonable delivery schedules (see Section 8, "Manufacturing Lead-times and Methods of Shipment") as requested by ISS in an ISS purchase order.

7.3 Sankyo agrees to provide the following Product support to ISS:

(a) reasonable marketing, sales and ordering support for the Products, via telephone, during Sankyo's normal business hours,

(b) technical hotline support for the Products, via telephone, during Sankyo's normal business hours,

(c) warranty parts and warranty services, as defined in Section 18, "Product Warranties" and Section 19, "Warranty Service", and

(d) spare parts for purchase which shall be reasonably available upon such order by ISS.

Sankyo will support each Machine type for five years from the date of the last sale of a Machine of that type by Sankyo to ISS. The duration of support for any other Products which are not Machines shall be at the reasonable discretion of Sankyo; however, Sankyo shall not be obligated to provide such support beyond the term of the Agreement.

7.4 For five years from the date of sale of the last such Machine by Sankyo to ISS, Sankyo agrees to a) maintain a data base of each installed Machine, by serial number, and b) notify ISS of any recall programs or recommended engineering changes for a Machine or other Product sold pursuant to this Agreement.

7.5 Sankyo agrees to provide a technical training class on the use, operation and maintenance of Machines for up to four ISS employees, or other individuals designated by ISS, at a Sankyo facility or at another mutually agreed-upon location. This technical training class shall consist of standard Sankyo maintenance education topics plus additional related topics covering the unique features of the ISS Robot System. Such class will be provided once each year, at a mutually agreed-to time, for the duration of this Agreement. Such class shall be given free-of-charge to ISS. The duration and content of the class will be at the reasonable discretion of Sankyo. Additional employees or designated individuals may attend this class (class size is limited to six), or any other classes offered by Sankyo, at Sankyo's established tuition rate per student per class.

7.6 Sankyo agrees to provide a Sankyo technical employee, at Sankyo's expense, to assist ISS in the delivery of a technical training class covering the use, operation and maintenance of the Products incorporated into an ISS-developed Application offered by ISS. Such class shall be at an ISS-designated location, and the duration and content of the class shall be determined by ISS and shall be reasonably acceptable to Sankyo; provided that each class shall not last longer than one calendar week. Sankyo agrees to make a Sankyo technical employee available for one training class for each five Robot Systems purchased from Sankyo by ISS, up to four classes per year. If ISS charges tuition for such class in which a Sankyo technical employee provides assistance, then ISS will make a payment to Sankyo of 10% of the total tuition charged the attendees of this class, payable to Sankyo within 45 calendar days of the class end date.

8. MANUFACTURING CAPACITY, LEAD TIMES AND METHODS OF SHIPMENT

8.1 Sankyo's manufacturing capacity for Robot Systems is six per mouth. ISS may request additional capacity by providing Sankyo with written notice 185 days in advance of a requested Delivery date. Sankyo shall respond to such request within 10 days of receipt of such request.

8.2 Sankyo's anticipated lead time to manufacture all Products is 90 days from the date of receipt of an ISS purchase order. Shipping time is in addition to the manufacturing time.

8.3 The method of shipping Products from Sankyo's manufacturing facility shall be at the sole discretion of Sankyo. Sankyo anticipates shipping Products by ocean transportation with typical shipping times from Sankyo's manufacturing facility in Japan to an ISS location in California of between 45 and 60 days. ISS may make a written request to Sankyo to use a different shipping method for a particular shipment, and any additional costs incurred by Sankyo to meet ISS' request shall be invoiced to ISS as incurred by Sankyo.

8.4 The method of shipping Products from Sankyo's warehouses located in the United States shall be at the sole discretion of Sankyo. Sankyo anticipates shipping Products from these warehouses by ground transportation, with typical shipping times from Sankyo's warehouse in Florida to an ISS location in California of between 7 and 14 days. ISS may make a written request to Sankyo to use a different shipping method for a particular shipment, and any additional costs incurred by Sankyo to meet ISS' request shall be invoiced to ISS as incurred by Sankyo.

9. PRICES

9.1 The Prices for all Products ordered by ISS from Sankyo are set forth in Exhibit A, "Prices". The Prices shall be re-negotiated in their entirety once the design of the Machines used in the commercially available ISS Surgical Tool is finalized.

9.2 For each calendar year (a "Price Period") commencing on January 1, 1994 and continuing for the duration of this Agreement, Sankyo and ISS shall negotiate in good faith on new Prices for the Products; provided that Prices shall not be increased or decreased by more than ten percent (10%) per Price Period.

(a) If the parties are unable to agree on new Prices, then the Prices for the Price Period shall be increased or decreased for the ensuing year in the same proportion that the Wholesale Price Index figure - Industrial Commodities (1967 = 100) ("Index"), published by the United States Department of Labor, has increased or decreased for the previous Price

Period. Notwithstanding the foregoing, Prices shall not be increased or decreased in excess of ten percent in one Price Period.

(b) In the event that the ("Index") ceases to incorporate a significant number of items, or if a substantial change is made in the method of establishing the Index, then the Index shall be adjusted to the figure that would have resulted had the change not occurred in the manner of computing the Index. In the event that the Index (or a successor or substitute index) is not available, a reliable governmental non-partisan publication, evaluating the information thereto for use on determining the Index, shall be used in lieu of the Index.

9.3 Notwithstanding Section 9.2, if during a Price Period the New York exchange rate (as quoted in the Wall Street Journal) for the Japanese Yen, in relation to the U.S. Dollar, on the first day of the Price Period, or on the first day thereafter on which the Wall Street Journal is published, (the "Base Rate") changes at any time during the Price Period by more than ten percent (10%), the price for each Product shall be adjusted according to the following formula:

Adjusted Price = Price * ({.50 * [(Current Yen Rate / Base Rate) - 1]} + 1)

The Base Rate at execution of this Agreement shall be defined as 125 Japanese Yen to the U.S. Dollar.

