AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY , 1996

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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
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(Name, address and telephone number of agent for service)

COPIES TO:

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CHARLES P. GREENMAN, ESQ.
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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. / /

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
Underwriter's Warrants to purchase shares of Common Stock.....	150,000	$0.000033	$5	(5)
Underwriter's Warrants to purchase Warrants.....	150,000	$0.000033	$5	(5)
Common Stock issuable upon exercise of Underwriter's Warrants.....	150,000(4)	$9.90	$1,485,000	$ 512.07
Warrants issuable upon exercise of Underwriter's Warrants.....	150,000	$0.165	$24,750	$8.53
Common Stock issuable upon exercise of Warrants underlying Underwriter's 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 Underwriter to cover over-allotments, if any.

(3) Includes 225,000 Warrants which may be purchased by the Underwriter 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 Underwriter's Warrants and the Warrants issuable upon exercise of the Underwriter's 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 Directors' 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 JULY , 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"). 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") 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 Rickel & Associates, Inc. (the "Underwriter"), 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 has been at least 150% of the then current exercise price of the Warrants (initially, $10.50 per share) 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. 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 Boston and Pacific Stock Exchanges.

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 price 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 Underwriter 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 22.

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 2)

RICKEL & ASSOCIATES, INC.

THE DATE OF THIS PROSPECTUS IS , 1996.

[INSERT PICTURES]

The ROBODOC(R) Surgical Assistant System. Pictured on the left is the ORTHODOC(R) Pre-surgical Planning Workstation. The computer controlled surgical robot is seen on the right.

ROBODOC has been used safely on over 425 patients worldwide for total hip replacement.

(Actual operating room photo)

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(1) Does not include additional compensation to the Underwriter consisting of (i) a non-accountable expense allowance 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 "Underwriter's Warrants") entitling the Underwriter to purchase up to 150,000 shares of Common Stock and 150,000 Warrants, (iii) a financial consulting agreement with the Underwriter 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 Underwriter, 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 Underwriter against certain civil liabilities, including those arising under the Securities Act. See "Underwriting."

(2) After deducting discounts and commissions payable to the Underwriter, but before payment of the Underwriter's non-accountable expense allowance ($251,625, or $289,369 if the Underwriter's 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 Underwriter 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 "Underwriter's Over-Allotment Option"). If the Underwriter's 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 Underwriter on a firm commitment basis, subject to prior sale, when, as and if delivered to the Underwriter and subject to certain conditions. Subject to the provisions of the underwriting agreement between the Underwriter and the Company, the Underwriter reserves 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 Underwriter, 875 Third Avenue, New York, New York 10022, on or about , 1996.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER 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 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.

TABLE OF CONTENTS

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.

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-1.519647 reverse stock split with respect to the Common Stock to be effected prior to the Effective Date, and assumes that the Underwriter's Over-Allotment Option is not exercised. See the "Glossary" appearing at page 29 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 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 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).....	1,279,177 shares of Common Stock
After the Offering(1)(2).....	2,779,177 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] 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 Underwriter), 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) has been at least 150% of the then current exercise price of the Warrants (initially, $10.50 per share) 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. 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 risk of their entire investment should invest. See "Risk Factors" and "Dilution."
Proposed Nasdaq SmallCap Market Symbols.....	Common Stock -- RDOC; Warrants -- RDOCW
Boston and Pacific Stock Exchange Listing...	Application has been made to list the Common Stock and Warrants on the Boston and Pacific Stock Exchanges. There can be no assurance that such applications 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 1,012,381 shares upon consummation of the sale of the shares of Common Stock and Warrants offered hereby (the "Closing"). Does not include (i) 2,783,654 shares of Common Stock issuable upon exercise of outstanding warrants, including (x) shares issuable upon exercise of outstanding warrants to purchase Series D Preferred Stock (the "Series D Warrants"), at an exercise price of $.02 per share, which will become exercisable for 2,024,762 shares of Common Stock following the automatic conversion of the Series D Preferred Stock at the Closing, (y) warrants to purchase 569,537 shares, at an exercise price of $0.76 per share, exercisable until August 28, 1996, and (z) warrants to purchase 189,355 shares, at exercise prices ranging from $0.02 to $0.08 per share, and (ii) 913,478 shares of Common Stock issuable upon exercise of outstanding options granted pursuant to the Company's stock option plans, at exercise prices ranging from $0.08 to $8.05 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 Underwriter's Over-Allotment Option, and (iii) 300,000 shares reserved for issuance upon exercise of the Underwriter's Warrants and the Warrants included therein. See "Description of Securities -- Warrants" and "Underwriting -- Underwriter's Warrants."

(3) Does not include (i) 225,000 Warrants reserved for issuance upon exercise of the Underwriter's Over-Allotment Option, (ii) 150,000 Warrants reserved for issuance upon exercise of the Underwriter's Warrants, and (iii) outstanding warrants to purchase 2,783,654 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 -- Underwriter's 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	($1.39)	($1.20)	($0.59)	($0.34)
Shares used in per share calculations(1)	4,162,576	4,169,220	4,163,404	4,362,783

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 1,012,381 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. Does not include (i) 2,783,654 shares of Common Stock issuable upon exercise of outstanding warrants, including (x) shares issuable upon exercise of the Series D Warrants, at an exercise price of $.02 per share, which will become exercisable for 2,024,762 shares of Common Stock following the automatic conversion of the Series D Preferred Stock at the Closing, (y) warrants to purchase 569,537 shares, at an exercise price of $0.76 per share, exercisable until August 28, 1996, and (z) warrants to purchase 189,355 shares, at exercise prices ranging from $0.02 to $0.08 per share, (ii) 892,413 shares of Common Stock issuable upon exercise of outstanding options granted pursuant to the Company's stock option plans, at exercise prices ranging from $0.08 to $8.05 per share, (iii) the Underwriter's Over-Allotment Option, (iv) the Warrants and the Warrants included therein and (v) the Underwriter's Warrants and the Warrants included therein. See "Use of Proceeds."

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. 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.

3. 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.

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. The Company's products are subject to continued and pervasive regulation by the FDA and foreign and state regulatory authorities. Pursuant to the Federal Food, Drug, and Cosmetic Act, as amended, and regulations thereunder, 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 premarket clearance or premarket 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."

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 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, either 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.

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.

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.

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.

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.

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. There are companies in the medical products industry capable of developing and marketing computer-controlled robotic systems for surgical applications, many of whom have significantly greater financial, technical, manufacturing, marketing and distribution resources than the Company, and have established reputations in the medical devices 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 principal competition for the ROBODOC System is manual surgery performed by orthopaedic surgeons, using surgical power tools and manual devices. 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. 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.

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 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 would 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.

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 or 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 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. The Company does not have key-man insurance on the life of Dr. Trivedi. 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. 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 a majority of the outstanding shares of Common Stock on a fully diluted basis. Although these securityholders may or may not agree on any particular matter that is the subject of a vote of the stockholders, these security holders may be effectively able to control the decision on such a matter, including the election of directors, if they were to agree. See "Security Ownership of Certain Beneficial Owners and Management."

18. 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."

19. 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."

20. DILUTION. Purchasers of Common Stock in this Offering will suffer immediate dilution of $2.61 per share (or approximately 43.5%) 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."

21. 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 price 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 Underwriter 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 price 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 devices 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 price of the Common Stock and the Warrants will not experience significant fluctuations or decline below the initial public offering price.

22. UNDERWRITER'S 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 Underwriter. The Underwriter has indicated that it intends to act as a market-maker and otherwise effect transactions in the securities offered hereby. To the extent the Underwriter acts as a market-maker in the Common Stock or Warrants, it 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 Underwriter participates in such markets. Furthermore, the Underwriter may discontinue such activities at any time or from time to time. The Underwriter 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 its Warrants. Unless granted an exemption by the Commission from Rule 10-6 under the Exchange Act, the Underwriter 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 Underwriter may have to receive a fee for the solicitation of the Warrants. As a result, the Underwriter 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."

23. 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") and the Boston Stock Exchange ("BSE") to list the Common Stock and Warrants on those exchanges. 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 or BSE. Furthermore, assuming that the Common Stock and Warrants are approved for quotation on The Nasdaq SmallCap Market and listing on the PSE and BSE, 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 and BSE following the Offering. If the Company is unable to satisfy The Nasdaq SmallCap Market, PSE and BSE maintenance criteria in the future, its Common Stock and Warrants may be delisted from trading on The Nasdaq SmallCap Market, PSE and BSE, 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.

24. 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.

25. 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 2,779,177 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 1,279,177 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 4,976,309 shares of Common Stock constituting restricted securities, have entered into agreements with the Underwriter 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

Underwriter. In addition, securityholders of the Company owning or having rights to acquire in the aggregate 4,154,804 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, 1,279,177 shares will become eligible for resale pursuant to Rule 144 commencing in the second quarter of 1998, subject to the volume limitations and compliance with the other provisions of Rule 144. Furthermore, the holders of the Underwriter's 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 Underwriter's Warrants.

26. EFFECT OF ISSUANCE OF COMMON STOCK UPON EXERCISE OF WARRANTS AND OPTIONS; POSSIBLE ISSUANCE OF ADDITIONAL OPTIONS. Immediately after the Offering, assuming the Underwriter's Over-Allotment Option is not exercised and warrants to purchase 569,537 shares, at an exercise price of $0.76 per share, are not exercised prior to their expiration on August 28, 1996, the Company will have an aggregate of approximately 7,126,992 shares of Common Stock authorized but unissued and not reserved for specific purposes and an additional 5,093,831 shares of Common Stock unissued but reserved for issuance pursuant to (i) the Company's stock option plan, (ii) outstanding warrants, (iii) exercise of the Warrants and (iv) exercise of the Underwriter's 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 Underwriter. 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."

27. 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. 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 Underwriter 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 Underwriter. See "Description of Securities -- Preferred Stock."

28. 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 $.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."

29. 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 Underwriter's 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 Underwriter's 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 consummation of this Offering.

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; 1,012,381 shares issued and outstanding; no shares authorized, issued or outstanding, pro forma as adjusted; liquidation preference value of $1,000,000.....	10,124	--
Common stock, $0.01 par value, 15,000,000 shares authorized; 266,796 shares issued and outstanding; 2,779,177 shares issued and outstanding, pro forma as adjusted.....	2,668	27,792
Additional paid-in capital.....	19,635,336	27,101,086
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) 2,783,654 shares of Common Stock issuable upon exercise of outstanding warrants, including (x) shares issuable upon exercise of the Series D Warrants, at an exercise price of $.02 per share, which will become exercisable for 2,024,762 of Common Stock following the automatic conversion of the Series D Preferred Stock at the Closing, (y) warrants to purchase 569,537 shares, at an exercise price of $0.76 per share, exercisable until August 28, 1996, and (z) warrants to purchase 189,355 shares, at exercise prices ranging from $0.02 to $0.08 per share, and (ii) 892,413 shares of Common Stock issuable upon exercise of outstanding options granted pursuant to the Company's stock option plans, at exercise prices ranging from $0.08 to $8.05 per share. See "Management -- Stock Option Plan," "Certain Transactions" and "Description of Securities -- Warrants."

(2) Does not include 1,012,381 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 1,012,381 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 Underwriter's Over-Allotment Option, including the Warrants included therein, and (iii) 300,000 shares of Common Stock reserved for issuance upon the exercise of the Underwriter's 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 $1.51 share of Common Stock, assuming conversion of the outstanding shares of Series D Preferred Stock into Common Stock. 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 $3.39 per share. This represents an increase in net tangible book value per share of $1.88 to the Company's existing stockholders and an immediate dilution of $2.61 per share (or 43.5% 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	$1.51	
Increase attributable to new investors	1.88	
Pro forma net tangible book value after Offering		3.39
Dilution to new investors		$2.61

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. As of June 30, 1996, there were outstanding options to purchase an aggregate of 892,413 shares of Common Stock having exercise prices from $0.08 per share to $8.05 per share and outstanding warrants to purchase an aggregate of 2,783,654 shares of Common Stock having exercise prices from $0.02 per share to $0.76 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	1,279,177	46.0%	$13,019,556	59.1%	$10.18
New Investors	1,500,000	54.0%	9,000,000	40.9%	6.00
	2,779,177	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 892,413 shares of Common Stock issuable upon the exercise of outstanding options, 2,783,654 shares of Common Stock issuable upon exercise of outstanding 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 Underwriter's Over-Allotment Option and the Warrants included therein, and 300,000 shares of Common Stock reserved for issuance pursuant to the Underwriter's 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	$ (1.39)	$ (1.20)	$ (0.59)	$ (0.34)
Shares used in per share calculations (1)	4,162,576	4,169,220	4,163,404	4,362,783

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, with the remaining net sales in Fiscal 1994 related to consumables. 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 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 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'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, 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.

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.
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.
FIXATOR	Device which holds the leg bone still and attaches it to the robot base.
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.
MRI	Magnetic resonance imaging, a method of collecting images of the body using radio waves, but without radiation.
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.
PROSTHESIS	An artificial substitute for a body part, including joints.

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 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 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 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 the surgeon can 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.

POTENTIAL ORTHOPAEDIC APPLICATIONS OF ROBODOC SYSTEM

The Company intends to offer ROBODOC System 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. 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 ROBODOC System will 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 Company believes that TKR surgery performed with the ROBODOC System will result in a precise and accurate fit for implants that are properly sized and placed, regardless of bone quality. Furthermore, the Company believes that 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 this surgical procedure can be performed more safely and effectively by the ROBODOC System as compared to 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 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). Using the views of the bone created by the ORTHODOC from CT scan data, the surgeon will 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 will be saved on a tape which will instruct the robot where to make saw cuts. The computer-controlled, five-axis robot will then orient itself in space by using topographical features of the operative bone. A fixator will secure the bone to the robot. The computer-controlled robot will 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 assembles, builds and tests products at its manufacturing facility in Sacramento, California. The current facility can support the assembly of at least two ROBODOC Systems per month. 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 are 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 required for sales of its products in Europe by the end of 1996. See "Risk Factors -- Government Regulation" and "Business -- Government Regulation."

The ROBODOC System is built to order. The ROBODOC System consists of two modules -- the robot base and the control cabinet, that are connected through four interface cables. The robot and associated electronic control modules are manufactured by Sankyo Seiki of Japan, the Company's sole supplier, which currently requires four months lead time. The other components of the ROBODOC System are ordered as needed. The Company performs a series of tests on the robot to verify proper functioning. Ancillary items required to perform a robotic hip procedure, 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 manufactured by outside vendors according to the Company's specifications. The Company purchases these items in quantity and distributes them on a per order basis. Order management, inventory control, and timely shipment to customers are primary manufacturing functions. Incoming inspection is critical to insure specifications are consistently met. The Company also coordinates packaging and sterilization on certain items. Fully approved and inspected vendors are employed to insure compliance with sterility 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.

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 July 1, 1996, the Company's engineering staff was comprised of 13 engineers (including two 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 Unversity 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.

MED RAINER KOTZ, M.D., an orthopaedic surgeon specializing in total hip replacement and limb salvage, is the Department Head at Vorstand Der University Klinik F. Orthopadie in Vienna, Austria. He is President elect of the European Federation of Orthopaedist and Traumatologists.

COMPETITION

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. There are companies in the medical products industry capable of developing and marketing computer-controlled robotic systems for surgical applications, many of whom have significantly greater financial, technical, manufacturing, marketing and distribution resources than the Company, and have established reputations in the medical devices industry. There can be no assurance that future competition will not have a material adverse effect on the Company's business. The principal competition for the ROBODOC System is manual surgery performed by orthopaedic surgeons, using surgical power tools and manual devices. 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 would 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 July 1, 1996, the Company had 24 full time employees, including 13 in research and development, three in manufacturing, four in regulatory affairs and quality assurance, and four 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)	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
Robert von Osdel	51	Director of Regulatory Affairs and Quality Assurance
Stewart Heald	59	Manager of Manufacturing
John N. Kapoor(1)	52	Director
Paul A.H. Pankow	66	Director

(1) Member of Compensation 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. 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 in March 1989 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 an IBM research fellow 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.

ROBERT VAN OSDEL, R.A.C., has been Director of Regulatory Affairs and Quality Assurance of the Company since April 1993. He has been involved in the medical regulatory field since 1968. From March 1990 to April 1993, Mr. van Osdel was Vice President Regulatory Affairs and Quality Assurance of Imagyn Medical, Inc., a developer and manufacturer of OB/GYN devices. Mr. van Osdel has been responsible for establishing quality assurance programs, clinical studies and regulatory strategies for several new ventures with emerging technologies. Mr. van Osdel received a Regulatory Affairs Certificate from the Regulatory Affairs Professional Society in July 1991 and a B.S. in Zoology from California State University at Long Beach.

STEWART 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 of 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.

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)	--	13,161(4)
Michael J. Tomczak..... Vice President and Chief Financial Officer	1995	$104,000(5)	--	8,555(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 services rendered to the Company from February 1995 until November 15, 1995.

(2) Although Dr. Trivedi received no options during fiscal 1995, he was granted options to purchase 308,552 shares of Common Stock, at an exercise price of $.08 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 308,552 shares of the Company's Common Stock, at an exercise price of $0.08 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	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE PER SHARE	EXPIRATION DATE
Dr. Ramesh C. Trivedi.....	--(1)	--	--	--
Dr. Wendy Shelton-Paul.....	13,161(2)	41.3%	$ 5.01	4/30/05
Michael J. Tomczak.....	8,555(2)	26.9%	$ 5.01	4/30/05

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(1) Although Dr. Trivedi received no options during fiscal 1995, he was granted options to purchase 308,552 shares of Common Stock, at an exercise price of $.08 per share, on February 16, 1996 pursuant to the Company's 1995 Stock Option Plan.