9.4 Notwithstanding Section 9.2, Prices for Products which contain components purchased from IBM Corporation are subject to change at Sankyo's discretion if the price to Sankyo for a corresponding IBM component is increased or decreased by IBM and purchased by Sankyo at the new price for use in a Product to be sold to ISS. Such change in price to ISS shall be equal to the percent of price increase or decrease from IBM to Sankyo.

9.5 Notwithstanding Section 9.2, if a tariff, duty, import tax or other governmental import fee for a Product is increased or decreased, then the Product's Price shall be increased or decreased by an equal amount if such Product price includes such fees.

9,6 Machine Prices and those other Products ordered with Machines shall include all shipping, freight and insurance charges from Sankyo's manufacturing location in Japan or warehouses in the United States, to ISS's designated location. The method of transportation shall be determined by Sankyo, per Section 8, "Manufacturing Capacity, Lead Times and Methods of Shipment".

9.7 Prices for Products not specified in Section 9.6 shall not include shipping charges. Actual shipping charges for each spare parts order will be added to the order

invoice. Method of transportation shall be determined by Sankyo unless otherwise specified in writing by ISS on the associated purchase order.

10. ORDERS AND ACKNOWLEDGMENT

10.1 ISS shall deliver to Sankyo a written purchase order for any Products to be purchased by ISS from Sankyo and shall include a requested Delivery date. The purchase order may be transmitted to Sankyo by facsimile, provided the original is also delivered to Sankyo promptly thereafter.

10,2 Each purchase order shall be subject to acceptance by Sankyo. The purchase order and requested Delivery date shall be deemed accepted and binding unless written notice of non-acceptance is received by ISS from Sankyo within 10 (ten) working days after initial receipt of the ISS purchase order by Sankyo.

10.3 Unless expressly agreed to by Sankyo in writing, any provisions in an ISS purchase order or other business forms which purport to supplement or modify the terms and conditions of this Agreement shall not be effective.

11. INVOICES, ACCEPTANCE TESTS AND PAYMENT

11.1 Sankyo shall provide an invoice, or invoices, to ISS once the ordered Products have been shipped from a Sankyo location.

11.2 For each Machine delivered to an ISS designated location, ISS shall have ten (10) working days from the Delivery date to test the Machines according to the procedures as set forth in Exhibit T, "Acceptance Tests".

(a) If the Machine passes this acceptance test, ISS shall make payment in full for the Machine as set forth in Section 11.3.

(b) If the Machine fails the acceptance test, ISS agrees to immediately notify Sankyo of the results and to provide any supporting documentation reasonably requested by Sankyo.

(c) For each Machine which fails the acceptance test, Sankyo shall exercise its best effort, at Sankyo's expense, to repair the problems or provide a substitute Machine, at Sankyo's discretion, within 30 calendar days. Procedures set forth in Section 19, "Warranty Service", shall apply to any repair or replacement of a Machine under this Section 11.2.

(d) For each Machine which fails the acceptance test and is then repaired by Sankyo, ISS shall have five working days after receipt of the repaired

Machine to test the repaired Machine according to the Procedures set forth in Exhibit T, "Acceptance Tests".

(e) If the Machine passes the acceptance test given in (d) above, ISS shall make payment in full for the Machine as set forth in Section 11.3.

(f) If the Machine fails the acceptance test given in (d) above, ISS agrees to immediately notify Sankyo of the results and Sankyo shall exercise its best effort, at Sankyo's expense, to repair the problems or provide substitute Machines, at ISS' discretion. Procedures set forth in Section 19, "Warranty Service", shall apply to any repair or replacement of a Machine under this Section 11.2.

(g) Further acceptance tests of the repaired or substituted Machines shall follow the procedures defined in (e) and (f) above.

(h) If ISS does not notify Sankyo in writing within ten working days of Delivery of a Machine, that the Machine has failed the acceptance test, the Machine will be deemed to have passed the acceptance test,

(i) If after repairs and substitutions a Machine continues to fail the acceptance test and is unconditionally rejected by ISS, then Sankyo shall replace the Machine subject to the provisions of Section 8, "Manufacturing Capacity, Lead Times and Methods of Shipment".

11.3 Payments are due as follows:

(a) For each delivered and undamaged Product other than a Machine, ISS shall pay the amount shown on the Sankyo invoice for that Product within forty five (45) days of the date of the invoice. If a Product other than a Machine is delivered damaged or is not included in a shipment as invoiced, then ISS shall notify Sankyo of this nonconformity within five days and ISS shall pay Sankyo for the Product within 45 days after such non-conformity is cured.

(b) For each Machine, ISS shall pay the amount shown on the Sankyo invoice for the Machine within forty five (45) days of the earlier to occur of (i) the date ISS notifies Sankyo that the Machine has passed the Acceptance Test for that Machine as set forth in Section 11.2, or (ii) the expiration of the ten-day period set forth in Section 11.2 for notification of Sankyo that the Machine has failed the Acceptance Test for that Machine, if ISS has not communicated to Sankyo that the Machine has failed the Acceptance Test. Notwithstanding the foregoing, for each of the first eighteen Machines purchased after commercialization of the application the forty five day period in this Section II.3(b) shall be extended to 120 days.

(c) Any amounts owed by Sankyo to ISS shall be paid within forty five (45) days of the date the amount was determined to be due.

(d) Payments are considered made when received by Sankyo, Accounts Receivable Department.

11.4 ISS shall be entitled to a 1.5% prepayment discount for payments of a Product received prior to the Delivery date. If ISS wishes to receive the prepayment discount, ISS must request an early invoice from Sankyo at the time it submits the purchase order. Sankyo will then provide an invoice prior to the Ship Date reflecting the discount.

11.5 If payment in full of an invoice delivered by Sankyo pursuant to Section 11.3 above is not received, an interest charge calculated at a rate of 18% per annum, or the maximum permitted by law, whichever is less, will be added to the amount due to Sankyo. Notwithstanding the provisions of Section 29.10, this Section shall be governed by the laws of the State of Florida.