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/SARS AT DECEMBER 31, 1995(1)		VALUE OF UNEXERCISED IN-THE-MONEY OPTION/SARS AT DECEMBER 31, 1995(1)	
NAME	NUMBER	VALUE REALIZED	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Dr. Ramesh C. Trivedi.....	--	--	--	--	--	--
Dr. Wendy Shelton-Paul.....	--	--	5,265	7,846	--	--
Michael J. Tomczak.....	--	--	9,933	3,319	--	--

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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/SARS

NAME	REPRICE/ REGRANT DATE	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS 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	65,805	$.912	$5.01	$.08	9.25 years
Michael J. Tomczak.....	2/16/96	42,774	$.912	$5.01	$.08	9.25 years
Michael J. Tomczak.....	2/16/96	6,581	$.912	$8.05	$.08	8 years
Michael J. Tomczak.....	2/16/96	12,957	$.912	$8.05	$.08	6.5 years
Michael J. Tomczak.....	2/16/96	3,948	$.912	$3.42	$.08	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 $.08 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 1,059,019 shares of Common Stock may be granted to directors, employees (including officers) and consultants of the Company ("Plan participants").

As of June 30, 1996, there were outstanding options to purchase an aggregate of 871,648 shares granted pursuant to the Plan and options to purchase an aggregate of 20,765 shares granted pursuant to the Company's 1991 Stock Option Plan, which was terminated in December 1995. At June 30, 1996, options to purchase an aggregate 187,301 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 236,363 shares of Common Stock, at an exercise price of $0.08 per share, to certain officers, directors and employees of the Company pursuant to the Company's 1995 Stock Option

Plan, including options to purchase 65,805 shares granted to Dr. Wendy Shelton-Paul, Vice President of Medical Affairs of the Company, and options to purchase 66,260 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 $3.42 to $8.05 per share, surrendered for cancellation.

INDEMNIFICATION OF OFFICERS AND DIRECTORS AND LIMITATION ON DIRECTORS' 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 37,855 shares, 20,384 shares, 5,298 shares and 2,271 shares to Howard A. Paul, William Bargar, Brent Mittelstadt and Peter Kazanzides (collectively the "Founders"), respectively, for a purchase price of $0.08 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 65,805 shares of Common Stock, at an exercise price of $0.08 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 $34.19 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 29,679 shares of the Company's Series B Preferred Stock, or a total of 59,358 shares, for a purchase price of $4,000,370 ($67.39 per share). The Series B Preferred Stock was convertible into shares of Common Stock at a conversion price of $67.39 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 87,243 and 12,464 shares, respectively, for a total of 99,707 shares, of the Company's Series C Preferred Stock, for a purchase price of $7,000,002 and $1,000,000, respectively ($80.24 per share). The Series C Preferred Stock was convertible into shares of Common Stock at a conversion price of $80.24 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 29,679 shares of Common Stock to each of Sutter Health and

the Kapoor Trust, or a total of 59,358 shares. In addition, the Company issued 8,717 shares of Common Stock to each of Sutter Health and the Kapoor Trust, or a total of 17,434 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 87,243 shares of Common Stock to Sutter Health and 12,464 shares of Common Stock to Keystone, or a total of 99,707 shares. In addition, the Company issued 18,999 shares of Common Stock to Sutter Health and 3,086 shares of Common Stock to Keystone, or a total of 22,085 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 123,550 shares of Common Stock, at an exercise price of $0.02 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 674,921 shares of Series D Preferred Stock for an aggregate purchase price of $666,667 ($0.99 per share), and IBM purchased a warrant to purchase 1,349,842 shares of Series D Preferred Stock, exercisable at any time prior to December 31, 2005, at an exercise price of $0.02 per share, for an aggregate purchase price of $1,333,333 ($0.99 per warrant). In addition, EJ received an option to purchase an additional 337,460 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 674,920 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 380,584 shares, 11,585 shares and 42,158 shares, of Common Stock, respectively, at an exercise price of $0.76 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 118,478 shares, 3,607 shares and 13,125 shares, respectively, of Common Stock, at an exercise price of $0.76 per share, in connection with the exercise by EJ Financial and IBM of the Standby Options. These warrants will become exercisable for a period of 30 days following notice of the scheduled closing date of this Offering, which notice must be given not less than 30 days prior to such scheduled closing date, and may not be exercised thereafter.

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 236,363 shares of Common Stock, at an exercise price of $0.08 per share, to certain officers, directors, and employees of the Company pursuant to the Company's 1995 Stock Option Plan, including options to purchase 65,805 shares granted to Dr. Wendy Shelton-Paul, Vice President of Medical Affairs of the Company, and options to purchase 66,260 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 $3.42 to $8.05 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 1,012,381 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	2,214,117(5)	63.39%(6)	44.34%
EJ Financial Investments V, L.P..... 225 East Deer Path Road Suite 250 Lake Forest, IL 60045	1,012,381(7)	79.14%	36.43%
Sutter Health and Sutter Health Venture Partners, L.P..... One Capitol Mall Sacramento, CA 95814	658,891(8)	36.74%(9)	20.01%
Keystone Financial Corporation..... 5230 Centre Avenue Pittsburgh, PA 15329	70,832(10)	5.31%(11)	2.50%
Ramesh Trivedi(4).....	124,793(12)	8.89%(13)	4.30%
John N. Kapoor.....	1,012,381(14)	79.14%	36.43%
James J. McGroddy.....	--	--	--
Paul A.H. Pankow.....	--	--	--
Wendy Shelton-Paul(4).....	69,661(15)	5.31%(16)	2.48%
Mike Tomczak(4).....	56,291(17)	4.22%(18)	1.99%
All directors and officers as a group (4 persons).....	1,263,126(19)	84.66%(20)	42.22%

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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 July 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 1,279,177 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 2,024,762 shares of Common Stock at an exercise price of $0.02 per share exercisable until December 31, 2005, warrants to purchase 65,805 shares of Common Stock at an

exercise price of $0.08 per share exercisable until December 31, 2000, and warrants to purchase 123,550 shares of Common Stock at an exercise price of $0.02 per share exercisable until December 31, 2005, all of which warrants are presently exercisable.

(6) Calculated on the basis of 3,493,294 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 140,364 shares of Common Stock owned by Sutter Health and 499,062 shares issuable upon exercise of warrants exercisable by Sutter Health until August 28, 1996, at an exercise price of $0.76 per share, 4,273 shares of Common Stock beneficially owned by Sutter Health Venture Partners I, L.P. ("Sutter Partners"), an affiliate of Sutter Health, and 15,192 shares of Common Stock issuable upon the exercise by Sutter Partners of warrants exercisable until August 28, 1996, at an exercise of $0.76 per share.

(9) Calculated on the basis of 1,793,431 shares of Common Stock issued and outstanding.

(10) Includes warrants to purchase 55,283 shares of Common Stock exercisable until August 28, 1996, at an exercise price of $0.76.

(11) Calculated on the basis of 1,334,460 shares of Common Stock issued and outstanding.

(12) Represents shares issuable upon the exercise of exercisable options within 60 days, at an exercise price of $0.08 per share.

(13) Calculated on the basis of 1,403,970 shares of Common Stock issued and outstanding.

(14) 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.

(15) Includes 31,806 shares issuable upon exercise of stock options exercisable within 60 days.

(16) Calculated based upon 1,310,983 shares of Common Stock issued and outstanding.

(17) Represents shares issuable upon exercise of stock options exercisable within 60 days.

(18) Calculated based upon 1,335,468 shares of Common Stock issued and outstanding.

(19) Includes 212,890 shares of Common Stock issuable upon exercise of options exercisable within 60 days.

(20) Calculated based upon 1,492,067 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, 266,796 shares of Common Stock will be issued and outstanding and 1,012,381 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 Underwriter.

WARRANTS

The Warrants offered hereby will be issued in registered form under a Warrant Agreement (the "Warrant Agreement") between the Company and , 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] 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 twelve months after the Effective Date (or earlier with the prior written consent of the Underwriter), provided the closing bid quotation of the Common Stock 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), for a period of twenty (20) consecutive trading days ending on the third day prior to the date upon which the notice of redemption is given. 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 Underwriter 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 Underwriter 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 Underwriter 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 Underwriter 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 913,478 shares of Common Stock, at exercise prices ranging from $0.08 to $8.05, 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 2,214,117 shares of Common Stock, including the Series D Warrants, at exercise prices ranging from $0.02 to $0.76, which expire at various dates through December 31, 2005, but not including warrants to purchase 569,537 shares of Common Stock, at an exercise price of $0.76 per share, exercisable until August 28, 1996.

PREFERRED STOCK

At the Closing of this Offering, all of the Company's outstanding Series D Preferred Stock will be automatically converted into 1,012,381 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 Underwriter.

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 Underwriter determines 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 Underwriter's 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 Underwriter has 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 2,779,177 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 1,279,177 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 4,976,309 shares of Common Stock constituting restricted securities, have entered into agreements with the Underwriter 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 Underwriter. Following expiration of the term of the Lock-Up Agreements,

1,279,177 shares subject to the Lock-Up Agreements will become eligible for resale pursuant to Rule 144 commencing in the second quarter of 1998, 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 4,154,804 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 , to act as Transfer Agent for the Company's Common Stock and Warrant Agent for the Warrants.

UNDERWRITING

The Company has agreed to sell, and the Underwriter has agreed to purchase from the Company, 1,500,000 shares of Common Stock and 1,500,000 Warrants, subject to the terms and conditions set forth in the underwriting agreement between the Company and the Underwriting (the "Underwriting Agreement"). The Underwriter is committed to purchase and pay for all shares if any shares or warrants are purchased.

The Underwriter has advised the Company that it proposes 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.

The Underwriting Agreement provides further that the Underwriter 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 Underwriter may designate, including expenses of counsel retained for such purpose by the Underwriter.

Pursuant to the Underwriter's Over-Allotment Option, which is exercisable for a period of 45 days after the closing of the Offering, the Underwriter 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 Underwriter, for nominal consideration, the Underwriter's Warrants to purchase 150,000 shares of Common Stock and 150,000 Warrants. The Underwriter's Warrants will be non-exercisable for one year after the date of this Prospectus. Thereafter, for a period of four years, the Underwriter's Warrants will be exercisable at an amount 165% above the offering price of the Common Stock and Warrants sold in this offering. The Underwriter's Warrants are not transferable for a period of one year after the date of this Prospectus, except to officers of the Underwriter, 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 Underwriter's Warrants.

For the life of the Underwriter's 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 Underwriter's 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 Underwriter's 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 Underwriter. 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 Underwriter. See "Shares Eligible for Future Sale."

The Underwriting Agreement provides for reciprocal indemnification between the Company and the Underwriter 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 Underwriter as advisor to the Board. In addition and in lieu of the Underwriter's right to designate an advisor, the Company has agreed, if requested by the Underwriter, during such three year period, to nominate and use its best efforts to cause the election of a designee of the Underwriter as a director of the Company. The Underwriter has not yet designated any such person.

The Underwriter intends to act as a market maker 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 Underwriter 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 Underwriter 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 Underwriter 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 Underwriter 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 Underwriter 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 Underwriter 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 Underwriter to provide any minimum number of hours of consulting services to the Company.

The initial public offering price 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 Underwriter 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 price 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 Underwriter 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 Underwriter 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.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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; 674,921 and 1,012,381 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)	6,749	10,124	$ --
Common stock, $0.01 par value, 15,000,000 shares authorized; 266,726 and 266,796 shares issued and outstanding at December 31, 1995 and June 30, 1996, respectively (1,279,177 shares pro forma)	2,667	2,668	12,792
Additional paid-in capital	17,909,787	19,635,336	19,635,336
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	$ (1.39)	$ (1.20)	$ (0.59)	$ (0.34)
Shares used in per share calculations	4,162,576	4,169,220	4,163,404	4,362,783

See accompanying notes.

INTEGRATED SURGICAL SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	CONVERTIBLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN	DEFERRED STOCK	ACCUMULATED TRANSLATION
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	COMPENSATION	ADJUSTMENT
Balance at December 31, 1993	159,065	$ 1,591	65,872	$ 659	$11,736,972	$ --	$ --
Sale of common stock	--	--	1,512	15	11,349	--	--
Net loss	--	--	--	--	--	--	--
Translation adjustment	--	--	--	--	--	--	1,754
Balance at December 31, 1994	159,065	1,591	67,384	674	11,748,321	--	1,754
Sale of common stock	--	--	758	7	2,586	--	--
Conversion of note payable into a warrant to purchase common stock	--	--	--	--	4,224,373	--	--
Conversion of Series B and Series C preferred stock into common stock	(159,065)	(1,591)	159,065	1,591	--	--	--
Conversion of accumulated dividends preferred stock into common stock	--	--	39,519	395	(395)	--	--
Sale of Series D convertible preferred stock and a warrant to purchase Series D preferred stock	674,921	6,749	--	--	1,934,902	--	--
Net loss	--	--	--	--	--	--	--
Translation adjustment	--	--	--	--	--	--	3,543
Balance at December 31, 1995	674,921	6,749	266,726	2,667	17,909,787	--	5,297
Sale of common stock (unaudited)	--	--	70	1	16	--	--
Sale of Series D convertible preferred stock and a warrant to purchase Series D preferred stock (unaudited)	337,460	3,375	--	--	996,625	--	--
Deferred stock compensation (unaudited)	--	--	--	--	728,908	(728,908)	--
Stock compensation expense (unaudited)	--	--	--	--	--	246,524	--
Net loss (unaudited)	--	--	--	--	--	--	--
Translation adjustment (unaudited)	--	--	--	--	--	--	(5,038)
Balance at June 30, 1996 (unaudited)	1,012,381	$10,124	266,796	$2,668	$19,635,336	$ (482,384)	$ 259

	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 1993	$ (6,758,069)	$ 4,981,153
Sale of common stock	--	11,364
Net loss	(4,840,385)	(4,840,385)
Translation adjustment	--	1,754
Balance at December 31, 1994	(11,598,454)	153,886
Sale of common stock	--	2,593
Conversion of note payable into a warrant to purchase common stock	--	4,224,373
Conversion of Series B and Series C preferred stock into common stock	--	--
Conversion of accumulated dividends preferred stock into common stock	--	--
Sale of Series D convertible preferred stock and a warrant to purchase Series D preferred stock	--	1,941,651
Net loss	(4,053,528)	(4,053,528)
Translation adjustment	--	3,543
Balance at December 31, 1995	(15,651,982)	2,272,518
Sale of common stock (unaudited)	--	17
Sale of Series D convertible preferred stock and a warrant to purchase Series D preferred stock (unaudited)	--	1,000,000
Deferred stock compensation (unaudited)	--	--
Stock compensation expense (unaudited)	--	246,524
Net loss (unaudited)	(1,491,118)	(1,491,118)
Translation adjustment (unaudited)	--	(5,038)
Balance at June 30, 1996 (unaudited)	$(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.

2. SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

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 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").

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

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 ($0.94) 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.

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 659 shares of its common stock to the vendor during the year ended December 31, 1994, with an estimated fair value of $8.05 per share. The outstanding principal balance of the note and the remaining interest obligation which was due on September 30, 1995 was not paid 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. 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 123,550 shares of the Company's common stock at $0.02 per share which is currently exercisable and expires on December 31, 2005.

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 65,805 shares of the Company's common stock at a price of $0.08 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 5,682,878 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 59,358 and 99,707 shares of common stock, respectively. Also on that date, all accumulated and unpaid dividends on Series B and Series C were converted into 17,434 and 22,085 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 674,921 shares of Series D preferred stock for $0.99 per share. It also sold for $1,333,333 a warrant to purchase 1,349,842 shares of Series D at $0.02 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 337,460 shares of Series D preferred stock and a warrant to purchase an additional 674,920 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 337,460 shares of Series D preferred stock for $0.99 per share. The Company also sold a warrant for $666,667 to purchase 674,920 shares of Series D at $0.02 per share.

Series B and Series C preferred stockholders who did not purchase Series D stock were issued warrants to purchase an aggregate of 434,327 shares of the Company's common stock at a price of $0.76 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 135,210 shares of common stock at $0.76 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.

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 733,723 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	$0.99
Conversion rate	0.99

6. STOCKHOLDERS' EQUITY -- (CONTINUED)

CONVERTIBLE PREFERRED STOCK -- (CONTINUED)

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 $0.99 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 329,024 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. 1,079,784 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 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.

6. STOCKHOLDERS' EQUITY -- (CONTINUED)
STOCK OPTION PLANS -- (CONTINUED)

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	45,241
Granted	11,114
Canceled	(4,394)
Exercised (at $3.42 and $8.05 per share)	(326)
Outstanding at December 31, 1994	51,635
Granted	31,850
Canceled	(9,192)
Exercised (at $3.42 per share)	(758)
Outstanding at December 31, 1995 (at $3.42 to $8.05 per share)	73,535
Granted (unaudited)	875,927
Canceled (unaudited)	(56,979)
Exercised (at $0.24 per share) (unaudited)	(70)
Outstanding at June 30, 1996 (at $0.08 to $8.05 per share) (unaudited)	892,413

Of the options outstanding at December 31, 1995, options to purchase 45,228 shares of common stock were immediately exercisable at prices ranging from $3.42 to $8.05 per share. Of the options outstanding at June 30, 1996, options to purchase 310,721 shares of common stock were immediately exercisable at prices ranging from $0.08 to $8.05 per share. A total of 1,006,249 and 187,301 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.

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

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 July 8, 1996, the Board of Directors approved, subject to stockholder approval, a one-for-1.519647 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 1,012,381 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.

[LOGO]

RIGHT:

Computed Tomography image of a patient's femur who has previously undergone hip replacement surgery. Note how the metal implant causes a starburst effect, making the bone, implant and cement borders difficult to define.

LEFT:

ORTHODOC's software reduces scatter of the image of the thighbone and the implant contained therein, 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.