11.6 Based on ISS' payment history and credit standing, Sankyo may at its reasonable discretion notify ISS at the time Sankyo accepts ISS' purchase order that it will require a partial or full payment prior to the Ship Date.

11.7 Amounts due and owing by one party to the other party hereunder shall be due and payable within the period of time as specified in this Agreement. Any other amounts due and owing by one party to the other party hereunder shall be due and payable within forty-five (45) days after the date of the invoice submitted to such party.

12. ORDER CANCELLATIONS

12.1 The cancellation charges for Products listed in Exhibit A, "Prices", are set forth on that Exhibit. The charge is calculated according to the number of days (Cancellation Periods) prior to the requested Ship Date in which the order is canceled. Once shipped, or once the Ship Data has past, the Products listed in Exhibit A may not be canceled.

12.2 All other Products listed in Exhibit A without cancellation charges may be canceled at any time prior to the Ship Date; however, ISS shall pay to Sankyo Sankyo's actual cost for restocking the product, not to exceed five percent (5%) of the Product Price.

12.3 All cancellation charges will be invoiced as incurred and will be payable according to the terms of the invoice and Section 11, "Invoices, Acceptance Test and Payment".

12.4 The date of cancellation shall be defined as the date which Sankyo receives written notification from ISS of the cancellation of a purchase order, or portion of a purchase order.

13. PRODUCT DISCONTINUANCE

Sankyo agrees to make each Product listed in Exhibit A, "Prices", available to ISS during the Initial Term (as defined in Section 28) of this Agreement. If this Agreement is extended beyond the Initial Term the Products to be made available by Sankyo hereunder, and the duration of such availability will be mutually agreed upon prior to such extension.

14. TITLE, RISK OF LOSS OR DAMAGE

14.1 Title and risk of loss or damage for each Machine shall pass to ISS upon acceptance of the Machine as defined in Section 11.2.

14.2 Title and risk of loss or damage for all Products not covered in Section 14.1 shall pass to ISS upon Delivery.

15. RESELLER EXEMPTION CERTIFICATION

ISS agrees to provide Sankyo with any required exemption certificate or other documentation necessary to exempt Sankyo from the payment of U.S. or State sales or use tax on Sankyo Products sold to ISS pursuant to this Agreement, where such exemption is available to Sankyo. ISS shall be solely responsible for collecting any required sales or use tax on the sale of Applications using Sankyo Products to End Users, and ISS shall indemnify and hold Sankyo harmless from and against any sales or use tax liability resulting from such sales. Sankyo shall be responsible for all foreign excise and withholding taxes applicable to the sale or transfer of Products by Sankyo to ISS.

16. APPLICATION SAFETY

ISS shall be responsible for the specifications and design of each ISS-developed Application, including the integration of the Products into such Application. Further, ISS agrees to have such design address the safe use and operation of such Application, within generally accepted standards for safety in the surgical products industry.

17. PRODUCT INSTALLATION

All Products are to be installed and integrated into the ISS-developed Applications by ISS or its direct representatives, according to the installation instructions provided by Sankyo.

18. PRODUCT WARRANTIES

18.1 The Products purchased under this Agreement will be newly manufactured from new parts. Sankyo warrants that, on the date of Delivery, each Product will conform to Sankyo's published specifications or to the specifications contained in this Agreement. Copies of the specifications effective on the date of this Agreement are contained in Exhibit F.

18.2 Sankyo warrants to ISS that each Machine and any associated feature or accessory ordered with such Machines, shall be free of defects in materials and workmanship for a period of eighteen (18) months from the date of acceptance, as defined in Section 11.2, or for fifteen (15) months from the date of delivery by ISS, or its direct representative, to an End User, whichever is shorter. This warranty provides for (a) a replacement Machine part, feature or accessory to be sent to ISS upon request, (b) telephone technical support to assist ISS in warranty related repairs, and (c) repair of the Machine, Machine part, feature or accessory by Sankyo if these are shipped to a Sankyo designated location. Sankyo shall pay all shipping costs under this warranty. Further, this warranty shall apply only if each Machine, and associated feature or accessory ordered with such Machine, is (i) installed as specified by Sankyo, (ii) operated in a manner consistent with Sankyo's operating instructions, (iii) maintained by qualified service personnel and (iv) upgraded with all applicable Engineering Changes which were accepted by ISS.

18.3 Sankyo warrants that each spare part, and any associated feature or accessory ordered without Machines, shall be free of defects in materials and workmanship for a period of six months from the date of Delivery to ISS. This warranty only provides for (a) a replacement spare part, feature or accessory to be sent to ISS upon request and (b) telephone technical support to assist ISS in warranty related repairs. Further, this warranty shall apply only if each spare part, and associated feature or accessory ordered without a Machine, is (i) installed as specified by Sankyo, (ii) operated in a manner consistent with Sankyo's operating instructions, (iii) maintained by qualified service personnel and (iv) upgraded with all applicable Engineering Changes which were accepted by ISS.

18.4 The warranties set forth in this Section 18 do not apply to lubricants, filters and other disposable supplies used in connection with the Products.

18.5 THERE ARE NO WARRANTIES, EXPRESS OR IMPLIED, WHICH EXTEND BEYOND THE DESCRIPTION ON THE FACE OF THIS

AGREEMENT. THE WARRANTIES SET FORTH IN THIS SECTION 18 ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS, IMPLIED OR STATUTORY INCLUDING, BUT NOT LIMITED TO, ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR USE. ISS' SOLE REMEDY FOR BREACH OF THESE WARRANTIES SHALL BE TO REQUIRE SANKYO TO REPLACE OR REPAIR THE DEFECTIVE PRODUCT IN ACCORDANCE WITH SECTION 18, SECTION 19, AND SUBJECT TO LIMITATIONS SET FORTH IN SECTION 27.

18.6 The warranties defined in this Section 18 are made by Sankyo to ISS only. All warranties made by ISS in connection with ISS-developed Applications shall be made by ISS as the manufacturer and shall not obligate Sankyo to the End User.

19. WARRANTY SERVICE

19.1 Sankyo will provide the warranty services set forth below to ISS in discharge of Sankyo's warranty obligations set forth in Section 18. Sankyo shall not provide warranty service directly to ISS' End Users unless previously agreed to, in writing, by Sankyo and ISS.

19.2 During the applicable warranty period set forth in Section 18, ISS shall be responsible for identifying and removing any defective Machine part, accessory or feature at ISS' expense. To assist ISS, Sankyo will provide telephone technical support during Sankyo's normal business hours for use by appropriately trained (under Sections 7.5 or 7.6) ISS employees or other designated individuals.

19.3 To obtain warranty replacement parts, ISS must contact Sankyo by telephone, in writing, or by facsimile, inform Sankyo of the existence of a defect in a Product which is covered by a warranty set forth in Section 18, and request replacement parts. ISS shall also provide the serial number for any Machine which contained a defective part. Sankyo will then ship the requested warranty replacement parts to the location designated by ISS, on a "best efforts" basis at Sankyo's expense. ISS shall be responsible for installing the warranty replacement part, including the costs thereof.

19.4 If requested by Sankyo, ISS must return the defective parts to a designated Sankyo location, at Sankyo's expense. All returned parts shall become the property of Sankyo upon receipt by Sankyo.

19.5 Sankyo reserves the right to request written documentation of the circumstances leading to the defect of a Product which is covered by a warranty set forth in Section 18. ISS will use its reasonable efforts to respond promptly to any such request.

20. PRODUCT MAINTENANCE

20.1 Product maintenance is the responsibility of ISS and must be performed by ISS employees, or by other individuals designated by ISS, each of whom are trained through an authorized Sankyo or ISS training class under Sections 7.5 or 7.6.

20.2 Sankyo will provide a telephone technical hotline, during Sankyo's normal business hours, for use by trained (under Sections 7.5 or 7.6) ISS employees, or other designated individuals.

20.3 Sankyo will offer spare parts for purchase by ISS for some or all of the Products. The list of such spare parts, and prices therefor as of the date hereof, is contained in Exhibit A, "Prices". ISS agrees that such parts purchased by ISS shall be used only for performing Product warranty service, for performing Product maintenance service, or for remarketing to its End Users for Product maintenance service.

20.4 Sankyo will not sell spare parts directly to ISS' End Users unless previously agreed to in writing by Sankyo and ISS.

21. ENGINEERING CHANGES

21.1 Any Engineering Change ("EC") initiated by Sankyo, for any of the Products, shall be presented to ISS, in writing, for review, to include the engineering and/or manufacturing details of the EC, any differences in price, and Sankyo's proposed schedule for implementation of the EC.

a) ISS shall take no more than ten (10) working days to review such EC and to notify Sankyo, in writing, of ISS' approval. Such approval shall not be unreasonably withheld.

b) ISS may, in ISS' approval notification to Sankyo, specify a different but reasonable EC implementation schedule which Sankyo shall use its best efforts to meet.

c) Sankyo shall confirm to ISS the actual EC implementation schedule within ten (10) working days of receipt of ISS' approval notification,

d) If ISS does not accept an EC proposed by Sankyo for Products already located at End-Users, then Sankyo, at Sankyo's discretion may terminate any existing warranties on the Product to which the EC was proposed.

e) If ISS does not accept an EC proposal by Sankyo for Products to be manufactured, then ISS will work with Sankyo in good faith to determine alternate EC proposal which will be acceptable to both ISS and Sankyo.

21.2 ISS may make an EC proposal, in writing, to Sankyo for any Product located at End-Users or to be manufactured by Sankyo. ISS' proposal shall include a detailed specification, desired schedule and target price for such EC.

a) Sankyo shall take no more than ten (10) business days to review ISS' EC proposal and to notify ISS, in writing, of Sankyo's acceptance, such acceptance to not be unreasonably withheld. Further, Sankyo shall specify, in Sankyo acceptance notification, a reasonable design, cost and schedule for implementation of the EC.

b) ISS shall review Sankyo's acceptance notification, including design, cost and schedule, within ten (10) business days after receipt of Sankyo's response and shall notify Sankyo, in writing, of ISS's acceptance.

c) If Sankyo's proposed design, cost and schedule is not acceptable to ISS, Sankyo agrees to work in good faith with ISS to develop an alternative EC proposal acceptable to both ISS and Sankyo.

d) Subject to Section 21.3 below, ISS shall pay any costs associated with any design work done by Sankyo in response to ISS' EC request. If such a cost is applicable, Sankyo shall notify ISS in writing of the exact amount prior to beginning the design work on the EC. ISS shall then confirm to Sankyo, in writing within five business days, whether or not Sankyo is to proceed with the EC design.

21.3 If an EC is made necessary solely by reason of Sankyo's manufacturing of a Product, then the reasonable time and materials costs ("Costs") (does not include travel-related costs) to develop, manufacture and install such EC shall be paid for by Sankyo. If such EC results in a required effort to update Products located at End User locations, Sankyo shall pay for reasonable Costs associated with installing the EC at the corresponding End User locations. Sankyo may, at Sankyo's option, have Sankyo personnel, with appropriate ISS supervision, perform the work associated with installing the EC at the End User locations. Each party shall bare their own travel-related expenses incurred pursuant to this Section 21.3.

21.4 If an EC is made necessary solely by reason of an ISS specification or ISS-accepted design, then the reasonable Costs to develop, manufacture and install such EC shall be paid for by ISS. If such EC results in a required effort to update Products located at End User locations, ISS shall pay for reasonable Costs associated with installing the EC at the corresponding End User locations. Each party shall bare their own travel-related expenses incurred pursuant to this Section 21.4.