[LOGO]

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 and Rickel & Associates, Inc. (the "Underwriter"), filed as Exhibit 1.1 to this Registration Statement, which provides for indemnification by the Underwriter 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
Underwriter's expense allowance	251,625.00
Underwriter'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 21, 1995, as part of a recapitalization, the Registrant issued 29,679 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 21, 1995, as part of a recapitalization, the Registrant issued 8,717 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 21, 1995, as part of a recapitalization, the Registrant issued 87,243 shares of Common Stock to Sutter Health and 12,464 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 21, 1995, as part of a recapitalization, the Registrant issued 18,999 shares of Common Stock to Sutter Health and 3,086 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 123,550 shares of Common Stock, at an exercise price of $.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) and 4(6) of the Securities Act.

6. On December 21, 1995, as part of a recapitalization, the Registrant issued 674,921 shares of Series D Preferred Stock to EJ Financial Investments V, L.P. ("EJ Financial") for an aggregate purchase price of $666,667 ($.99 per share). In addition, EJ Financial received an option to purchase an additional 337,400 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) and 4(6) of the Securities Act.

7. On December 21, 1995, as part of a recapitalization, the Registrant issued a warrant to purchase 1,349,842 shares of Series D Preferred Stock (the "Series D Warrants") to IBM, at an exercise price of $.02 per share, for an aggregate purchase price of $1,333,333 ($.99 per warrant). In addition, IBM received an option to purchase Series D Warrants to purchase an additional 674,920 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) and 4(6) of the Securities Act.

8. On December 21, 1995, as part of a recapitalization, the Registrant issued warrants to purchase 380,584 shares, 11,585 shares and 42,158 shares of Common Stock to Sutter Health, Sutter Health Venture Partners L.P. and Keystone, respectively, at an exercise price of $.76 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) and 4(6) of the Securities Act.

9. On December 21, 1995, as part of a recapitalization, the Registrant issued warrants to purchase 118,478 shares, 3,607 shares and 13,125 shares of Common Stock to Sutter Health, Sutter Health Venture Partners L.P. and Keystone, respectively, at an exercise price of $.76 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) and 4(6) of the Securities Act.

10. From July 24, 1993 through December 31, 1994, the Registrant granted options to purchase an aggregate of 11,114 shares of Common Stock to employees of the Registrant pursuant to the Registrant's employee stock option plans, at an exercise price of $8.05 per share. The grant of these options was exempt from registration under Section 4(2) of the Securities Act.

11. From January 1, 1995 through December 31, 1995, the Registrant granted options to purchase an aggregate of 31,850 shares of Common Stock to employees of the Registrant pursuant to the Registrant's employee stock option plans, at an exercise price of $5.01 per share. The grant of these options was exempt from registration under Section 4(2) of the Securities Act.

12. From January 1, 1996 through July 30, 1996, the Registrant granted options to purchase an aggregate of 875,927 shares of Common Stock to employees of the Registrant pursuant to the Registrant's employee stock option plans, at an exercise price of $0.08 per share. The grant of these options was exempt from registration under Section 4(2) of the Securities Act.

ITEM 27. EXHIBITS

1.1	--	Form of Underwriting Agreement.
3.1	--	Form of Certificate of Incorporation of the Company, as amended.
3.2	--	By-laws of the Company.
4.1	--	Form of Underwriter's Warrants.
4.2	--	Form of Public Warrant Agreement.
* 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.
*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.
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).

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* To be filed by amendment.

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 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 JULY 30, 1996.

INTEGRATED SURGICAL SYSTEMS, INC.

By: /s/ RAMESH C. TRIVEDI Ramesh 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)

KNOW ALL MEN BY THESE PRESENTS, THAT EACH INDIVIDUAL WHOSE SIGNATURE APPEARS BELOW CONSTITUTES AND APPOINTS RAMESH TRIVEDI AND MICHAEL J. TOMCZAK, ACTING SINGLY, HIS TRUE AND LAWFUL ATTORNEY-IN-FACT AND AGENT, WITH FULL POWER OF SUBSTITUTION AND RESUBSTITUTION, FOR HIM AND IN HIS NAME, PLACE AND STEAD, IN ANY AND ALL CAPACITATES, TO SIGN ANY AND ALL AMENDMENTS (INCLUDING POST-EFFECTIVE AMENDMENTS) TO THIS REGISTRATION STATEMENT, AND TO FILE THE SAME AND ALL EXHIBITS THERETO, AND ALL DOCUMENTS IN CONNECTION THEREWITH, WITH THE SECURITIES AND EXCHANGE COMMISSION, GRANTING SAID ATTORNEY-IN-FACT AND AGENT, FULL POWER AND AUTHORITY TO DO AND PERFORM EACH AND EVERY ACT AND THING REQUISITE AND NECESSARY TO BE DONE IN ABOUT THE PREMISES, AS FULL TO ALL INTENTS AND PURPOSES AS HE MIGHT OR COULD DO IN PERSON, HEREBY RATIFYING AND CONFIRMING ALL THAT SAID ATTORNEY-IN-FACT AND AGENT, OR HIS SUBSTITUTE OR SUBSTITUTES, MAY LAWFULLY DO OR CAUSE TO BE DONE BY VIRTUE HEREOF.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1993, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS ON JULY 30, 1996, IN THE CAPACITIES INDICATED.

SIGNATURE	TITLE
/s/ RAMESH C. TRIVEDI Ranesh 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)
/s/ JAMES C. MCGRODDY James C. McGroddy	Chairman of the Board of Directors
/s/ WENDY SHELTON-PAUL Wendy Shelton-Paul	Director
/s/ JOHN N.KAPOOR John N. Kapoor	Director
/s/ PAUL A.H. PANKOW Paul A.H. Pankow	Director

EXHIBIT INDEX

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* To be filed by amendment.

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.
875 Third Avenue
New York, New York 10022

Gentlemen:

Integrated Surgical Systems, Inc., a Delaware corporation (the "Company"), hereby confirms its agreement with Rickel & Associates, Inc. ("you" or the "Underwriter") as set forth below.

The Company proposes to issue and sell to the Underwriter 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"). The Company also proposes to grant to the Underwriter 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 by the Underwriter 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 by the Underwriter 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 Underwriter and [name of warrant and transfer agent] (first anniversary of 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 Underwriter that:

(a) A registration statement on Form SB-2 (File No. 333-_____) with respect to the Securities and the Underwriter's 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 you. 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 Underwriter 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 Underwriter 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 you 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 Underwriter 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 Underwriter pursuant to this agreement and the Warrants 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 Underwriter.

(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 Underwriter's Warrant Agreement (as hereinafter defined). The execution and delivery of this agreement and the Underwriter's Warrant Agreement have been duly authorized by all necessary corporate action on the part of the Company and this agreement and the Underwriter's 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 Underwriter of the Securities pursuant to this agreement or the Underwriter's Securities pursuant to the Underwriter's Warrant

Agreement, the compliance by the Company with the provisions of this agreement and the Underwriter's Warrant Agreement, and the consummation of the other transactions contemplated in this agreement and the Underwriter's 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 Underwriter 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 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 Underwriter, 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 Underwriter's 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 Underwriter in accordance with the Underwriter's 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 Underwriter's Warrant Agreement. The Underwriter's Warrant Shares (as hereinafter defined) and the Underwriter's Warrant Warrant Shares (as hereinafter defined) have been duly authorized and reserved for issuance upon exercise of the Underwriter's Warrants and the Underwriter's Warrant Warrants (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 Underwriter's Warrant Agreement and the Underwriter's Warrant 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 Underwriter 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 Underwriter.

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 Underwriter, and the Underwriter agrees 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.

(b) Certificates in definitive form for the Firm Securities that the Underwriter has agreed to purchase hereunder, and in such denomination or denominations and registered in such name or names as the Underwriter requests 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 Underwriter, 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 Underwriter, 1211 Avenue of the Americas, New York, New York (the "Underwriter's Office") at 9:30 A.M., New York time, on _____ __, 1996, or at such other place, time or date as the Underwriter 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 Underwriter, at the Underwriter's option, at the offices in New York, New York of the Company's transfer agent and registrar or Counsel for the Underwriter'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 Underwriter 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 Underwriter shall not be under any obligation to purchase any of the Option Securities prior to the exercise of such option. The Underwriter 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 Underwriter 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 Underwriter 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 Underwriter 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 Underwriter, and, subject to the terms and conditions herein set forth, the Underwriter shall become obligated to purchase from the Company, the Option Securities as to which the Underwriter 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 Underwriter or, at the direction of the Underwriter, to bona fide officers of the Underwriter, for an aggregate purchase price of $10.00, warrants to purchase Common Stock and redeemable warrants to purchase Common Stock (the "Underwriter's 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. The Underwriter's 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 Underwriter's Warrants to be executed by the Company on the Effective Date (the "Underwriter's 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 Underwriter's Warrants. As provided in the Underwriter's Warrant Agreement, the Underwriter may designate that the Underwriter's Warrants be issued in varying amounts directly to bona fide officers of the Underwriter. As further provided, no sale, transfer, assignment, pledge or hypothecation of the Underwriter's 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 Underwriter and bona fide partners, directors and officers of the Underwriter and selling group members. The shares of Common Stock issuable upon exercise of the Underwriter's Warrants are referred to herein as the "Underwriter's Warrant Shares"; the warrants issuable upon exercise of the Underwriter's Warrants are referred to herein as the "Underwriter's Warrant Warrants"; the shares of Common Stock issuable upon exercise of the Underwriter's Warrant Warrants are referred to herein as the "Underwriter's Warrant Warrant Shares"; and the Underwriter's

Warrant Shares, the Underwriter's Warrant Warrants and the Underwriter's Warrant Warrant Shares are collectively referred to herein as the "Underwriter's Securities."

3. Offering by the Underwriter. The Underwriter proposes 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 Underwriter 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 Underwriter 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 Underwriter 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 Underwriter or counsel to the Underwriter, 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 Underwriter, 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 Underwriter, 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 Underwriter of each such filing or effectiveness.

(b) The Company will advise the Underwriter, 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 Underwriter, arrange for the qualification of the Securities for offering and sale under the blue sky or securities laws of such jurisdictions as the Underwriter 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 Underwriter 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 Underwriter and any dealer as many copies of each such Prospectus as the Underwriter 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 Underwriter 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 Underwriter and to counsel for the Underwriter (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 Underwriter may reasonably request, (ii) as many

conformed copies of such registration statement and each amendment thereto (in each case without exhibits thereto) as the Underwriter 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 Underwriter may reasonably request. The Company will timely file, and will provide or cause to be provided to the Underwriter and counsel to the Underwriter 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 Underwriter 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 Underwriter's 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 Underwriter, 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 Underwriter's Warrant, (iv) the Underwriter's Warrant Shares and Underwriter's Warrant Warrants issuable upon the exercise of the Underwriter's Warrants, (v) the Underwriter's Warrant Warrant Shares issuable upon exercise of the Underwriter's Warrant 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 your prior written consent, 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 Underwriter, 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 Underwriter. 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 Underwriter a duplicate copy of the daily transfer sheets relating to trading of the Securities. The Company shall also provide to the Underwriter, promptly upon its 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 Underwriter 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 Underwriter.

(t) The Company shall consult with the Underwriter 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 Underwriter 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 Underwriter for review prior to such distribution.

(u) The Company and the Underwriter 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 Underwriter 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 Underwriter 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 Underwriter's right to designate an Advisor, the Underwriter 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 Underwriter timely prior written notice of any proposed acquisitions, mergers, reorganizations or other similar transactions. The Company shall indemnify and hold the Underwriter 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 Underwriter 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 Underwriter's counsel to provide the Underwriter, 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 enter into an employment contract (acceptable to the Underwriter) with such key officers as may be selected by the Underwriter on terms and conditions reasonably satisfactory to the

Underwriter and intends to obtain key-person life insurance in the minimum amount of $_____ on each such person on such terms and conditions as are reasonably satisfactory to the Underwriter, 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 Underwriter 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 Underwriter 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 Underwriter 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 Underwriter or its representatives or designees (other than as shall have been specifically approved by the Underwriter to be paid for by the Underwriter) and (ix) the placing of "tombstone advertisements" in publications selected by the Underwriter and the manufacture of prospectus memorabilia. In addition to the foregoing, the Company shall reimburse the Underwriter for its 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 Underwriter. The Underwriter hereby acknowledges 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 Underwriter 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 Underwriter 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 Underwriter only for its actual accountable out-of-pocket expenses (in addition to blue sky legal fees and expenses referred to in subparagraph (a) above), and (ii) the Underwriter 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 Underwriter's 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 Underwriter 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 Underwriter in connection with the proposed offering.

6. Warrant Solicitation Fee. The Company agrees to pay the Underwriter 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 Underwriter and will not authorize any other dealer to engage in such solicitation without the prior written consent of the Underwriter 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 Underwriter will occur for a period of 12 months after the Effective Date.

7. Conditions of the Underwriter' Obligations. The obligations of the Underwriter to purchase and pay for the Firm Shares shall be subject, in the Underwriter'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 Underwriter; 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 Underwriter, 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 Underwriter 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 Underwriter's 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 Underwriter's Warrant Shares and the Underwriter's Warrant

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 Underwriter pursuant to this agreement, as to the Shares, the holders of the Warrants pursuant to the terms thereof, as to the Warrant Shares, the Underwriter pursuant to the Underwriter's Warrant, as to the Underwriter's Warrant Shares, pursuant to the Underwriter's Warrant Warrants, as to the Underwriter's Warrant 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 Underwriter's Warrant Shares or the Underwriter's Warrant 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 Underwriter's Warrant Agreement have been duly authorized by all necessary corporate action on the part of the Company and this agreement and the Underwriter's 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 Underwriter's Warrant Agreement may be limited by applicable law;

(6) the Underwriter's 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 Underwriter's 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 Underwriter's Warrant Agreement, (B) the issuance, offering and sale by the

Company to the Underwriter of the Securities pursuant to this agreement and the Underwriter's Warrant Securities pursuant to the Underwriter's Warrant Agreement, nor (C) the compliance by the Company with the other provisions of this agreement and the Underwriter's 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 Underwriter, 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 Underwriter, in form and substance acceptable to the Underwriter, if such other counsel expressly authorize such reliance and counsel to the Company expressly states in their opinion that such counsel's and the Underwriter's 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 Underwriter 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 Underwriter, 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, a decrease in net sales 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 the 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 Selected Financial Information) which are included in the Registration Statement and Prospectus and which are specified by the Underwriter, 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 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 Underwriter 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 Underwriter 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 Underwriter the Underwriter's Warrant Agreement and a certificate or certificates evidencing the Underwriter's Warrants, in each case in a form acceptable to the Underwriter.

(j) On or before the Firm Closing Date, the Underwriter and counsel for the Underwriter 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 Underwriter and counsel for the Underwriter. The Company shall furnish to the Underwriter such conformed copies of such opinions, certificates, letters and documents in such quantities as the Underwriter and counsel for the Underwriter shall reasonably request.

The respective obligations of the Underwriter 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 the 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 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 7, 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 7. 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 7 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 7 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 Underwriter 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 Underwriter, 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 Underwriter 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. Survival. The respective representations, warranties, agreements, covenants, indemnities and other statements of the Company, any of its officers or directors and the Underwriter 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 7 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.

10. Termination.

(a) This agreement may be terminated with respect to the Firm Securities or any Option Shares in the sole discretion of the Underwriter 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 Underwriter, 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 Underwriter 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 10 shall be without liability of any party to any other party except as provided in section 5(b) and section 8 hereof.

11. Information Supplied by the Underwriter. 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 Underwriter) constitute the only information furnished by the Underwriter to the Company for the purposes of sections 1(b) and 8(b) hereof. The Underwriter confirms that such statements (to such extent) are correct.

12. 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 the Underwriter: 875 Third Avenue
New York, New York 10022
Attn: Corporate Finance Department
Fax: (212) 754-9646

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 case of clause (iii), the business day next following the date such notice is sent.

13. 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.

14. 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.

15. 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.

16. 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 12.

17. 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.

18. 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.

19. 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.

20. 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.

21. Successors. This agreement shall inure to the benefit of and be binding upon the Underwriter, 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 Underwriter 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 Underwriter shall be deemed a successor because of such purchase.

22. 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.

23. 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.

24. 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.

25. 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 Underwriter.

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

EXHIBIT 3.1

CERTIFICATE OF AMENDMENT

OF THE

RESTATED CERTIFICATE OF INCORPORATION

OF

INTEGRATED SURGICAL SYSTEMS, INC.

The undersigned, Ramesh Trivedi, being the President of Integrated Surgical Systems, Inc., a corporation organized and existing under the laws of the State of Delaware, hereby certifies that:

1. The name of the corporation is Integrated Surgical Systems, Inc. (the "Corporation").

2. The Restated Certificate of Incorporation of the Corporation is hereby amended by deleting Article 4 in its entirety and by substituting the following new Article 4:

"4. The total number of shares of capital stock that the Corporation shall have authority to issue is 21,750,000 shares, of which: 15,000,000 shares shall be common stock, $0.01 par value per share (the "Common Stock"); 5,750,000 shares shall be Series D Preferred Stock, $0.01 par value per share (the "Series D Preferred Stock"); and 1,000,000 shall be Preferred Stock, $0.01 par value per share (the "Preferred Stock").

Upon the effective date of a registration statement filed with the Securities and Exchange Commission by the Corporation, in connection with an offering with gross proceeds of no less than $7,000,000, each currently outstanding share of Common Stock shall be split and converted into 0.658048 shares of Common Stock (the "Reverse Split"). No fractional shares shall be issued in connection with the Reverse Split, and the number of shares issuable to each stockholder upon the Reverse Split shall be determined by rounding upward to the next whole share on a certificate-by-certificate basis.

The relative rights, preferences, privileges and restrictions granted to or imposed upon the respective classes of shares of capital stock or holders thereof are as set forth below:

Common Stock:

The Common Stock shall have such rights and privileges as are set forth in the By-laws of the Corporation.

Series D Preferred Stock:

Section 1. Ranking. The Series D Preferred shall rank, subject to the rights of any other series of preferred stock which may from time to time come into existence pursuant to the terms hereof, prior to any other equity securities of the Corporation, including the Common Stock, upon liquidation, dissolution or winding-up.