21.5 If an EC is made necessary by reason of both Sankyo's manufacturing and ISS' specification and ISS-accepted designs, then the reasonable Costs to develop, manufacture and install such EC shall be evenly split between Sankyo and ISS. If such EC results in a required effort to update Products located at End User locations, Sankyo and ISS shall share reasonable Costs associated with installing the EC at the corresponding End User locations. Sankyo may, at Sankyo's option, have Sankyo personnel, with appropriate ISS supervision, perform the work associated with installing the EC at the End User locations. Each party shall bare their own travel-related expenses incurred pursuant to this Section 21.5.

21.6 If ISS accepts an EC which is to be applied to Products at End User locations then ISS agrees to make a diligent effort to contact all appropriate End Users, gain their approval to apply the EC and then have the EC installed in the prescribed manner. If ISS shall encounter an uncooperative End User who will not allow the EC to be installed, then ISS shall notify the End User that failure to install the EC will void any remaining warranties on the Product and may result in an unacceptable safety risk to operating the Product.

21.7 An EC may involve the removal of parts which must be returned to Sankyo. Sankyo will instruct ISS of the requirements to remove and return parts, if so required, in the EC instructions. ISS shall return any designated parts to the Sankyo designated location, at Sankyo's expense. The returned parts shall become the property of Sankyo.

22. PATENTS AND COPYRIGHTS

Sankyo will defend ISS against any claim that the Products supplied hereunder infringe a U.S. patent, copyright or trade secret, and Sankyo will pay resulting costs, damages and attorneys' fees reasonably incurred by ISS with respect to such claim, provided that:

(1) ISS promptly notifies Sankyo in writing of the claim;

(2) Sankyo has sole control of the defense of any action on the claim and all related settlement negotiations, however, should ISS desire to have its own counsel participate in any such defense, Sankyo shall permit such counsel to monitor Sankyo's defense, the cost of such ISS counsel shall be borne exclusively by ISS;

(3) ISS cooperates and assists Sankyo, at Sankyo's expense, in the defense of the claim; and

(4) the claim is not (i) the result of ISS' actions or omissions, or unauthorized changes to the Products, or (ii) the result of use of the Products in combinations with equipment, data or programming not supplied by Sankyo for such Products, which use of the Product would otherwise not be infringing but for such combinations.

Sankyo's obligation under this section is conditioned upon ISS' agreement that if the Products in the inventory of ISS, or the operation thereof, become or, in Sankyo's opinion, are likely to become the subject of such a claim, ISS will permit Sankyo, at Sankyo's option and expense, either to procure the right for ISS to continue marketing and using the Products or to replace or modify them so that they become non-infringing but without adversely affecting the functionality of the Products. If, after using Sankyo's best efforts and discussing options with ISS in good faith, Sankyo cannot feasibly perform one of the foregoing alternatives, then ISS will return the Products to Sankyo upon written request by Sankyo, at Sankyo's expense. Sankyo agrees to pay ISS a cash reimbursement equal to the price paid to Sankyo by ISS for the returned Products.

23. CONFIDENTIAL INFORMATION

23.1 ISS acknowledges that the terms of this Agreement and the ISS pricing information contained in Exhibit A are considered confidential to Sankyo and, for the purposes of this Agreement, shall be marked as "Sankyo Confidential"; provided, however, that ISS shall have the right to incorporate specific terms and conditions (other than specific prices) from this Agreement into agreements entered into between ISS and its own customers and suppliers and to identify, to the extent ISS deems necessary, such terms and conditions as coming from this Agreement; provided, further, that (a) ISS shall not incorporate all or substantially all of this Agreement into such other agreements, it being understood that the substance of this Agreement is intended to remain confidential, (b) ISS shall not reveal the contents of this Agreement to any competitor of Sankyo, and (c) any incorporation of this Agreement into other agreements shall not alter the rights and obligations of the parties under this Agreement. Sankyo shall have the right to be informed of what portions of this Agreement are being incorporated into other agreements, upon reasonable request. Notwithstanding the foregoing, if litigation results between the parties, then the parties may disclose this Agreement to counsel who will agree to keep the Agreement confidential. If the Agreement is required to be filed in any type of public record then either party will be provided a reasonable opportunity to have the record sealed.

23.2 Either party may provide information to the other party which is considered confidential or proprietary. If such information is confidential or proprietary, the providing party shall so notify the receiving party, in writing, before transmittal of the information to the receiving party. The receiving party shall then notify the providing party, in writing, of the receiving party's acceptance of the confidential or proprietary information. Any confidential or proprietary information given by one party to the other party shall be clearly marked as "Sankyo Confidential", "ISS Confidential", or "Sankyo and ISS Confidential". In the event the receiving party does not accept such Confidential Information, the receiving party shall not disclose such Confidential Information revealed to it hereunder to any third party.

23.3 Each party agrees to keep confidential all information marked as "Sankyo Confidential" or "ISS Confidential", and each party agrees to prevent its disclosure to any person, form or entity other than each party's employees on a "need-to-know" basis. Each party shall take all reasonable precautions to preserve the confidentiality of such information and shall treat such information with the same degree of care and precaution that it normally uses to protect its own confidential or proprietary information, but in no event with less than reasonable care. Each party shall use such information only for the purposes of this Agreement and may not use such information for any other purposes without the other party's prior written consent, except as otherwise permitted in this Agreement. The provisions of this Section 23 shall not apply to information that: (a) is or becomes generally known or available by publication, commercial use or otherwise through no fault of the receiving party; (b) is known and has been reduced to tangible form by the receiving party at the time of disclosure and is not subject to restriction; (c) is independently developed by the receiving party without use of the disclosing party's Confidential Information; (d) is lawfully obtained from a third party who has the right to make such disclosure; and/or (e) is released for publication by the disclosing party.

23.4 Upon termination of this Agreement for any reason, each party shall immediately return to the other party all materials originally produced by the other party and marked as "Sankyo Confidential" or "ISS Confidential", except that ISS may retain one original counterpart of this Agreement for its records.

23.5 Each party agrees that any breach of its obligations under this Section 23 will cause irreparable harm to the other party. Accordingly, in the event of a breach or threatened breach of any provision of this Section 23, independent of any other breach and in addition to any other remedy at law or in equity to which the non-breaching party is entitled, the non-breaching party shall be entitled to obtain injunctive relief, specific performance and other relief, without the necessity of proving actual damages. In such event, the non-breaching party shall be entitled to recover the costs and expenses, including reasonable attorney's fees, incurred in connection with the enforcement of the provisions herein.

24. COMPETITIVE PRODUCTS AND SERVICES

24.1 Neither this Agreement nor any activities hereunder will impair any right of either party to market directly or indirectly products or services competitive with those offered by the other party, nor require either party to disclose any planning information with respect to such activities to the other party.

24.2 Notwithstanding Section 24.1, Sankyo shall not, during the term of this Agreement, anywhere in the world for any Application, manufacture or sell the

Surgical Robot or any other robot incorporating all of the following key concepts of the Surgical Robot:

(a) dual incremental encoders;

(b) low speed DC motors;

(c) six times (6X) stiffer roll axis;

(d) servo controlled pitch axis.

Sankyo may manufacture or sell a robot incorporating one or more, but not all, of the foregoing key concepts of the Surgical Robot for non-surgical Applications anywhere in the world. Sankyo may also manufacture or sell a robot incorporating one or more, but not all, of the foregoing key concepts of the Surgical Robot for surgical Applications with ISS' prior written consent, which consent shall not be unreasonably withheld, if

(i) the proposed robot addresses a surgical Application not being addressed by ISS and which ISS does not contemplate addressing during the term of this Agreement, or if

(ii) the proposed robot will be sold in a geographic location in which ISS is not making sales and does not contemplate making sales during the term of this Agreement, or if

(iii) ISS uses for a surgical procedure a robot system other than a Robot System manufactured and sold by Sankyo, then without ISS' prior consent Sankyo may, at Sankyo's option, develop, manufacture and sell Robot Systems to third parties who intend to use the Robot System for the same surgical procedure.

24.3 Notwithstanding Section 24.1, during the term of this Agreement:

(a) In each ISS product developed or sold for hip replacement surgery, ISS shall incorporate a Surgical Robot; and,

(b) If ISS seeks to develop other surgical tool(s) for which ISS desires robotic device(s), then before ISS determines from who to purchase the robotic device(s) ISS will provide Sankyo a reasonable opportunity to bid for the agreement to supply the robotic device(s); and,

(c) ISS shall only be obligated as specified in paragraphs (a) and (b) above if: (i) Sankyo is in compliance with all material provisions of the Agreement, (ii) Sankyo has provided timely and satisfactory delivery of Products

hereunder, and (iii) Sankyo's pricing for such robotic devices is competitive.

25. SANKYO TRADEMARKS AND TRADE NAMES

25.1 No rights are granted to ISS to use the name, logo, design or other trademarks and trade names of Sankyo in connection with the Products, except the limited permission for ISS to use the trademark "Sankyo" worldwide solely to identify Products purchased from Sankyo under this Agreement. ISS shall provide to Sankyo for prior review and written approval (which approval shall not be unreasonably withheld) all promotional, advertising and other materials and activity using or displaying any trademark or trade name of Sankyo in connection with the Products. The permission granted relative to the trademark "Sankyo" shall terminate with the expiration or termination of this Agreement. Upon such expiration or termination, ISS shall immediately cease using trademarks and trade names of Sankyo in connection with the Products except with respect to Products which remain in the possession of ISS. ISS shall also promptly return to Sankyo or, with Sankyo's written consent, destroy all advertising and promotional materials in its possession or under its control employing such Sankyo trademarks and trade names in connection with the Products.

25.2 ISS recognizes Sankyo's ownership and title to the trademark "Sankyo" and the goodwill attached thereto and agrees that any goodwill which accrues because of ISS' use of the trademark "Sankyo" shall vest in and become the property of Sankyo. ISS further agrees not to contest or take any action to contest the trademarks or trade names of Sankyo or to use, employ or attempt to register any trademark or trade names which, in Sankyo's exclusive judgment, is confusingly similar to the trademarks or trade names of Sankyo.

25.3 No rights are granted to Sankyo to use any trademarks or trade names adopted by ISS for any reason whatsoever. Sankyo agrees not to contest or take any action to contest the trademarks and trade names of ISS or to use, employ or attempt to register any trademark or trade name which, in ISS's exclusive judgment, is confusingly similar to the trademarks or trade names of ISS.

26. INDEMNIFICATION

26.1 Subject to the limitations of Section 27, ISS, its successors and assigns, shall indemnify, defend and hold harmless Sankyo, its successors and assigns, from, against, and in respect of any and all claims, liens, charges, encumbrances, obligations, demands, losses, costs, expenses, suits, causes of action, judgments, liabilities, damages, recoveries and deficiencies whatsoever, whether absolute or contingent, including without limitation interest, penalties and reasonable

attorneys' and paralegal fees and court costs (collectively, "Claims") which Sankyo shall directly or indirectly, incur or suffer as a result of or in any manner occasioned by or relating to:

(a) a breach or inaccuracy or failure by ISS to perform any of its representations, warranties or covenants in this Agreement;

(b) the design, integration, assembly, sale or use of an ISS-developed Application, including the ISS Surgical Tool and its components;

(c) the specifications provided by ISS for a Machine or other Product;

(d) the use of a Product in applications or environments for which the Product was not designed;

(e) a modification or alteration made to a Product by ISS or any third party unless such modification or alteration was approved by Sankyo; or

(f) the maintenance or repair performed on a Product by ISS or any third party unless such maintenance or repair was approved by Sankyo.