Section 2. Dividends.

The holders of Series D Preferred Stock shall be entitled to receive a dividend (the "Participating Dividend" for such series) payable in cash on the payment date for each cash dividend declared on the shares of Common Stock in an amount per share of Series D Preferred Stock of such series equal to the number of shares (or fraction thereof) of Common Stock into which each share of Series D Preferred Stock on such series is then convertible times the cash dividend to be paid on each full share of Common Stock.

Following the filing of this Restated Certificate of Incorporation, the right to dividends on shares of the Common Stock and Series D Preferred Stock shall not be cumulative, and no right shall accrue to holders of Common Stock or Series D Preferred Stock by reason of the fact that dividends on said shares are not declared in any prior period.

Section 3. Liquidation. The shares of Series D Preferred Stock shall rank prior to the shares of Common Stock and any other class or series of capital stock of the Corporation ranking junior to the Series D Preferred Stock upon liquidation, dissolution or winding-up, so that in the event of any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, the holders of shares of Series D Preferred Stock shall be entitled to receive out of the assets of the Corporation available for distribution to its stockholders, whether from capital, surplus or earnings, before any distribution is made to holders of shares of Common Stock or any other such junior stock, an amount per share equal to $0.65 for each outstanding share of Series D Preferred Stock (the "Original Series D Issue Price") plus an amount equal to all accrued and unpaid dividends on each share of Series D Preferred Stock (such sum being referred to as the liquidation preference of the Series D Preferred Stock). After payment has been made to the holders of the Series D Preferred Stock of the full amount to which they shall be entitled, the remaining assets of the Corporation shall be distributed ratably to the holders of any capital stock of the Corporation ranking junior to the Series D Preferred Stock.

If the assets and funds of the Corporation distributable among the holders of shares of Series D Preferred Stock shall be insufficient to permit the payment in full to such holders of the respective liquidation preferences payable to such holders, in the event of any liquidation, dissolution or winding up of the Corporation, then the entire assets and funds of the Corporation legally available for distribution shall be distributed among such holders ratably in proportion to the aggregate liquidation preferences of the shares of Series D Preferred Stock held by such holders.

For purposes of this Section 3, an Acquisition (as defined below) shall be treated as a liquidation, dissolution or winding-up of the Corporation. For purposes of this section "Acquisition" shall mean any consolidation, merger or other reorganization of the Corporation; any sale, exchange or other disposition (whether in one transaction or a series of related transactions) of all, or any substantial part, of the assets of the Corporation and its subsidiaries taken as a whole; or any other transaction or series of related transactions which would result in the holders of the Voting Securities immediately prior thereto continuing to beneficially own less than a majority of the Total Voting

Power (as defined in Section 4(d)(iii)) of the Corporation, successor or acquiring corporation immediately thereafter.

Section 4. Voting.

(a) Except as otherwise required by law and as set forth herein, the holders of shares of Series D Preferred Stock issued and outstanding shall have no right to vote their shares of Series D Preferred Stock.

(b) The holders of shares of Series D Preferred Stock shall have the right to vote, together with the holders of all the outstanding shares of Common Stock and not by classes (except as otherwise provided in this Section 4 or by applicable law), on all matters on which holders of shares of Common Stock have the right to vote. Each holder of shares of Series D Preferred Stock shall have the right, for the shares of Series D Preferred Stock held by such holder on the applicable record date, to cast that number of votes on each such matter equal to the number of shares of Common Stock into which such shares of Series D Preferred Stock could be converted as of such record date, with any fractions rounded down to the next full vote, multiplied by the number of votes per share which the holders of shares of Common Stock then have with respect to such matter.

(c) Whenever holders of shares of Series D Preferred or Common Stock are required or permitted to take any action by vote, such action may be taken without a meeting by written consent, setting forth the action so taken and signed by the holders of shares of Series D Preferred or Common Stock, as the case may be, having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all such shares entitled to vote thereon were present and voted.

(d) The consent of holders of at least a majority of the outstanding shares of Series D Preferred Stock, voting separately as a class, shall be required before the Corporation shall (or shall permit any of its subsidiaries to):

(i) either directly or indirectly or through merger, consolidation or other reorganization with any other person, amend, alter or repeal any of the provisions hereof so as to affect adversely the powers, preferences or relative, participating, optional or other special rights of the Series D Preferred Stock;

(ii) adopt any amendment to the Corporation's Restated Certificate of Incorporation to change the Corporation's authorized capital; or

(iii) enter into any Control Transaction (as defined below) with any person.

"Control Transaction" shall mean any consolidation, merger or other reorganization of the Corporation; any sale, lease, exchange or other disposition (whether in one transaction or a series of related transactions) of all, or any substantial part, of the assets of the

Corporation and its subsidiaries taken as a whole; or any other transaction or series of related transactions which would result in the holders of the Voting Securities immediately prior thereto continuing to beneficially own less than fifty percent (50%) of the Total Voting Power of the Corporation, successor or acquiring corporation immediately thereafter.

"Total Voting Power of the Corporation" shall mean the total number of votes that may be cast in the election of directors of the Corporation at any meeting of stockholders of the Corporation if all Voting Securities (assuming full conversion, exchange or exercise of all securities (including rights, warrants and options) convertible into, exchangeable for or exercisable for any securities of the Corporation entitled to vote generally in the election of directors of the Corporation) 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 Corporation entitled to vote generally in the election of directors of the Corporation, and any other securities (including rights, warrants and options) convertible into, exchangeable for or exercisable for, any of the foregoing (whether or not presently convertible, exchangeable or exercisable).

(e) In addition to voting together with the holders of Voting Securities for the election of other directors of the Corporation, the holders of record of the Series D Preferred Stock, voting separately as a class (the "Series D Group"), to the exclusion of the holders of Common Stock and any other series of preferred stock then outstanding, shall, at any annual meeting of stockholders for the election of directors (and at each subsequent annual meeting of stockholders), vote for the election of two directors (each a "Series D Director") of the Corporation. In the election of the Series D Directors, the holders of Series D Preferred Stock shall be entitled to cast one vote per share of Series D Preferred Stock they hold. Any director who shall have been elected pursuant to this Section 4(e) may be removed at any time by, and removed without cause only by, the affirmative vote of the holders of the Series D Preferred Stock of the group that had elected such director who are entitled to cast a majority of the votes entitled to be cast for the election of any such director at a special meeting of such holders called for that purpose, and any vacancy thereby created may be filled only by the vote of such holders of the Series D Preferred Stock of such group. The holder of each share of Series D Preferred Stock shall be entitled to notice of any stockholders' meeting in accordance with the Bylaws of the Corporation and shall vote with the holders of the Common Stock upon the election of the remaining directors authorized by the Bylaws of the Corporation. The Corporation shall take any action from time to time as shall be necessary to amend the Bylaws of the Corporation to provide for a change in the authorized number of members of the Board as may be required to give effect to this Section 4(e).

Section 5. Conversion.

(a) General. On the terms and subject to the conditions of this Section 5, the holder of a share of Series D Preferred Stock shall have the right, at its option, at any time (subject to the next sentence and to Section 5(i)) to convert such share into that number of shares of Common Stock

(calculated as to each conversion to the nearest 1/100th of a share) obtained by dividing the Original Series D Issue Price (as defined in Section 3) by the Conversion Price for such series (as defined in Section 5(d)) and by surrender of such share pursuant to Section 5(b) (the shares of Common Stock issuable upon such conversion being called "Conversion Shares").

(b) Conversion Procedures. In order to exercise the conversion privilege, the holder of any shares of Series D Preferred Stock to be converted shall surrender the certificate representing such shares at the principal office of the Corporation, with a written notice stating that such holder elects to convert all or a specified whole number of such shares pursuant to this Section 5 and specifying the name or names in which such holder wishes the certificate or certificates for Conversion Shares to be issued. In the case of any mandatory conversion pursuant to Section 5(i), on or after the date of the occurrence of the event set forth in Section 5(i) (and within 10 days after receipt of written notice, if any, from the Corporation of the occurrence of such event), each holder of shares of Series D Preferred Stock shall surrender the certificate representing such shares at the principal office of the Corporation, together with a written notice specifying the name or names in which such holder wishes the certificate or certificates for Conversion Shares to be issued. Unless the Conversion Shares are to be issued in the same name as the name in which such shares of Series D Preferred Stock are registered, the certificate representing the shares surrendered for conversion shall be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder or its duly authorized attorney. As promptly as practicable after such surrender of a certificate for shares of Series D Preferred Stock, and in any event within five business days (as defined below) thereafter, the Corporation shall issue and deliver at such office to such holder, or on such holder's written order, (i) a certificate or certificates for the applicable number of full Conversion Shares, (ii) if less than the full number of shares of Series D Preferred Stock evidenced by the surrendered certificate is being converted, a new certificate, of like tenor, for the number of shares of Series D Preferred Stock evidenced by such surrendered certificate less the number of shares being converted and (iii) the cash payment in settlement of any fractional Conversion Share provided for in Section 5(c).

Upon conversion of any shares of Series D Preferred Stock, the holder thereof shall be entitled to receive an amount equal to all declared and unpaid dividends on such shares prior to such conversion. The payment for such declared and unpaid dividends on a mandatory conversion under Section 5(i) shall be paid in cash or Common Stock at the election of the Corporation. For purposes of the payment of the declared and unpaid dividend in Common Stock, the fair market value of the Common Stock shall be deemed to be the issuance price of the Common Stock in the public offering which triggers the mandatory conversion under Section 5(i).

A "business day" is a day other than a Saturday, Sunday or other day on which banks in the State of New York or the State of California are authorized to be closed.

In the case of the exercise of the conversion privilege, each conversion shall be deemed to have been effected as of the close of business on the date on which the certificate for shares of Series D Preferred Stock is surrendered and such notice is received by the Corporation as aforesaid, and the person or persons in whose name or names any certificate or certificates for

Conversion Shares are issuable shall be deemed to have become the holder or holders of such Conversion Shares at such time on such date and such conversion shall be at the applicable Conversion Price in effect at such time on such date, unless the stock transfer books of the Corporation are closed on that date, in which event such person or persons shall be deemed to have become such holder or holders of record at the close of business on the next day on which such stock transfer books are open (provided that if such books shall remain closed for five days, such fifth day shall be the date any such person shall become such a holder), but such conversion shall be at the applicable Conversion Price in effect on the date on which such certificate was surrendered and such notice was received. In the case of any mandatory conversion pursuant to Section 5(i), on the date of the occurrence of the event set forth in Section 5(i), each holder of shares of Series D Preferred Stock shall be deemed to be a holder of record of the Common Stock issuable upon such conversion, notwithstanding that the certificates representing such shares of Series D Preferred Stock shall not have been surrendered at the office of the Corporation, that notice from the Corporation shall not have been received by any holder of shares of Series D Preferred Stock or that the certificates evidencing such shares of Common Stock shall not then be actually delivered to such person. Upon delivery, all Conversion Shares shall be duly authorized, validly issued, fully paid, nonassessable, free of all liens and charges and not subject to any preemptive or subscription rights.

(c) Settlement of Fractional Conversion Shares. No fractional Conversion Shares or scrip representing fractions of Conversion Shares shall be issued upon conversion of shares of Series D Preferred Stock. Instead of any fractional Conversion Share otherwise deliverable, the Corporation shall pay to the holder of the converted shares an amount in cash equal to the current market price (as defined below) of such fractional Conversion Share on the date of conversion. If more than one share is surrendered for conversion at one time by the same holder, the number of full Conversion Shares shall be computed on the basis of the aggregate number of shares so surrendered. The "current market price" per share of Common Stock on any day is the average of the daily market prices for the 30 consecutive trading days immediately prior to the day in question. The "daily market price" of a share of Common Stock is the price of a share of Common Stock on the relevant day, determined on the basis of the last reported sale price, regular way, of the Common Stock as reported on the composite tape, or similar reporting system, for issues listed or admitted to trading on the New York Stock Exchange (or if the Common Stock is not then listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which the Common Stock is then listed or admitted to trading) or on the Nasdaq National Market or, if there is no such reported sale on the day in question, on the basis of the average of the closing bid and asked quotations as so reported or, if the Common Stock is not then listed or admitted to trading on any national securities exchange or on the Nasdaq National Market on the basis of the average of the high bid and low asked quotations on the day in question in the over-the-counter market as reported by the National Association of Securities Dealers' Automated Quotation System, or, if not so quoted, as reported by National Quotation Bureau, Incorporated, or a similar organization. If the current market price is not determinable as aforesaid, it shall be determined in good faith by the Board and evidence of such determination shall be filed with the minutes of the Corporation. A "trading day" is a day on which the principal national securities exchange on which the Common Stock is listed or admitted to trading

is open for the transaction of business or, if the Common Stock is not then listed or admitted to trading on any national securities exchange, any day other than Saturday, Sunday or a federal holiday.

(d) Conversion Price. "Series D Conversion Price" shall mean $0.65 as adjusted pursuant to this Section 5(d). "Conversion Price" shall generally mean the Series D Conversion Price. The Series D Conversion Price (and the kind and amount of consideration receivable by holders of shares of Series D Preferred Stock upon conversion) shall be adjusted from time to time as follows:

(i) If, after the date of the Corporation's Series D Preferred Stock and Warrant Purchase Agreement with respect to the Series D Conversion Price (such date being referred to as the "Conversion Reference Date" for such series), the Corporation (A) pays a dividend or makes a distribution on the Common Stock in shares of Common Stock, (B) subdivides or combines its outstanding shares of Common Stock into a greater or smaller number of shares or (C) issues by reclassification of the Common Stock any shares of capital stock of the Corporation, then the Series D Conversion Price in effect immediately prior to such action shall be adjusted so that the holder of any share of Series D Preferred Stock thereafter surrendered for conversion shall be entitled to receive, at the time of such conversion, the number of shares of Common Stock or other capital stock of the Corporation that it would have owned or been entitled to receive immediately following such action had such share been converted immediately prior to such action or the record date therefor, whichever is earlier. Such adjustment shall become effective immediately after the record date, in the case of a dividend or distribution, or immediately after the effective date, in the case of a subdivision, combination or reclassification.

(ii) If the Corporation issues any Additional Shares as defined below for a consideration per share less than the Conversion Price for a series of preferred stock in effect immediately prior to such issuance, then the Conversion Price for such series shall be adjusted by multiplying such Conversion Price in effect immediately prior to such issuance by a fraction (I) the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to the issuance of such Additional Shares plus the number of shares of Common Stock that the aggregate consideration for such Additional Shares would purchase at a consideration per share equal to such Conversion Price and (II) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to the issuance of such Additional Shares plus the number of Additional Shares so issued. Such adjustment shall become effective immediately after the issuance of such Additional Shares. For purposes of this Section 5, the issuance of any Additional Shares or other securities, warrants, options or rights includes any sale and any reissuance or resale.

"Additional Shares" shall mean any shares of Common Stock of the Corporation issued by the Corporation, excluding:

(A) any shares of Common Stock issued upon the exercise of the Warrant issued by the Corporation on February 6, 1991, for the purchase of 500,000 shares of Common Stock (prior to the split-up effected herein), as amended on the First Closing Date, as defined in the Corporation's Series D Preferred Stock and Warrant Purchase Agreement;

(B) any shares of Common Stock issued upon the exercise of the warrants issued by the Corporation on the First Closing Date to purchase an aggregate of 846,845 shares of Common Stock (as such number of shares may be increased on the Second Closing Date pursuant to the terms of such warrants), as those terms are defined in the Corporation's Series D Preferred Stock and Warrant Purchase Agreement;

(C) any shares of Common Stock issued upon conversion of the Series D Preferred Stock issuable upon the exercise of any warrant to purchase shares of Series D Preferred Stock issued by the Corporation on the First Closing Date or the Second Closing Date, as those terms are defined in the Corporation's Series D Preferred Stock and Warrant Purchase Agreement;

(D) any shares of Common Stock issued upon the conversion of the Series D Preferred Stock;

(E) up to 1,640,762 shares of Common Stock issuable (x) to any officer, employee, consultant or director of the Corporation pursuant to any arrangement or plan, including any incentive stock plan, adopted by the Board of Directors of the Corporation or (y) pursuant to the conversion of Rights or Convertible Securities (as defined in Section 5(d)(iii)) issuable to lending or leasing institutions; and

(E) up to 4,000 shares of Common Stock issuable at fair market value to vendors of goods or services to the Corporation in payment for such goods and services.

(iii) If, after the Series D Preferred Conversion Reference Date, the Corporation issues any warrants, options or other rights entitling the holders thereof to subscribe for or purchase either any Additional Shares or evidences of debt, shares of capital stock or other securities that are convertible into or exchangeable for, with or without payment of additional consideration, Additional Shares (such warrants, options or other rights being called "Rights" and such convertible or exchangeable evidences of debt, shares of capital stock or other securities being called "Convertible Securities"), and the consideration per share for which Additional Shares may at any time thereafter be issuable pursuant to such Rights or Convertible Securities (when added to the consideration per share of Common Stock, if any, received for such Rights), is less than the Conversion Price for the Series D Preferred Stock, the Series D Preferred Conversion Price shall be adjusted as provided in Section 5(d)(ii) on the basis that (A) the maximum number of Additional Shares issuable pursuant to all such Rights or necessary to effect the conversion or exchange of all such Convertible Securities shall be deemed to have been issued and (B) the aggregate consideration (plus the consideration, if any, received for such Rights) for such maximum number of Additional Shares shall be deemed to be the consideration received and receivable by the Corporation for the issuance of such Additional Shares pursuant to such Rights or Convertible Securities.