26.2 Subject to the provisions and limitations of Section 18, 19, 22 and 27, Sankyo, its successors and assigns, shall indemnify, defend and hold harmless ISS, its successors and assigns, from any and all Claims which ISS, its successors and assigns, shall, directly or indirectly, incur or suffer as a result of or in any manner occasioned by or relating to

(a) a breach or inaccuracy or failure by Sankyo to perform any of its representations, warranties or covenants in this Agreement;

(b) Sankyo's willful or criminal misconduct;

(c) Sankyo's gross negligence;

(d) an electro-mechanical design of a Product; or

(e) a manufacturing defect of a Product.

26.3 The obligations of the indemnifying party (the "Indemnitor") under Sections 26.1 and 26.2 to the party entitled to indemnification (the "Indemnitee") with respect to Liabilities resulting from the assertion of claims by third parties ("Third Party Claims") shall be subject to the following terms and conditions:

26.3.1 The Indemnitee shall give the Indemnitor prompt notice of any Third Party Claim, and the Indemnitor will have the right to assume the defense or adjustment or cure thereof by the representatives of its own choosing, at its own cost and expense; provided that the Indemnitee shall have the right to participate in such defense and that no settlement will be agreed to without the Indemnitee's prior written consent. The Indemnitee agrees not to withhold its consent to any settlement if the Indemnitee determined in good faith that such settlement will not otherwise have an adverse effect on the business or financial condition of the Indemnitee. The Indemnitee shall provide the Indemnitor with proper and full information and reasonable assistance to defend and/or settle any such claim.

26.3.2 If the Indemnitor does not promptly assume such defense, the Indemnitee will, upon notice to the Indemnitor, have the right to undertake the defense, compromise or settlement of such Third Party Claim on behalf of and for the account and risk of the Indemnitor, provided that the Indemnitor shall have the right to participate in such defense at its expense and that no settlement will be agreed to without the Indemnitor's prior written consent, which consent will not be unreasonably withheld. The Indemnitor shall provide the Indemnitee with proper and full information and reasonable assistance to defend and/or settle any such claim.

Each party shall safeguard the confidences and trade secrets provided to the other party in accordance with Sections 26.3.1 and 26.3.2 above, and pursuant to Section 23 above.

27. LIMITATION OF REMEDIES

27.1 Sankyo's entire liability and ISS' exclusive remedy under this Agreement shall be as follows: In all situations involving performance or non-performance of Products under warranty, ISS's remedy is (a) replacement of the defective Product parts by Sankyo or, at Sankyo's option, replacement of the Product, or (b) if, after Sankyo's best efforts, Sankyo is unable to provide a Product which conforms to the applicable warranties, ISS shall be entitled to recover the actual purchase Price of the Product, including any associated non-recurring engineering costs paid by ISS to Sankyo. For any other claim related to the subject matter of this Agreement or any order under this Agreement, ISS shall be entitled to recover actual damages subject to the limits set forth on Paragraph 27.2 hereof.

27.2 Sankyo's liability for damages to ISS for any cause whatsoever, and regardless of the form of action, whether in contract or in tort including negligence, shall not exceed $75,000.00. The foregoing limitation of liability will not apply to the payment of costs, damages and attorney's fees for (a) actions covered by the section entitled "Patents and Copyrights", or (b) claims for personal injury or

damage to real property or tangible personal property caused by Sankyo's willful misconduct, criminal misconduct or gross negligence,

27.3 In no event will Sankyo be liable for any of the following: (a) damages caused by ISS' failure to perform its obligations under this Agreement; (b) lost profits, consequential, incidental or special damages, whether in contract or in tort, and regardless of the form of action; (c) damages caused by performance or non-performance of Products located outside the United States unless otherwise agreed in writing.

27.4 Except for breach of Section 25, ISS shall not be liable to Sankyo for any special (including lost profits), consequential, incidental or other than actual damages, however caused, whether for breach of contract, negligence or otherwise, and whether Sankyo has been advised of the possibility of such damage. This limitation will apply notwithstanding any failure of essential purpose of any limited remedy provided herein.

28. TERM AND TERMINATION OF AGREEMENT

28.1 The term of this Agreement shall commence on the Agreement date set forth above, and shall terminate on December 31, 1997 (the "Initial Term"), unless extended by mutual agreement in writing for one or more successive twelve month periods (each such period hereinafter referred to as an "Extension Term") prior to expiration of the Initial Term or any Extension Term.

28.2 Sankyo may terminate this Agreement upon written notice to ISS prior to the expiration of the Initial Term or an Extension Term under the following circumstances:

(a) ISS fails to make full payment for any amount due from ISS under this Agreement 90 calendar days of the date due.

(b) ISS materially breaches any provision of this Agreement other than Section 11; provided, however, that Sankyo shall notify ISS of the breach in writing and ISS shall have a period of not more than 30 calendar days after receipt of such notification within which to correct the breach to the reasonable satisfaction of Sankyo.

(c) A substantial part of the business of ISS is transferred or sold to what reasonably could be considered a competitor to Sankyo's affiliated companies in Japan, Europe or North America, and Sankyo, in it sole discretion, determines that such action would be inconsistent with the purposes of this Agreement.

(d) Commercial general liability and product liability insurance, asset forth in Section 4, is not in effect at any time during the term of this Agreement.

(e) Any of the following events occur:

(i) ISS makes a general assignment of its assets for the benefit of its creditors;

(ii) ISS voluntarily institutes proceedings to be adjudicated as bankrupt under any federal or state bankruptcy laws;

(iii) ISS consents to the filing of a petition in bankruptcy against it;

(iv) An involuntary petition in bankruptcy is filed against ISS and is not stayed or dismissed within 30 calendar days;

(v) ISS is adjudicated by a court of competent jurisdiction as being bankrupt or insolvent;

(vi) ISS seeks reorganization under any federal or state bankruptcy or insolvency law or consents to the filing of a petition seeking such a reorganization;

(vii) A decree or order is entered against ISS by a court of competent jurisdiction appointing a receiver, liquidator, trustee or assignee in bankruptcy or in insolvency covering all or substantially all of ISS' property or providing for the liquidation of ISS' property or business affairs.