(iv) If, after the Series D Preferred Conversion Reference Date, the Corporation issues Convertible Securities and the consideration per share for which Additional Shares may at any time thereafter be issuable pursuant to such Convertible Securities is less than the

Conversion Price for such series, such Conversion Price shall be adjusted as provided in Section 5(d)(ii) on the basis that (A) the maximum number of Additional Shares necessary to effect the conversion or exchange of all such Convertible Securities shall be deemed to have been issued and (B) the aggregate consideration for such maximum number of Additional Shares shall be deemed to be the consideration received and receivable by the Corporation for the issuance of such Additional Shares pursuant to such Convertible Securities. No adjustment of a Conversion Price shall be made under this Section 5(d)(iv) upon the issuance of any Convertible Securities issued pursuant to the exercise of any Rights, to the extent that such adjustment was previously made upon the issuance of such Rights pursuant to Section 5(d)(iii).

(v) For purposes of Sections 5(d)(iii) and 5(d)(iv), the relevant Series D Conversion Price shall be the applicable Conversion Price in effect immediately prior to the earlier of (A) the record date for the holders of Common Stock entitled to receive the Rights or Convertible Securities and (B) the initial issuance of the Rights or Convertible Securities, and the adjustment provided for in either such Section shall become effective immediately after the earlier of the times specified in clauses (A) and (B).

(vi) No adjustment of any Conversion Price shall be made under Section 5(d)(ii) upon the issuance of any Additional Shares pursuant to the exercise of any Rights or of any conversion or exchange rights pursuant to any Convertible Securities, if such adjustment was previously made in connection with the issuance of such Rights or Convertible Securities (or in connection with the issuance of any Rights therefor) pursuant to Section 5(d)(iii) or 5(d)(iv).

(vii) If any Rights (or any portions thereof) that gave rise to an adjustment pursuant to Section 5(d)(iii) or any conversion or exchange rights pursuant to any Convertible Securities that gave rise to an adjustment pursuant to Section 5(d)(iii) or 5(d)(iv) expire or terminate without the exercise thereof and/or if by reason of the provisions of such Rights or Convertible Securities there has been any increase, with the passage of time or otherwise, in the consideration payable upon the exercise thereof, then the Series D Conversion Price shall be readjusted (but to no greater extent than originally adjusted) on the basis of (A) eliminating from the computation Additional Shares corresponding to such expired or terminated Rights or conversion or exchange rights, (B) treating the Additional Shares, if any, actually issued or issuable pursuant to the previous exercise of such Rights or conversion or exchange rights as having been issued for the consideration actually received and receivable therefor and (C) treating any such Rights or conversion or exchange rights that remain outstanding as being subject to exercise on the basis of the consideration payable upon the exercise or conversion thereof as is in effect at such time; provided, however, that any consideration actually received by the Corporation in connection with the issuance of such Rights or Convertible Securities shall form part of the readjustment computation even though such Rights or conversion or exchange rights expired without being exercised. The Series D Conversion Price shall be adjusted as provided in Section 5(d)(ii) and any applicable provisions of Section 5(d)(iii) or 5(d)(iv) as a result of any increase in the number of Additional Shares issuable, or any decrease in the consideration payable upon any issuance of Additional Shares, pursuant to any antidilution provisions of any Rights or Convertible Securities.

(viii) (A) If any Additional Shares, Convertible Securities or Rights are issued for cash, the consideration received therefor shall be deemed to be the amount of cash received.

(B) If any Additional Shares, Convertible Securities or Rights are offered by the Corporation for subscription, the consideration received therefor shall be deemed to be the subscription price.

(C) If any Additional Shares, Convertible Securities or Rights are sold to underwriters or dealers for public offering without a subscription offering, the consideration received therefor shall be deemed to be the public offering price.

(D) In any case covered by Section 5(d)(viii) (A), (B) or (C), in determining the amount of any consideration received by the Corporation in whole or in part other than in cash, the amount of such consideration shall be deemed to be the fair market value of such consideration as determined in good faith by the Board of Directors of the Corporation, and evidence of such determination shall be filed with the minutes of the Corporation. If Additional Shares are issued as part of a unit with Rights, the consideration received for the Rights shall be deemed to be the portion of the consideration received for such unit determined in good faith at the time of issuance by the Board of directors of the Corporation, and evidence of such determination shall be filed with the minutes of the Corporation. If the Board does not make any such determination, the consideration received for the Rights shall be deemed to be zero. In either event, the consideration received for the Additional Shares shall be deemed to be the consideration received for such unit less the consideration deemed to have been received for the Rights.

(E) In any case covered by Section 5(d)(viii) (A), (B), (C) or (D), in determining the amount of consideration received by the Corporation, (I) any amounts received or receivable for accrued interest or accrued dividends shall be excluded and (II) any compensation, underwriting commissions or concessions or expenses paid or incurred in connection therewith shall not be deducted.

(F) In any case covered by Section 5(d)(viii) (A), (B), (C) or (D), there shall be added to the consideration received by the Corporation at the time of issuance or sale (I) the minimum aggregate amount of additional consideration payable to the Corporation upon the exercise of Rights that relate to Convertible Securities and (II) the minimum aggregate amount of consideration payable upon the conversion or exchange thereof.

(G) If any Additional Shares, Convertible Securities or Rights are issued in connection with any merger, consolidation or other reorganization in which the Corporation is the surviving corporation, the amount of consideration received therefor shall be deemed to be the fair market value, as determined in good faith by the Board of Directors of the Corporation, of such portion of the assets and business of the non-surviving person or persons as the Board of Directors of the Corporation determines in good faith to be attributable to such Additional Shares, Convertible

Securities or Rights, and evidence of such determination shall be filed with the minutes of the Corporation.

(ix) If the corporation effects any merger, consolidation or other reorganization to which the Corporation is a party (other than a merger or consolidation in which the Corporation is the surviving corporation), any sale or conveyance to another person of all or substantially all the assets of the Corporation or any statutory exchange of securities with another person (including any exchange effected in connection with a merger of a third person into the Corporation), the holder of each share of Series D Preferred Stock then outstanding shall have the right thereafter to convert such share into the kind and amount of consideration receivable pursuant to such transaction by a holder of the number of shares of Common Stock into which such share of Series D Preferred Stock might have been converted immediately prior to such transaction, assuming such holder of Common Stock failed to exercise its rights of election, if any, as to the kind or amount of consideration receivable upon such transaction (provided that if the kind or amount of consideration receivable pursuant to such transaction is not the same for each share of Common Stock in respect of which such rights of election shall not have been exercised ("non-electing share"), then, for purposes of this Section 5(d)(ix), the kind and amount of consideration receivable pursuant to such transaction for each non-electing share shall be deemed to be the kind and amount so receivable per share by a plurality of the non-electing shares). Thereafter, the holders of shares of Series D Preferred Stock shall be entitled to appropriate adjustments with respect to their conversion rights to the end that the provisions set forth in this Section 5 shall correspondingly be made applicable, as nearly as may reasonably be, to any consideration thereafter deliverable on conversion of shares of Series D Preferred Stock. Notwithstanding the foregoing, this Section 5(d)(ix) shall not apply, with regard to any series, to an event which is treated as a liquidation, dissolution or winding-up of the Corporation with respect to such series pursuant to Section 3.

(x) If a purchase, tender or exchange offer is made to the holders of outstanding shares of Common Stock and, upon the consummation of such offer, the person having made such offer (together with its affiliates) beneficially owns 50% or more of the outstanding shares of Common Stock, the Corporation shall not effect any merger, consolidation or other reorganization with or sale, lease or other disposition of material assets or issuance of securities to the person having made such offer or any affiliate of such person, unless prior to the consummation thereof each holder of shares of Series D Preferred shall have been given a reasonable opportunity to elect to receive, upon conversion of the shares of Series D Preferred Stock then held by such holder (in lieu of the kind and amount of consideration otherwise receivable upon conversion pursuant to this Section 5(d)), the consideration that would have been received pursuant to such offer by a holder of that number of shares of the Common Stock into which one share of Series D Preferred Stock might then be converted if all such shares had been tendered and accepted pursuant to such offer.

(xi) If the Corporation distributes generally to holders of its outstanding shares of Common Stock or any other securities entitled generally to participate in the earnings or assets of the Corporation ("Common Equity") evidences of its debt, securities or other assets (excluding any cash dividends and excluding any dividends or distributions payable in Rights or

Convertible Securities for which adjustment is otherwise made pursuant to this Section 5(d)), each Conversion Price shall be adjusted by multiplying such Conversion Price in effect immediately prior to the record date for such dividend or distribution by a fraction of which (X) the numerator shall be the current market price per share of the Common Equity (determined, if the Common Equity is not Common Stock, in the same way that the current market price for Common Stock is determined) on such record date less the then fair market value, as determined in good faith by the Board of Directors of the Corporation, of the portion of the evidences of debt, securities or other assets so distributed or applicable to the holder of one share of Common Equity and (Y) the denominator shall be such current market price per share of the Common Equity, and evidence of such determination shall be filed with the minutes of the Corporation. Such adjustment shall become effective immediately after the record date for such dividend or distribution.

(xii) If a state of facts not specifically controlled by the provisions of this Section 5(d) occurs or is proposed that would result in the conversion provisions of the Series D Preferred Stock not being fairly protected in accordance with the essential intent and principles of such provisions, the Board of Directors of the Corporation shall make an adjustment in the application of such provisions, in accordance with such essential intent and principles, so as to protect such conversion provisions, and evidence of the determination by the Board of Directors of the Corporation of such adjustment shall be filed with the minutes of the Corporation.

(xiii) No adjustment in the Series D Conversion Price shall be required to be made unless it would require an increase or decrease of at least one cent, but any adjustments not made because of this Section 5(d)(xiii) shall be carried forward and taken into account in any subsequent adjustment otherwise required. All calculations under this Section 5(d) shall be made to the nearest cent or to the nearest 1/100th of a share, as the case may be. All adjustments with respect to a transaction or event shall apply to subsequent such transactions and events. Anything in this Section 5(d) to the contrary notwithstanding, the Board of directors of the Corporation shall be entitled to make such irrevocable reduction in the Series D Conversion Price, in addition to the adjustments required by this Section 5(d), as in its discretion it shall determine to be advisable in order to avoid or diminish any income deemed to be received for Federal income tax purposes by any holder of shares of Common Stock, Series D Preferred Stock resulting from any event or occurrence giving rise to an adjustment pursuant to this Section 5(d) or from any similar event or occurrence, and evidence of the determination by the Board of Directors of the Corporation of such adjustment shall be filed with the minutes of the Corporation.

(xiv) Whenever the Series D Conversion Price is adjusted pursuant to this Section 5(d), (A) the Corporation shall promptly file with the minutes of the Corporation a certificate of a firm of nationally recognized independent public accountants or of its chief accounting officer setting forth the Series D Conversion Price (and any change in the kind or amount of consideration to be received by holders of shares of Series D Preferred Stock upon conversion) after such adjustment and setting forth a brief statement of the facts requiring such adjustment and the manner of computing the same and (B) a notice stating that the Series D Conversion Price has been adjusted, stating the effective date of such adjustment and enclosing the certificate referred to in Section 5(d)(xiv)(A)

above shall forthwith be mailed by the Corporation to the holders of shares of Series D Preferred Stock at their addresses as shown on the stock books of the Corporation.

(xv) If as a result of any adjustment pursuant to this Section 5(d), the holder of any share of Series D Preferred Stock surrendered for conversion becomes entitled to receive any consideration other than Common Stock, then (A) the Series D Conversion Price with respect to such other consideration shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in this Section 5(d) and (B) in case such consideration shall consist of shares of Common Stock and some other kind of consideration or of two or more kinds of consideration, the Board of Directors of the Corporation shall determine in good faith the fair allocation of the adjusted Series D Conversion Price between or among such types of consideration, and evidence of such determination shall be filed with the minutes of the Corporation.

(e) Specified Events. For purposes of this Section 5(e), a "Specified Event" occurs if (i) the Corporation takes any action that would require any adjustment in the Series D Conversion Price pursuant to Section 5(d)(xi), (ii) the Corporation authorizes the granting to the holders of the Common Stock of any Rights or of any other rights, (iii) there is any capital stock reorganization or reclassification of the Common Stock (other than a subdivision or combination of the outstanding Common Stock and other than a change in the par value of the Common Stock), or any merger, consolidation or other reorganization to which the Corporation is a party, or any statutory exchange of securities with another person and for which approval of any stockholders of the Corporation is required, or any sale or transfer of all or substantially all the assets of the Corporation or (iv) there is a voluntary liquidation, dissolution or winding up of the Corporation. If a Specified Event occurs, the Corporation shall cause to be filed with the minutes of the Corporation, and shall cause to be mailed to the holders of shares of the Series D Preferred Stock, as the case may be, at their addresses as shown on the stock books of the Corporation, at least 10 days prior to the applicable date specified below, a notice stating (A) the date on which a record is to be taken for the purpose of any distribution or Rights relating to such Specified Event or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such distribution or Rights are to be determined, or (B) the date on which the reorganization, reclassification, consolidation, merger, statutory exchange, sale, transfer, dissolution, liquidation or winding-up relating to such Specified Event is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such Specified Event.

(f) Reservation of Common Stock. The Corporation shall at all times reserve and keep available, free from preemptive and subscription rights, out of its authorized but unissued shares of Common Stock, for the purpose of effecting conversions of the Series D Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of Series D Preferred Stock not theretofore converted. For this purpose, the number of shares of Common Stock deliverable upon the conversion of all outstanding shares of Series D Preferred Stock shall be computed as if at the time of computation all such outstanding shares were held by a single holder.

(g) Listing. The Corporation shall use its best efforts to list any securities required to be delivered upon conversion of the Series D Preferred Stock prior to such delivery upon each securities exchange, if any, upon which such securities are listed at the time of such delivery. Prior to the delivery of any such securities, the Corporation shall use its best efforts to comply with all laws and regulations thereunder requiring the registration of such securities with, or any approval of or consent to the delivery thereof by, any governmental authority.

(h) Taxes. The Corporation shall pay all documentary stamp or similar issue or transfer taxes payable in respect of the issue or delivery of securities on conversion of the Series D Preferred Stock; provided, however, that (i) the Corporation shall not be required to pay any tax payable in respect of any transfer involved in the issue or delivery of securities in a name other than that of the holder of the shares of Series D Preferred Stock to be converted and (ii) no such issue or delivery shall be made unless and until such holder has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid or provided for.

(i) Mandatory Conversion. All issued and outstanding shares of Series D Preferred Stock shall be deemed to have been converted into, and shall (without any action of the holder thereof) become, that number of fully paid and nonassessable shares of Common Stock into which such shares of Series D Preferred Stock are then convertible in accordance with the provisions of this Section 5 immediately upon the consummation of the Corporation's sale of 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 pursuant to the Securities Act of 1933, which public offering results in aggregate gross cash proceeds to the Corporation of at least $7,500,000 at a sale price per share of Common Stock (as adjusted for combinations, stock dividends, subdivisions or split-ups) of at least $3.25.

Section 6. Status of Shares. Upon any conversion or any redemption, repurchase or other acquisition by the Corporation of shares of Series D Preferred Stock, the shares of Series D Preferred Stock so converted, redeemed, repurchased or acquired shall be retired and cancelled and shall not be available for reissuance.

Section 7. Definitions and Construction. As used in this Article 4, (a) "herein," "hereof," "hereunder" and other like words mean or refer to this Article 4; (b) "outstanding," when used with reference to shares of stock, means issued shares, excluding shares held by the Corporation or a subsidiary; (c) "person" means any corporation, partnership, trust, organization, association or other entity or individual; (d) "affiliate" of any person means any other person controlling, controlled by or under common control with such person; (e) headings are for convenience of reference only and shall not define, limit or affect any of the provisions hereof; and (f) references to Sections are to Sections of this Article Four.

Section 8. Residual Rights. All rights accruing to the outstanding shares of the Corporation not expressly provided for or to the contrary herein shall be vested in the Common Stock.

Preferred Stock:

The Preferred Stock may be issued in one or more series, from time to time, with each such series to have such designation, powers, preferences, and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issue of such series adopted by the Board of Directors of the Corporation, subject to the limitations prescribed by law and in accordance with the provisions hereof, the Board of Directors being hereby expressly vested with authority to adopt any such resolution or resolutions. The authority of the Board of Directors with respect to each such series shall include, but not be limited to, the determination or fixing of the following:

(i) The distinctive designation and number of shares comprising such series, which number may (except where otherwise provided by the Board of Directors in creating such series) be increased or decreased (but not below the number of shares then outstanding) from time to time by like action of the Board of Directors;

(ii) The dividend rate of such series, the conditions and time upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes of stock or series thereof, or any other series of the same class, and whether such dividends shall be cumulative or non-cumulative;

(iii) The conditions upon which the shares of such series shall be subject to redemption by the Corporation and the times, prices and other terms and provisions upon which the shares of the series may be redeemed;

(iv) Whether or not the shares of the series shall be subject to the operation of a retirement or sinking fund to be applied to the purchase or redemption of such shares and, if such retirement or sinking fund be established, the annual amount thereof and the terms and provisions relative to the operation thereof;

(v) Whether or not the shares of the series shall be convertible into or exchangeable for shares of any other class or classes, with or without par value, or of any other series of the same class, and, if provision is made for conversion or exchange, the times, prices, rates, adjustments, and other terms and conditions of such conversion or exchange;

(vi) Whether or not the shares of the series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

(vii) The rights of the shares of the series in the event of voluntary or involuntary liquidation, dissolution, or upon the distribution of assets of the Corporation;

(viii) Any other powers, preferences and relative participating, optional or other special rights, and qualifications, limitations or restrictions thereof, of the shares of such series, as the Board of Directors may deem advisable and as shall not be inconsistent with the provisions of this Certificate of Incorporation.

The holders of shares of the Preferred Stock of each series shall be entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, dividends (if any) at the rates fixed by the Board of Directors for such series, and no more, before any cash dividends shall be declared and paid, or set apart for payment, on the Common Stock with respect to the same dividend period.

The holders of shares of the Preferred Stock of each series shall be entitled upon liquidation or dissolution or upon the distribution of the assets of the Corporation to such preferences as provided in the resolution or resolutions creating such series of Preferred Stock, and no more, before any distribution of the assets of the Corporation shall be made to the holders of shares of the Common Stock. Whenever the holders of shares of the Preferred Stock shall have been paid the full amounts to which they shall be entitled, the holders of shares of the Common Stock shall be entitled to share ratably in all remaining assets of the Corporation.

3. This amendment to the Restated Certificate of Incorporation of the Corporation (the "Amendment") has been duly adopted at a meeting of the Board of Directors of the Corporation in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware and by the holders of a majority of each class of outstanding stock entitled to vote thereon as a class by written consent given in accordance with Section 228 of the General Corporation Law of the State of Delaware. Written notice pursuant to Section 228 has been given to those stockholders of the Corporation who have not consented in writing to this action.

4. The effective date of the Amendment herein certified shall be the effective date of a registration statement filed with the Securities and Exchange Commission by the Corporation, in connection with an offering of gross proceeds of no less than $7,000,000.

IN WITNESS WHEREOF, I have hereunto set my hands and caused the Amendment to be executed on behalf of the Corporation this day of , 1996.

INTEGRATED SURGICAL SYSTEMS, INC.

By:

Ramesh Trivedi
President

RESTATED CERTIFICATE OF INCORPORATION

OF

INTEGRATED SURGICAL SYSTEMS, INC.

Integrated Surgical Systems, Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies that:

1. The name of the Corporation is Integrated Surgical Systems, Inc. The Corporation was originally incorporated under the same name, and the original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on October 1, 1990.

2. This Certificate restates and amends the provisions of the Corporation's Certificate of Incorporation to read as set forth in Exhibit A attached to this Certificate.

3. This restatement and amendment of the Corporation's Certificate of Incorporation has been duly adopted by the Corporation's Board of Directors in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware, and by the holders of each class of outstanding stock entitled to vote thereon as a class by written consent given in accordance with Section 228 of the General Corporation Law of the State of Delaware. Written notice pursuant to Section 228 has been given to those stockholders of the Corporation who have not consented in writing to this action.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Restatement of Certificate of Incorporation to be signed by Ramesh Trivedi, its President, this 20th day of December, 1995.

INTEGRATED SURGICAL SYSTEMS, INC.

By: /s/ Ramesh Trivedi

Ramesh Trivedi, President

EXHIBIT A

RESTATED CERTIFICATE OF INCORPORATION

OF

INTEGRATED SURGICAL SYSTEMS, INC.

1. The name of this corporation is Integrated Surgical Systems, Inc. (the "Corporation").

2. The address of the Corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, Zip Code 19801. The name of its registered agent at such address is The Corporation Trust Company.

3. The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

4. The Corporation is authorized to issue two classes of capital stock: Preferred Stock, $0.01 par value per share, and Common Stock, $0.01 par value per share. The total number of shares of Preferred Stock which the Corporation shall have the authority to issue is 5,750,000 of which 5,750,000 shares shall be designated Series D Preferred Stock ("Series D Preferred"). The total number of shares of Common Stock which the Corporation shall have the authority to issue is 15,000,000. The Series D Preferred is herein collectively referred to as the "Preferred Stock."

Upon the filing of this Restated Certificate of Incorporation with the Delaware Secretary of State, each currently outstanding share of Common Stock, Series B Preferred Stock and Series C Preferred Stock shall be split up and converted into 0.20 shares of Common Stock, and the Series A Preferred Stock, the Series B Preferred Stock and the Series C Preferred Stock shall be eliminated from the authorized capital stock of the corporation. No shares of Series A Preferred Stock have ever been issued or outstanding. Also upon the filing of this Restated Certificate of Incorporation, each $8.87 of accrued dividends with respect to the Series B Preferred Stock shall be converted into 0.20 shares of Common Stock and each $10.56 of accrued dividends with respect to the Series C Preferred Stock shall be converted into 0.20 shares of Common Stock. No fractional shares shall be issued in connection with such reverse stock split and conversion and the number of shares issuable to each stockholder shall be determined by rounding upward to the next whole share on a certificate-by-certificate basis.

The relative rights, preferences, privileges and restrictions granted to or imposed upon the respective classes of shares of capital stock or holders thereof are as set forth below.

Section 1. Ranking. The Series D Preferred shall rank, subject to the rights of any other series of Preferred Stock which may from time to time come into existence pursuant to the terms hereof, prior to any other equity securities of the Corporation, including the Common Stock, upon liquidation, dissolution or winding-up.

Section 2. Dividends.

The holders of Series D Preferred shall be entitled to receive a dividend (the "Participating Dividend" for such series) payable in cash on the payment date for each cash dividend declared on the shares of Common Stock in an amount per share of Preferred Stock of such series equal to the number of shares (or fraction thereof) of Common Stock into which each share of Preferred Stock on such series is then convertible times the cash dividend to be paid on each full share of Common Stock.

Following the filing of this Restated Certificate of Incorporation, the right to dividends on shares of the Common Stock and Preferred Stock shall not be cumulative, and no right shall accrue to holders of Common Stock or Series D Preferred Stock by reason of the fact that dividends on said shares are not declared in any prior period.

Section 3. Liquidation. The shares of Series D Preferred shall rank prior to the shares of Common Stock and any other class or series of capital stock of the Corporation ranking junior to the Series D Preferred Stock upon liquidation, dissolution or winding-up, so that in the event of any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, the holders of shares of Series D Preferred shall be entitled to receive out of the assets of the Corporation available for distribution to its stockholders, whether from capital, surplus or earnings, before any distribution is made to holders of shares of Common Stock or any other such junior stock, an amount per share equal to $0.65 for each outstanding share of Series D Preferred (the "Original Series D Issue Price") plus an amount equal to all accrued and unpaid dividends on each share of Series D Preferred (such sum being referred to as the liquidation preference of the Series D Preferred). After payment has been made to the holders of the Series D Preferred of the full amount to which they shall be entitled, the remaining assets of the Corporation shall be distributed ratably to the holders of any capital stock of the Corporation ranking junior to the Series D Preferred.

If the assets and funds of the Corporation distributable among the holders of shares of Series D Preferred shall be insufficient to permit the payment in full to such holders of the respective liquidation preferences payable to such holders, in the event of any liquidation, dissolution or winding up of the Corporation, then the entire assets and funds of the Corporation legally available for distribution shall be distributed among such holders ratably in proportion to the aggregate liquidation preferences of the shares of Preferred Stock held by such holders.

For purposes of this Section 3, an Acquisition (as defined below) shall be treated as a liquidation, dissolution or winding-up of the Corporation. For purposes of this section "Acquisition" shall mean any consolidation, merger or other reorganization of the Corporation; any sale, exchange or other disposition (whether in one transaction or a series of related transactions) of all, or any substantial part, of the assets of the Corporation and its subsidiaries taken as a whole; or any other transaction or series of related transactions which would result in the holders of the Voting Securities immediately prior thereto continuing to beneficially own less than a majority of the Total Voting

Power (as defined in Section 4(d)(iii)) of the Corporation, successor or acquiring corporation immediately thereafter.

Section 4. Voting.

(a) Except as otherwise required by law and as set forth herein, the holders of shares of Series D Preferred issued and outstanding shall have no right to vote their shares of Series D Preferred.

(b) The holders of shares of Series D Preferred shall have the right to vote, together with the holders of all the outstanding shares of Common Stock and not by classes (except as otherwise provided in this Section 4 or by applicable law), on all matters on which holders of shares of Common Stock have the right to vote. Each holder of shares of Series D Preferred shall have the right, for the shares of Series D Preferred held by such holder on the applicable record date, to cast that number of votes on each such matter equal to the number of shares of Common Stock into which such shares of Series D Preferred could be converted as of such record date, with any fractions rounded down to the next full vote, multiplied by the number of votes per share which the holders of shares of Common Stock then have with respect to such matter.

(c) Whenever holders of shares of Series D Preferred or Common Stock are required or permitted to take any action by vote, such action may be taken without a meeting by written consent, setting forth the action so taken and signed by the holders of shares of Series D Preferred or Common Stock, as the case may be, having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all such shares entitled to vote thereon were present and voted.

(d) The consent of holders of at least a majority of the outstanding shares of Series D Preferred, voting separately as a class, shall be required before the Corporation shall (or shall permit any of its subsidiaries to):

(i) either directly or indirectly or through merger, consolidation or other reorganization with any other person, amend, alter or repeal any of the provisions hereof so as to affect adversely the powers, preferences or relative, participating, optional or other special rights of the Series D Preferred;

(ii) adopt any amendment to the Corporation's Restated Certificate of Incorporation to change the Corporation's authorized capital; or

(iii) enter into any Control Transaction (as defined below) with any person.

"Control Transaction" shall mean any consolidation, merger or other reorganization of the Corporation; any sale, lease, exchange or other disposition (whether in one transaction or a series of related transactions) of all, or any substantial part, of the assets of the

Corporation and its subsidiaries taken as a whole; or any other transaction or series of related transactions which would result in the holders of the Voting Securities immediately prior thereto continuing to beneficially own less than fifty percent (50%) of the Total Voting Power of the Corporation, successor or acquiring corporation immediately thereafter.

"Total Voting Power of the Corporation" shall mean the total number of votes that may be cast in the election of directors of the Corporation at any meeting of stockholders of the Corporation if all Voting Securities (assuming full conversion, exchange or exercise of all securities (including rights, warrants and options) convertible into, exchangeable for or exercisable for any securities of the Corporation entitled to vote generally in the election of directors of the Corporation) 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 Corporation entitled to vote generally in the election of directors of the Corporation, and any other securities (including rights, warrants and options) convertible into, exchangeable for or exercisable for, any of the foregoing (whether or not presently convertible, exchangeable or exercisable).

(e) In addition to voting together with the holders of Voting Securities for the election of other directors of the Corporation, the holders of record of the Series D Preferred, voting separately as a class (the "Series D Group"), to the exclusion of the holders of Common Stock and any other series of Preferred Stock then outstanding, shall, at any annual meeting of stockholders for the election of directors (and at each subsequent annual meeting of stockholders), vote for the election of two directors (each a "Series D Director") of the Corporation. In the election of the Series D Directors, the holders of Series D Preferred shall be entitled to cast one vote per share of Series D Preferred they hold. Any director who shall have been elected pursuant to this Section 4(e) may be removed at any time by, and removed without cause only by, the affirmative vote of the holders of the Preferred Stock of the group that had elected such director who are entitled to cast a majority of the votes entitled to be cast for the election of any such director at a special meeting of such holders called for that purpose, and any vacancy thereby created may be filled only by the vote of such holders of the Preferred Stock of such group. The holder of each share of Preferred Stock shall be entitled to notice of any stockholders' meeting in accordance with the Bylaws of the Corporation and shall vote with the holders of the Common Stock upon the election of the remaining directors authorized by the Bylaws of the Corporation. The Corporation shall take any action from time to time as shall be necessary to amend the Bylaws of the Corporation to provide for a change in the authorized number of members of the Board as may be required to give effect to this Section 4(e).

Section 5. Conversion.

(a) General. On the terms and subject to the conditions of this Section 5, the holder of a share of Series D Preferred shall have the right, at its option, at any time (subject to the next sentence and to Section 5(i)) to convert such share into that number of shares of Common Stock

(calculated as to each conversion to the nearest 1/100th of a share) obtained by dividing the Original Series D Issue Price (as defined in Section 3) by the Conversion Price for such series (as defined in Section 5(d)) and by surrender of such share pursuant to Section 5(b) (the shares of Common Stock issuable upon such conversion being called "Conversion Shares").

(b) Conversion Procedures. In order to exercise the conversion privilege, the holder of any shares of Series D Preferred to be converted shall surrender the certificate representing such shares at the principal office of the Corporation, with a written notice stating that such holder elects to convert all or a specified whole number of such shares pursuant to this Section 5 and specifying the name or names in which such holder wishes the certificate or certificates for Conversion Shares to be issued. In the case of any mandatory conversion pursuant to Section 5(i), on or after the date of the occurrence of the event set forth in Section 5(i) (and within 10 days after receipt of written notice, if any, from the Corporation of the occurrence of such event), each holder of shares of Series D Preferred shall surrender the certificate representing such shares at the principal office of the Corporation, together with a written notice specifying the name or names in which such holder wishes the certificate or certificates for Conversion Shares to be issued. Unless the Conversion Shares are to be issued in the same name as the name in which such shares of Series D Preferred are registered, the certificate representing the shares surrendered for conversion shall be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder or its duly authorized attorney. As promptly as practicable after such surrender of a certificate for shares of Series D Preferred, and in any event within five business days (as defined below) thereafter, the Corporation shall issue and deliver at such office to such holder, or on such holder's written order, (i) a certificate or certificates for the applicable number of full Conversion Shares, (ii) if less than the full number of shares of Series D Preferred evidenced by the surrendered certificate is being converted, a new certificate, of like tenor, for the number of shares of Series D Preferred evidenced by such surrendered certificate less the number of shares being converted and (iii) the cash payment in settlement of any fractional Conversion Share provided for in Section 5(c).

Upon conversion of any shares of Series D Preferred, the holder thereof shall be entitled to receive an amount equal to all declared and unpaid dividends on such shares prior to such conversion. The payment for such declared and unpaid dividends on a mandatory conversion under Section 5(i) shall be paid in cash or Common Stock at the election of the Corporation. For purposes of the payment of the declared and unpaid dividend in Common Stock, the fair market value of the Common Stock shall be deemed to be the issuance price of the Common Stock in the public offering which triggers the mandatory conversion under Section 5(i).

A "business day" is a day other than a Saturday, Sunday or other day on which banks in the State of New York or the State of California are authorized to be closed.

In the case of the exercise of the conversion privilege, each conversion shall be deemed to have been effected as of the close of business on the date on which the certificate for shares of Series D Preferred is surrendered and such notice is received by the Corporation as aforesaid, and the person or persons in whose name or names any certificate or certificates for

Conversion Shares are issuable shall be deemed to have become the holder or holders of such Conversion Shares at such time on such date and such conversion shall be at the applicable Conversion Price in effect at such time on such date, unless the stock transfer books of the Corporation are closed on that date, in which event such person or persons shall be deemed to have become such holder or holders of record at the close of business on the next day on which such stock transfer books are open (provided that if such books shall remain closed for five days, such fifth day shall be the date any such person shall become such a holder), but such conversion shall be at the applicable Conversion Price in effect on the date on which such certificate was surrendered and such notice was received. In the case of any mandatory conversion pursuant to Section 5(i), on the date of the occurrence of the event set forth in Section 5(i), each holder of shares of Series D Preferred shall be deemed to be a holder of record of the Common Stock issuable upon such conversion, notwithstanding that the certificates representing such shares of Series D Preferred shall not have been surrendered at the office of the Corporation, that notice from the Corporation shall not have been received by any holder of shares of Series D Preferred or that the certificates evidencing such shares of Common Stock shall not then be actually delivered to such person. Upon delivery, all Conversion Shares shall be duly authorized, validly issued, fully paid, nonassessable, free of all liens and charges and not subject to any preemptive or subscription rights.

(c) Settlement of Fractional Conversion Shares. No fractional Conversion Shares or scrip representing fractions of Conversion Shares shall be issued upon conversion of shares of Series D Preferred. Instead of any fractional Conversion Share otherwise deliverable, the Corporation shall pay to the holder of the converted shares an amount in cash equal to the current market price (as defined below) of such fractional Conversion Share on the date of conversion. If more than one share is surrendered for conversion at one time by the same holder, the number of full Conversion Shares shall be computed on the basis of the aggregate number of shares so surrendered. The "current market price" per share of Common Stock on any day is the average of the daily market prices for the 30 consecutive trading days immediately prior to the day in question. The "daily market price" of a share of Common Stock is the price of a share of Common Stock on the relevant day, determined on the basis of the last reported sale price, regular way, of the Common Stock as reported on the composite tape, or similar reporting system, for issues listed or admitted to trading on the New York Stock Exchange (or if the Common Stock is not then listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which the Common Stock is then listed or admitted to trading) or on the Nasdaq National Market or, if there is no such reported sale on the day in question, on the basis of the average of the closing bid and asked quotations as so reported or, if the Common Stock is not then listed or admitted to trading on any national securities exchange or on the Nasdaq National Market on the basis of the average of the high bid and low asked quotations on the day in question in the over-the-counter market as reported by the National Association of Securities Dealers' Automated Quotation System, or, if not so quoted, as reported by National Quotation Bureau, Incorporated, or a similar organization. If the current market price is not determinable as aforesaid, it shall be determined in good faith by the Board and evidence of such determination shall be filed with the minutes of the Corporation. A "trading day" is a day on which the principal national securities exchange on which the Common Stock is listed or admitted to trading

is open for the transaction of business or, if the Common Stock is not then listed or admitted to trading on any national securities exchange, any day other than Saturday, Sunday or a federal holiday.

(d) Conversion Price. "Series D Conversion Price" shall mean $0.65 as adjusted pursuant to this Section 5(d). "Conversion Price" shall generally mean the Series D Conversion Price. The Series D Conversion Price (and the kind and amount of consideration receivable by holders of shares of Series D Preferred upon conversion) shall be adjusted from time to time as follows:

(i) If, after the date of the Corporation's Series D Preferred Stock and Warrant Purchase Agreement with respect to the Series D Conversion Price (such date being referred to as the "Conversion Reference Date" for such series), the Corporation (A) pays a dividend or makes a distribution on the Common Stock in shares of Common Stock, (B) subdivides or combines its outstanding shares of Common Stock into a greater or smaller number of shares or (C) issues by reclassification of the Common Stock any shares of capital stock of the Corporation, then the Series D Conversion Price in effect immediately prior to such action shall be adjusted so that the holder of any share of Series D Preferred thereafter surrendered for conversion shall be entitled to receive, at the time of such conversion, the number of shares of Common Stock or other capital stock of the Corporation that it would have owned or been entitled to receive immediately following such action had such share been converted immediately prior to such action or the record date therefor, whichever is earlier. Such adjustment shall become effective immediately after the record date, in the case of a dividend or distribution, or immediately after the effective date, in the case of a subdivision, combination or reclassification.