28.3 ISS may terminate this Agreement at any time, with or without cause, by 30-days prior written notice to Sankyo.

28.4 If ISS terminates this Agreement pursuant to Section 28.3 because of Sankyo's failure or inability to provide a Product that is essential to the operation of an ISS-developed Application, the parties shall negotiate in good faith an agreement pursuant to which Sankyo will assist ISS in obtaining alternative sources of supply for products substantially equivalent to the Products,

28.5 Termination of this Agreement does not relieve ISS of any payment obligations hereunder or any other obligations which exist as a result of this Agreement.

28.6 Notwithstanding any termination of this Agreement, the following provisions shall survive the termination of this Agreement: Sections 2.1, 4.4, 4.5, 4.6, 4.7, 4.8, 4.9, 4.10, 4.11, 4.12, 4.13, 6, 7.3, 7.4, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27 and 29.

29. GENERAL

29.1 This Agreement and the rights and obligations of the parties hereunder may not be assigned or delegated by either party without the prior written consent of the other party except to a successor in interest to all or substantially all of the business assets of the assigning party. Any attempts to assign or delegate any of the rights, duties or obligations of this Agreement without such consent, or as permitted, is void. This provision is subject to the provisions of Section 28.2(c). Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties hereto, their successors and assigns,

29.2 Except with respect to the obligation of ISS to make payments hereunder, if the performance of this Agreement or of any obligation hereunder is prevented, restricted or interfered with by an act of God (including hurricane or flood), reason of fire or other casualty or accident, strikes or labor disputes, inability to procure raw materials, power or supplies, war, the outbreak of hostilities or other violence, any law, order, proclamation, regulation, ordinance, demand or requirement of any governmental agency, court or inter-governmental body, or any other act or condition whatsoever beyond the reasonable control of the parties hereto, the party so affected, upon giving notice to the other party, shall be excused from such performance to the extent of such prevention, restriction or interference, provided that the party so affected shall use reasonable efforts under the circumstances to avoid or remove such causes of non-performance and shall continue performance hereunder with the utmost dispatch whenever such causes are removed.

29.3 No action, regardless of form, arising out of this Agreement, may be brought by either party more than two (2) years after the cause of action has arisen or, in the case of an action for non-payment, more than two (2) years from the date the last payment was due.

29.4 Notices required to be given to either party under this Agreement shall NOT be effective unless in writing and hand delivered or mailed by certified or registered mail to said party at the address stated on the first page hereof or sent by telex or facsimile (provided the transmission is confirmed in writing by the sending party) to the party to be notified at such telex or facsimile number as such party hereafter designates by notice to the, other party. Notices sent by certified registered mail shall be deemed to have been given five business days after the postmark thereof.

Notices by telex or facsimile shall be deemed to have been given on the date of delivery or transmission. Any party may change its address or telex or facsimile number by giving notice of such change in the manner provided above.

29.5 No waiver by either party of any default on the part of the other party in performance of any of its obligations hereunder shall be effective unless in writing signed by the party alleged to have waived such default.

29.6 Any waiver by either party of any right hereunder, or of any failure to perform or breach hereof shall not constitute or be deemed to constitute a waiver of any other right hereunder or of any other failure to perform or breach hereof, whether of a similar or dissimilar nature.

29.7 In the event any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable as to any party or circumstance, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or the application of such provision to any other party or circumstance. Furthermore, the parties agree to reform and construe, in good faith such provision to the extent permitted by law so that it will be valid, legal and enforceable to the maximum extent possible. Such provision, if any, shall be in writing signed by both parties.

29.8 The headings used in this Agreement are included for convenience of the parties only and are not to be used in construing or interpreting this Agreement.

29.9 This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and each party hereby represents to the other that, in entering into this Agreement, it has not relied and is not relying on any statements, warranties, representations, agreements, arrangements or course of dealings other than as set forth herein. No amendment, supplement or modification hereof shall be binding unless the same shall be in writing and duly executed by both parties hereto,

29.10 The validity of this Agreement, the construction and enforcement of its terms, and the interpretation of the rights and duties of the parties hereunder shall be governed by the laws of the State of the defending party, either Florida for Sankyo or California for ISS, without regard to its conflict of laws rules.

(a) Any action brought by Sankyo for the enforcement of the terms of this Agreement, or for any claims arising out of this Agreement, shall be brought in a court of appropriate jurisdiction located in Sacramento County or Santa Clara County, California, at ISS' discretion, and the parties acknowledge and agree that venue in Sacramento county, California, shall be proper for any such action.

(b) Any action brought by ISS for the enforcement of the terms of this Agreement, or for any claims arising out of this Agreement, shall be brought in a court of appropriate jurisdiction located in Palm Beach, Broward or Dade counties, at Sankyo's discretion, and the parties acknowledge and agree that such venue shall be proper for any such action.

In any such action, the prevailing party shall be entitled to collect reasonable attorneys' and paralegal fees and costs, as well as court costs, from the other party, subject to the limitations of Section 27.

29.11 The supply by Sankyo of any IBM-logoed equipment under this Agreement is contingent upon ISS executing such reasonable agreements as IBM may require for the supply of IBM-logoed equipment.

29.12 The undersigned have the authority to execute this Agreement.

29.13 This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

ACCEPTED BY:

SANKYO	ISS:
SANKYO SEIKI (AMERICA) INC.	INTEGRATED SURGICAL SYSTEMS, INC.
By: /s/ David W. Heikkinen 5/10/93	By: /s/ Bela Musits 5/4/93
David W. Heikkinen Vice President	Bela Musits President

EXHIBIT 23.2

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the captions "Experts" and "Selected Financial Information" and to the use of our report dated January 29, 1996, in Amendment No. 1 the Registration Statement (Form SB-2, No. 333-9207) and related Prospectus of Integrated Surgical Systems, Inc. for the registration of 3,750,000 shares of its common stock and warrants to purchase 2,175,000 shares of its common stock.

ERNST & YOUNG LLP

Sacramento, California

September 16, 1996

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