(ii) If the Corporation issues any Additional Shares as defined below for a consideration per share less than the Conversion Price for a series of Preferred Stock in effect immediately prior to such issuance, then the Conversion Price for such series shall be adjusted by multiplying such Conversion Price in effect immediately prior to such issuance by a fraction (I) the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to the issuance of such Additional Shares plus the number of shares of Common Stock that the aggregate consideration for such Additional Shares would purchase at a consideration per share equal to such Conversion Price and (II) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to the issuance of such Additional Shares plus the number of Additional Shares so issued. Such adjustment shall become effective immediately after the issuance of such Additional Shares. For purposes of this Section 5, the issuance of any Additional Shares or other securities, warrants, options or rights includes any sale and any reissuance or resale.

"Additional Shares" shall mean any shares of Common Stock of the Corporation issued by the Corporation, excluding:

(A) any shares of Common Stock issued upon the exercise of the Warrant issued by the Corporation on February 6, 1991, for the purchase of 500,000 shares of Common Stock (prior to the split-up effected herein), as amended on the First Closing Date, as defined in the Corporation's Series D Preferred Stock and Warrant Purchase Agreement;

(B) any shares of Common Stock issued upon the exercise of the warrants issued by the Corporation on the First Closing Date to purchase an aggregate of 846,845 shares of Common Stock (as such number of shares may be increased on the Second Closing Date pursuant to the terms of such warrants), as those terms are defined in the Corporation's Series D Preferred Stock and Warrant Purchase Agreement;

(C) any shares of Common Stock issued upon conversion of the Series D Preferred issuable upon the exercise of any warrant to purchase shares of Series D Preferred issued by the Corporation on the First Closing Date or the Second Closing Date, as those terms are defined in the Corporation's Series D Preferred Stock and Warrant Purchase Agreement;

(D) any shares of Common Stock issued upon the conversion of the Series D Preferred;

(E) up to 1,640,762 shares of Common Stock issuable (x) to any officer, employee, consultant or director of the Corporation pursuant to any arrangement or plan, including any incentive stock plan, adopted by the Board of Directors of the Corporation or (y) pursuant to the conversion of Rights or Convertible Securities (as defined in Section 5(d)(iii)) issuable to lending or leasing institutions; and

(E) up to 4,000 shares of Common Stock issuable at fair market value to vendors of goods or services to the Corporation in payment for such goods and services.

(iii) If, after the Series D Preferred Conversion Reference Date, the Corporation issues any warrants, options or other rights entitling the holders thereof to subscribe for or purchase either any Additional Shares or evidences of debt, shares of capital stock or other securities that are convertible into or exchangeable for, with or without payment of additional consideration, Additional Shares (such warrants, options or other rights being called "Rights" and such convertible or exchangeable evidences of debt, shares of capital stock or other securities being called "Convertible Securities"), and the consideration per share for which Additional Shares may at any time thereafter be issuable pursuant to such Rights or Convertible Securities (when added to the consideration per share of Common Stock, if any, received for such Rights), is less than the Conversion Price for the Series D Preferred, the Series D Preferred Conversion Price shall be adjusted as provided in Section 5(d)(ii) on the basis that (A) the maximum number of Additional Shares issuable pursuant to all such Rights or necessary to effect the conversion or exchange of all such Convertible Securities shall be deemed to have been issued and (B) the aggregate consideration (plus the consideration, if any, received for such Rights) for such maximum number of Additional Shares shall be deemed to be the consideration received and receivable by the Corporation for the issuance of such Additional Shares pursuant to such Rights or Convertible Securities.

(iv) If, after the Series D Preferred Conversion Reference Date, the Corporation issues Convertible Securities and the consideration per share for which Additional Shares may at any time thereafter be issuable pursuant to such Convertible Securities is less than the

Conversion Price for such series, such Conversion Price shall be adjusted as provided in Section 5(d)(ii) on the basis that (A) the maximum number of Additional Shares necessary to effect the conversion or exchange of all such Convertible Securities shall be deemed to have been issued and (B) the aggregate consideration for such maximum number of Additional Shares shall be deemed to be the consideration received and receivable by the Corporation for the issuance of such Additional Shares pursuant to such Convertible Securities. No adjustment of a Conversion Price shall be made under this Section 5(d)(iv) upon the issuance of any Convertible Securities issued pursuant to the exercise of any Rights, to the extent that such adjustment was previously made upon the issuance of such Rights pursuant to Section 5(d)(iii).

(v) For purposes of Sections 5(d)(iii) and 5(d)(iv), the relevant Series D Conversion Price shall be the applicable Conversion Price in effect immediately prior to the earlier of (A) the record date for the holders of Common Stock entitled to receive the Rights or Convertible Securities and (B) the initial issuance of the Rights or Convertible Securities, and the adjustment provided for in either such Section shall become effective immediately after the earlier of the times specified in clauses (A) and (B).

(vi) No adjustment of any Conversion Price shall be made under Section 5(d)(ii) upon the issuance of any Additional Shares pursuant to the exercise of any Rights or of any conversion or exchange rights pursuant to any Convertible Securities, if such adjustment was previously made in connection with the issuance of such Rights or Convertible Securities (or in connection with the issuance of any Rights therefor) pursuant to Section 5(d)(iii) or 5(d)(iv).

(vii) If any Rights (or any portions thereof) that gave rise to an adjustment pursuant to Section 5(d)(iii) or any conversion or exchange rights pursuant to any Convertible Securities that gave rise to an adjustment pursuant to Section 5(d)(iii) or 5(d)(iv) expire or terminate without the exercise thereof and/or if by reason of the provisions of such Rights or Convertible Securities there has been any increase, with the passage of time or otherwise, in the consideration payable upon the exercise thereof, then the Series D Conversion Price shall be readjusted (but to no greater extent than originally adjusted) on the basis of (A) eliminating from the computation Additional Shares corresponding to such expired or terminated Rights or conversion or exchange rights, (B) treating the Additional Shares, if any, actually issued or issuable pursuant to the previous exercise of such Rights or conversion or exchange rights as having been issued for the consideration actually received and receivable therefor and (C) treating any such Rights or conversion or exchange rights that remain outstanding as being subject to exercise on the basis of the consideration payable upon the exercise or conversion thereof as is in effect at such time; provided, however, that any consideration actually received by the Corporation in connection with the issuance of such Rights or Convertible Securities shall form part of the readjustment computation even though such Rights or conversion or exchange rights expired without being exercised. The Series D Conversion Price shall be adjusted as provided in Section 5(d)(ii) and any applicable provisions of Section 5(d)(iii) or 5(d)(iv) as a result of any increase in the number of Additional Shares issuable, or any decrease in the consideration payable upon any issuance of Additional Shares, pursuant to any antidilution provisions of any Rights or Convertible Securities.

(viii) (A) If any Additional Shares, Convertible Securities or Rights are issued for cash, the consideration received therefor shall be deemed to be the amount of cash received.

(B) If any Additional Shares, Convertible Securities or Rights are offered by the Corporation for subscription, the consideration received therefor shall be deemed to be the subscription price.

(C) If any Additional Shares, Convertible Securities or Rights are sold to underwriters or dealers for public offering without a subscription offering, the consideration received therefor shall be deemed to be the public offering price.

(D) In any case covered by Section 5(d)(viii) (A), (B) or (C), in determining the amount of any consideration received by the Corporation in whole or in part other than in cash, the amount of such consideration shall be deemed to be the fair market value of such consideration as determined in good faith by the Board of Directors of the Corporation, and evidence of such determination shall be filed with the minutes of the Corporation. If Additional Shares are issued as part of a unit with Rights, the consideration received for the Rights shall be deemed to be the portion of the consideration received for such unit determined in good faith at the time of issuance by the Board of directors of the Corporation, and evidence of such determination shall be filed with the minutes of the Corporation. If the Board does not make any such determination, the consideration received for the Rights shall be deemed to be zero. In either event, the consideration received for the Additional Shares shall be deemed to be the consideration received for such unit less the consideration deemed to have been received for the Rights.

(E) In any case covered by Section 5(d)(viii) (A), (B), (C) or (D), in determining the amount of consideration received by the Corporation, (I) any amounts received or receivable for accrued interest or accrued dividends shall be excluded and (II) any compensation, underwriting commissions or concessions or expenses paid or incurred in connection therewith shall not be deducted.

(F) In any case covered by Section 5(d)(viii) (A), (B), (C) or (D), there shall be added to the consideration received by the Corporation at the time of issuance or sale (I) the minimum aggregate amount of additional consideration payable to the Corporation upon the exercise of Rights that relate to Convertible Securities and (II) the minimum aggregate amount of consideration payable upon the conversion or exchange thereof.

(G) If any Additional Shares, Convertible Securities or Rights are issued in connection with any merger, consolidation or other reorganization in which the Corporation is the surviving corporation, the amount of consideration received therefor shall be deemed to be the fair market value, as determined in good faith by the Board of Directors of the Corporation, of such portion of the assets and business of the non-surviving person or persons as the Board of Directors of the Corporation determines in good faith to be attributable to such Additional Shares, Convertible

Securities or Rights, and evidence of such determination shall be filed with the minutes of the Corporation.

(ix) If the corporation effects any merger, consolidation or other reorganization to which the Corporation is a party (other than a merger or consolidation in which the Corporation is the surviving corporation), any sale or conveyance to another person of all or substantially all the assets of the Corporation or any statutory exchange of securities with another person (including any exchange effected in connection with a merger of a third person into the Corporation), the holder of each share of Series D Preferred then outstanding shall have the right thereafter to convert such share into the kind and amount of consideration receivable pursuant to such transaction by a holder of the number of shares of Common Stock into which such share of Series D Preferred might have been converted immediately prior to such transaction, assuming such holder of Common Stock failed to exercise its rights of election, if any, as to the kind or amount of consideration receivable upon such transaction (provided that if the kind or amount of consideration receivable pursuant to such transaction is not the same for each share of Common Stock in respect of which such rights of election shall not have been exercised ("non-electing share"), then, for purposes of this Section 5(d)(ix), the kind and amount of consideration receivable pursuant to such transaction for each non-electing share shall be deemed to be the kind and amount so receivable per share by a plurality of the non-electing shares). Thereafter, the holders of shares of Series D Preferred shall be entitled to appropriate adjustments with respect to their conversion rights to the end that the provisions set forth in this Section 5 shall correspondingly be made applicable, as nearly as may reasonably be, to any consideration thereafter deliverable on conversion of shares of Series D Preferred. Notwithstanding the foregoing, this Section 5(d)(ix) shall not apply, with regard to any series, to an event which is treated as a liquidation, dissolution or winding-up of the Corporation with respect to such series pursuant to Section 3.

(x) If a purchase, tender or exchange offer is made to the holders of outstanding shares of Common Stock and, upon the consummation of such offer, the person having made such offer (together with its affiliates) beneficially owns 50% or more of the outstanding shares of Common Stock, the Corporation shall not effect any merger, consolidation or other reorganization with or sale, lease or other disposition of material assets or issuance of securities to the person having made such offer or any affiliate of such person, unless prior to the consummation thereof each holder of shares of Series D Preferred shall have been given a reasonable opportunity to elect to receive, upon conversion of the shares of Series D Preferred then held by such holder (in lieu of the kind and amount of consideration otherwise receivable upon conversion pursuant to this Section 5(d)), the consideration that would have been received pursuant to such offer by a holder of that number of shares of the Common Stock into which one share of Series D Preferred might then be converted if all such shares had been tendered and accepted pursuant to such offer.

(xi) If the Corporation distributes generally to holders of its outstanding shares of Common Stock or any other securities entitled generally to participate in the earnings or assets of the Corporation ("Common Equity") evidences of its debt, securities or other assets (excluding any cash dividends and excluding any dividends or distributions payable in Rights or

Convertible Securities for which adjustment is otherwise made pursuant to this Section 5(d)), each Conversion Price shall be adjusted by multiplying such Conversion Price in effect immediately prior to the record date for such dividend or distribution by a fraction of which (X) the numerator shall be the current market price per share of the Common Equity (determined, if the Common Equity is not Common Stock, in the same way that the current market price for Common Stock is determined) on such record date less the then fair market value, as determined in good faith by the Board of Directors of the Corporation, of the portion of the evidences of debt, securities or other assets so distributed or applicable to the holder of one share of Common Equity and (Y) the denominator shall be such current market price per share of the Common Equity, and evidence of such determination shall be filed with the minutes of the Corporation. Such adjustment shall become effective immediately after the record date for such dividend or distribution.

(xii) If a state of facts not specifically controlled by the provisions of this Section 5(d) occurs or is proposed that would result in the conversion provisions of the Series D Preferred Stock not being fairly protected in accordance with the essential intent and principles of such provisions, the Board of Directors of the Corporation shall make an adjustment in the application of such provisions, in accordance with such essential intent and principles, so as to protect such conversion provisions, and evidence of the determination by the Board of Directors of the Corporation of such adjustment shall be filed with the minutes of the Corporation.

(xiii) No adjustment in the Series D Conversion Price shall be required to be made unless it would require an increase or decrease of at least one cent, but any adjustments not made because of this Section 5(d)(xiii) shall be carried forward and taken into account in any subsequent adjustment otherwise required. All calculations under this Section 5(d) shall be made to the nearest cent or to the nearest 1/100th of a share, as the case may be. All adjustments with respect to a transaction or event shall apply to subsequent such transactions and events. Anything in this Section 5(d) to the contrary notwithstanding, the Board of directors of the Corporation shall be entitled to make such irrevocable reduction in the Series D Conversion Price, in addition to the adjustments required by this Section 5(d), as in its discretion it shall determine to be advisable in order to avoid or diminish any income deemed to be received for Federal income tax purposes by any holder of shares of Common Stock, Series D Preferred resulting from any event or occurrence giving rise to an adjustment pursuant to this Section 5(d) or from any similar event or occurrence, and evidence of the determination by the Board of Directors of the Corporation of such adjustment shall be filed with the minutes of the Corporation.

(xiv) Whenever the Series D Conversion Price is adjusted pursuant to this Section 5(d), (A) the Corporation shall promptly file with the minutes of the Corporation a certificate of a firm of nationally recognized independent public accountants or of its chief accounting officer setting forth the Series D Conversion Price (and any change in the kind or amount of consideration to be received by holders of shares of Series D Preferred upon conversion) after such adjustment and setting forth a brief statement of the facts requiring such adjustment and the manner of computing the same and (B) a notice stating that the Series D Conversion Price has been adjusted, stating the effective date of such adjustment and enclosing the certificate referred to in Section 5(d)(xiv)(A)

above shall forthwith be mailed by the Corporation to the holders of shares of Series D Preferred at their addresses as shown on the stock books of the Corporation.

(xv) If as a result of any adjustment pursuant to this Section 5(d), the holder of any share of Series D Preferred surrendered for conversion becomes entitled to receive any consideration other than Common Stock, then (A) the Series D Conversion Price with respect to such other consideration shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in this Section 5(d) and (B) in case such consideration shall consist of shares of Common Stock and some other kind of consideration or of two or more kinds of consideration, the Board of Directors of the Corporation shall determine in good faith the fair allocation of the adjusted Series D Conversion Price between or among such types of consideration, and evidence of such determination shall be filed with the minutes of the Corporation.

(e) Specified Events. For purposes of this Section 5(e), a "Specified Event" occurs if (i) the Corporation takes any action that would require any adjustment in the Series D Conversion Price pursuant to Section 5(d)(xi), (ii) the Corporation authorizes the granting to the holders of the Common Stock of any Rights or of any other rights, (iii) there is any capital stock reorganization or reclassification of the Common Stock (other than a subdivision or combination of the outstanding Common Stock and other than a change in the par value of the Common Stock), or any merger, consolidation or other reorganization to which the Corporation is a party, or any statutory exchange of securities with another person and for which approval of any stockholders of the Corporation is required, or any sale or transfer of all or substantially all the assets of the Corporation or (iv) there is a voluntary liquidation, dissolution or winding up of the Corporation. If a Specified Event occurs, the Corporation shall cause to be filed with the minutes of the Corporation, and shall cause to be mailed to the holders of shares of the Series D Preferred, as the case may be, at their addresses as shown on the stock books of the Corporation, at least 10 days prior to the applicable date specified below, a notice stating (A) the date on which a record is to be taken for the purpose of any distribution or Rights relating to such Specified Event or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such distribution or Rights are to be determined, or (B) the date on which the reorganization, reclassification, consolidation, merger, statutory exchange, sale, transfer, dissolution, liquidation or winding-up relating to such Specified Event is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such Specified Event.

(f) Reservation of Common Stock. The Corporation shall at all times reserve and keep available, free from preemptive and subscription rights, out of its authorized but unissued shares of Common Stock, for the purpose of effecting conversions of the Series D Preferred, the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of Series D Preferred not theretofore converted. For this purpose, the number of shares of Common Stock deliverable upon the conversion of all outstanding shares of Series D Preferred shall be computed as if at the time of computation all such outstanding shares were held by a single holder.

(g) Listing. The Corporation shall use its best efforts to list any securities required to be delivered upon conversion of the Series D Preferred prior to such delivery upon each securities exchange, if any, upon which such securities are listed at the time of such delivery. Prior to the delivery of any such securities, the Corporation shall use its best efforts to comply with all laws and regulations thereunder requiring the registration of such securities with, or any approval of or consent to the delivery thereof by, any governmental authority.

(h) Taxes. The Corporation shall pay all documentary stamp or similar issue or transfer taxes payable in respect of the issue or delivery of securities on conversion of the Series D Preferred; provided, however, that (i) the Corporation shall not be required to pay any tax payable in respect of any transfer involved in the issue or delivery of securities in a name other than that of the holder of the shares of Series D Preferred to be converted and (ii) no such issue or delivery shall be made unless and until such holder has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid or provided for.

(i) Mandatory Conversion. All issued and outstanding shares of Series D Preferred shall be deemed to have been converted into, and shall (without any action of the holder thereof) become, that number of fully paid and nonassessable shares of Common Stock into which such shares of Series D Preferred are then convertible in accordance with the provisions of this Section 5 immediately upon the consummation of the Corporation's sale of 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 pursuant to the Securities Act of 1933, which public offering results in aggregate gross cash proceeds to the Corporation of at least $7,500,000 at a sale price per share of Common Stock (as adjusted for combinations, stock dividends, subdivisions or split-ups) of at least $3.25.

Section 6. Status of Shares. Upon any conversion or any redemption, repurchase or other acquisition by the Corporation of shares of Series D Preferred, the shares of Series D Preferred so converted, redeemed, repurchased or acquired shall be retired and cancelled and shall not be available for reissuance.

Section 7. Definitions and Construction. As used in this Article 4, (a) "herein," "hereof," "hereunder" and other like words mean or refer to this Article 4; (b) "outstanding," when used with reference to shares of stock, means issued shares, excluding shares held by the Corporation or a subsidiary; (c) "person" means any corporation, partnership, trust, organization, association or other entity or individual; (d) "affiliate" of any person means any other person controlling, controlled by or under common control with such person; (e) headings are for convenience of reference only and shall not define, limit or affect any of the provisions hereof; and (f) references to Sections are to Sections of this Article Four.

Section 8. Residual Rights. All rights accruing to the outstanding shares of the Corporation not expressly provided for or to the contrary herein shall be vested in the Common Stock.

5. The Corporation is to have perpetual existence.

6. In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, amend or repeal the Bylaws of the Corporation.

7. The number of directors which will constitute the whole Board of Directors of the Corporation shall be as specified in the Bylaws of the Corporation.

8. The election of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

9. At the election of directors of the Corporation, each holder of stock or of any class or classes or of a series or series thereof shall be entitled to as many votes as shall equal the number of votes which (except for such provision as to cumulative voting) he would be entitled to cast for the election of directors with respect to his shares of stock multiplied by the number of directors to be elected by him, and he may cast all of such votes for a single director or may distribute them among the number to be voted for, or for any two or more of them as he may see fit.

10. Meeting of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provisions contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

11. To the fullest extent permitted by the Delaware General Corporation Law as the same exists or as may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. Neither any amendment nor repeal of this Article, nor the adoption of any provision of this Restated Certificate of Incorporation inconsistent with this Article, shall eliminate or reduce the effect of this Article in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

12. Advance notice of new business and stockholder nomination for the election of directors shall be given in the manner and to the extent provided in the Bylaws of the Corporation.

13. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

EXHIBIT 3.2

BYLAWS

OF

INTEGRATED SURGICAL SYSTEMS, INC.

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

BYLAWS

OF

INTEGRATED SURGICAL SYSTEMS, INC.

ARTICLE I

CORPORATE OFFICES

1.1 REGISTERED OFFICE

The registered office of the corporation shall be in the City of Wilmington, County of New Castle, State of Delaware. The name of the registered agent of the corporation at such location is The Corporation Trust Company.

1.2 OTHER OFFICES

The board of directors may at any time establish other offices at any place or places where the corporation is qualified to do business.

ARTICLE II

MEETINGS OF STOCKHOLDERS

2.1 PLACE OF MEETINGS

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the registered office of the corporation.

2.2 ANNUAL MEETING

The annual meeting of stockholders shall be held each year on a date and at a time designated by the board of directors. In the absence of such designation the annual meeting of shareholders shall be held on the second Monday of May of each year at 10:00 a.m. However, if such day falls on a legal holiday, then the meeting shall be held at the same time and place on the next succeeding business day. At the meeting, directors shall be elected and any other proper business may be transacted.

2.3 SPECIAL MEETING

A special meeting of the stockholders may be called at any time by the board of directors, or by the chairman of the board, or by the president, or by one or more stockholders holding shares in the aggregate entitled to cast not less than ten percent of the votes at that meeting.

If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president or the secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The officer receiving the request shall cause notice to be promptly given to the stockholders entitled to vote, in accordance with the provisions of Sections 2.4 and 2.5 of this Article II, that a meeting will be held at the time requested by the person or persons calling the meeting, not less than ten (10) nor more than sixty (60) days after the receipt of the request. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

2.4 NOTICE OF STOCKHOLDERS' MEETINGS

All notices of meetings with stockholders shall be in writing and shall be sent or otherwise given in accordance with Section 2.5 of these bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place, date, and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

2.5 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE

Written notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the corporation. An affidavit of the Secretary or an Assistant Secretary or of the transfer agent of the corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

2.6 QUORUM

The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the Chairman of the meeting or (ii) the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

2.7 ADJOURNED MEETING; NOTICE

When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.8 CONDUCT OF BUSINESS

The chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of business.

2.9 VOTING

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.12 of these bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners of stock and to voting trusts and other voting agreements).

Except as provided in the last paragraph of this Section 2.9, or as may be otherwise provided in the certificate of incorporation, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

At a stockholders' meeting at which directors are to be elected, each stockholder shall be entitled to cumulate votes (i.e., cast for any candidate a number of votes greater than the number of votes which such stockholder normally is entitled to cast) if the candidates' names have been properly placed in nomination (in accordance with these bylaws) prior to commencement of the voting and the stockholder requesting cumulative voting or any other stockholder voting at the meeting in person or by proxy has given notice prior to commencement of the voting of the stockholder's intention to cumulate votes. If cumulative voting is properly requested, each holder of stock, or of any class or classes or of a series or series thereof, who elects to cumulate votes shall be entitled to as many votes as equals the number of votes which (absent this provision as to cumulative voting) he would be entitled to cast for the election of directors with respect to his shares of stock multiplied by the number of directors to be elected by him, and he may cast all of such votes for a single director or may distribute them among the number to be voted for, or for any two or more of them, as he may see fit.

2.10 WAIVER OF NOTICE

Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation of these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

2.11 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Unless otherwise provided in the certificate of incorporation, any action required by this chapter to be taken at any annual or special meeting of stockholders of a corporation, or any action that may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice, and without a vote if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. If the action which is consented to is such as would have required the filing of a certificate under any section of the General Corporation Law of Delaware if such action had been voted on by stockholders at a meeting thereof, then the certificate filed under such section shall state, in lieu of any statement required by such section concerning any vote of stockholders, that written notice and written consent have been given as provided in Section 228 of the General Corporation Law of Delaware.

2.12 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS

In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action.

If the board of directors does not so fix a record date:

(i) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(ii) The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the board of directors is necessary, shall be the day on which the first written consent is expressed.

(iii) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

2.13 PROXIES

Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by a written proxy, signed by the stockholder and filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney-in-fact. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(c) of the General Corporation Law of Delaware.

2.14 LIST OF STOCKHOLDERS ENTITLED TO VOTE

The officer who has charge of the stock ledger of a corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. Such list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

ARTICLE III

DIRECTORS

3.1 POWERS

Subject to the provisions of the General Corporation Law of Delaware and any limitations in the certificate of incorporation or these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

3.2 NUMBER OF DIRECTORS

The Board of Directors shall consist of five (5) persons until changed by a proper amendment of this Section 3.2.

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.3 ELECTION, QUALIFICATION AND TERM OF OFFICE OF DIRECTORS

Except as provided in Section 3.4 of these bylaws, directors shall be elected at each annual meeting of stockholders to hold office until the next annual meeting. Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws, wherein other qualifications for directors may be prescribed. Each director, including a director elected to fill a qualified vacancy, shall hold office until his successor is elected and qualified or until his earlier resignation or removal.

Elections of directors need not be by written ballot.

3.4 RESIGNATION AND VACANCIES

Any director may resign at any time upon written notice to the attention of the Secretary of the corporation. When one or more directors so resigns and the resignation is effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this section in the filling of other vacancies.

Unless otherwise provided in the certificate of incorporation or these bylaws:

(i) Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

(ii) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, than any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten (10) percent of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the General Corporation Law of Delaware as far as applicable.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

The board of directors of the corporation may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the board of directors, or any committee designated by the board of directors, may participate in

a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.6 REGULAR MEETINGS

Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board.

3.7 SPECIAL MEETINGS; NOTICE

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president, any vice president, the secretary or any two (2) directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is delivered personally or by telephone or by telegram, it shall be delivered personally or by telephone or to the telegraph company at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose or the place of the meeting, if the meeting is to be held at the principal executive office of the corporation.

3.8 QUORUM

At all meetings of the board of directors, a majority of the authorized number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.9 WAIVER OF NOTICE

Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

3.10 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the board or committee.

3.11 FEES AND COMPENSATION OF DIRECTORS

Unless otherwise restricted by the certificate of incorporation or these bylaws, the board of directors shall have the authority to fix the compensation of directors.

3.12 APPROVAL OF LOANS TO OFFICERS

The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiary, including any officer or employee who is a director of the corporation or its subsidiary, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in this section contained

shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

3.13 REMOVAL OF DIRECTORS

Unless otherwise restricted by statute, by the certificate of incorporation or by these bylaws, any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors; provided, however, that, so long as shareholders of the corporation are entitled to cumulative voting, if less than the entire board is to be removed, no director may be removed without cause if the votes cast against his removal would be sufficient to elect him if then cumulatively voted at an election of the entire board of directors.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

ARTICLE IV

COMMITTEES

4.1 COMMITTEES OF DIRECTORS

The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, with each committee to consist of one or more of the directors of the corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors or in the bylaws of the corporation, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) amend the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in

Section 151(a) of the General Corporation Law of Delaware, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), (ii) adopt an agreement of merger or consolidation under Sections 251 or 252 of the General Corporation Law of Delaware, (iii) recommend to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, (iv) recommend to the stockholders a dissolution of the corporation or a revocation of a dissolution, or (v) amend the bylaws of the corporation; and, unless the board resolution establishing the committee, the bylaws or the certificate of incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

4.2 COMMITTEE MINUTES

Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

4.3 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings and meetings by telephone), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), and Section 3.10 (action without a meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the board of directors and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE V

OFFICERS

5.1 OFFICERS

The officers of the corporation shall be a president, a secretary, and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more vice presidents, one or more assistant vice presidents, one or more assistant secretaries, one or more assistant treasurers, and any such other officers as may be appointed in accordance with the provisions of Section 5.3 of these bylaws. Any number of offices may be held by the same person.

5.2 APPOINTMENT OF OFFICERS

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Sections 5.3 or 5.5 of these bylaws, shall be appointed by the board of directors, subject to the rights, if any, of an officer under any contract of employment.

5.3 SUBORDINATE OFFICERS

The board of directors may appoint, or empower the president to appoint, such other officers and agents as the business of the corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors may from time to time determine.

5.4 REMOVAL AND RESIGNATION OF OFFICERS

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the board of directors at any regular or special meeting of the board or, except in the case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if

any, of the corporation under any contract to which the officer is a party.

5.5 VACANCIES IN OFFICES

Any vacancy occurring in any office of the corporation shall be filled by the board of directors.

5.6 CHAIRMAN OF THE BOARD

The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these bylaws. If there is no president, then the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these bylaws.

5.7 PRESIDENT

Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction, and control of the business and the officers of the corporation. He shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the board of directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws.

5.8 VICE PRESIDENTS

In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the president or the chairman of the board.

5.9 SECRETARY

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these bylaws. He shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

5.10 CHIEF FINANCIAL OFFICER

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all his transactions as chief financial officer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the board of directors or these bylaws.

The chief financial officer shall be the treasurer of the corporation.

5.11 ASSISTANT SECRETARY

The assistant secretary, or, if there is more than one, the assistant secretaries in the order determined by the stockholders or board of directors (or if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as may be prescribed by the board of directors or these bylaws.

5.12 ASSISTANT TREASURER

The assistant treasurer, or, if there is more than one, the assistant treasurers, in the order determined by the stockholders or board of directors (or if there be no such determination, then in the order of their election), shall, in the absence of the chief financial officer or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the chief financial officer and shall perform such other duties and have such other powers as may be prescribed by the board of directors or these bylaws.

5.13 REPRESENTATION OF SHARES OF OTHER CORPORATIONS

The chairman of the board, the president, any vice president, the chief financial officer, the secretary or assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

5.14 AUTHORITY AND DUTIES OF OFFICERS

In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the board of directors or the stockholders.

ARTICLE VI

INDEMNITY

6.1 THIRD PARTY ACTIONS

The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement (if such settlement is approved in advance by the corporation, which approval shall not be unreasonably withheld) actually and reasonably incurred by him in connection with such action, suit or proceeding 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. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interest of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

6.2 ACTIONS BY OR IN THE RIGHT OF THE CORPORATION

The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) and amounts paid in settlement (if such settlement is approved in advance by the corporation, which approval shall not be unreasonably withheld) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in manner he reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall

be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper. Notwithstanding any other provision of this Article VI, no person shall be indemnified hereunder for any expenses or amounts paid in settlement with respect to any action to recover short-swing profits under Section 16(b) of the Securities Exchange Act of 1934, as amended.

6.3 SUCCESSFUL DEFENSE

To the extent that a director, officer, employee or agent of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 6.1 and 6.2, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

6.4 DETERMINATION OF CONDUCT

Any indemnification under Sections 6.1 and 6.2 (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that the indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 6.1 and 6.2. Such determination shall be made (1) by the board of Directors or the Executive Committee by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding or (2) or if such quorum is not obtainable or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders. Notwithstanding the foregoing, a director, officer, employee or agent of the Corporation shall be entitled to contest any determination that the director, officer, employee or agent has not met the applicable standard of conduct set forth in Sections 6.1 and 6.2 by petitioning a court of competent jurisdiction.

6.5 PAYMENT OF EXPENSES IN ADVANCE

Expenses incurred in defending a civil or criminal action, suit or proceeding, by an individual who may be entitled to indemnification pursuant to Section 6.1 or 6.2, shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation as authorized in this Article VI.

6.6 INDEMNITY NOT EXCLUSIVE

The indemnification and advancement of expenses provided by or granted pursuant to the other sections of this Article VI shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

6.7 INSURANCE INDEMNIFICATION

The corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this Article VI.

6.8 THE CORPORATION

For purposes of this Article VI, references to "the corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under and subject to the provisions of this Article VI (including, without limitation the provisions of Section 6.4) with respect to the resulting

or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

6.9 EMPLOYEE BENEFIT PLANS

For purposes of this Article VI, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the corporation" shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner be reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this Article VI.

6.10 CONTINUATION OF INDEMNIFICATION AND ADVANCEMENT OF EXPENSES

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VI shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

ARTICLE VII

RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF RECORDS

The corporation shall, either at its principal executive officer or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books, and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a

purpose reasonably related to such person's interest as a stockholder. In every instance where any attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent so to act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

7.2 INSPECTION BY DIRECTORS

Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

7.3 ANNUAL STATEMENT TO STOCKHOLDERS

The board of directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the corporation.

ARTICLE VIII

GENERAL MATTERS

8.1 CHECKS

From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

8.2 EXECUTION OF CORPORATE CONTRACTS AND INSTRUMENTS

The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.3 STOCK CERTIFICATES; PARTLY PAID SHARES

The shares of the corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the chairman or vice-chairman of the board of directors, or the president or vice-president, and by the chief financial officer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

8.4 SPECIAL DESIGNATION ON CERTIFICATES

If the corporation is authorized to issue more than one class of stock or more than one series of any class, than the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

8.5 LOST CERTIFICATES

Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or his legal representative, to give the corporation a bond sufficient to indemnity it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

8.6 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Delaware General Corporation Law shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

8.7 DIVIDENDS

The directors of the corporation, subject to any restrictions contained in (i) the General Corporation Law of Delaware or (ii) the certificate of incorporation, may declare and pay dividends upon the shares of its capital stock. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock.

The directors of the corporation may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the corporation, and meeting contingencies.

8.8 FISCAL YEAR

The fiscal year of the corporation shall be fixed by resolution of the board of directors and may be changed by the board of directors.

8.9 SEAL

The corporation may adopt a corporate seal, which shall be adopted and which may be altered by the board of directors, and may use the same by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

8.10 TRANSFER OF STOCK

Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction in its books.

8.11 STOCK TRANSFER AGREEMENTS

The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the General Corporation Law of Delaware.

8.12 REGISTERED STOCKHOLDERS

The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE IX

AMENDMENTS

The bylaws of the corporation may be adopted, amended or repealed by the stockholders entitled to vote; provided, however, that the corporation may, in its certificate of incorporation, confer the power to adopt, amend or repeal bylaws upon the directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal bylaws.

CERTIFICATE OF ADOPTION OF BYLAWS

OF

INTEGRATED SURGICAL SYSTEMS, INC.

Adoption by Incorporator

The undersigned person appointed in the Certificate of Incorporation to act as the Incorporator of Integrated Surgical Systems, Inc. hereby adopts the foregoing Bylaws, comprising twenty-five (25) pages, as the Bylaws of the corporation.

Executed this 3rd day of October, 1990.

/s/ Howard A. Paul

Howard A. Paul, Incorporator

Certificate by Secretary of Adoption by Incorporator

The undersigned hereby certifies that he is the duly elected, qualified, and acting Secretary of Integrated Surgical Systems, Inc. and that the foregoing Bylaws, comprising twenty-five (25) pages, were adopted as the Bylaws of the corporation on October 3, 1990, by the person appointed in the Certificate of Incorporation to act as the Incorporator of the corporation.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and affixed the corporate seal this 3rd day of October, 1990.

/s/ J. Casey McGlynn

J. Casey McGlynn, Secretary

CERTIFICATE OF AMENDMENT OF BYLAWS

OF

INTEGRATED SURGICAL SYSTEMS, INC.

The undersigned hereby certifies that he is the duly elected, qualified, and acting Secretary of Integrated Surgical Systems, Inc. and that the foregoing Bylaws, comprising twenty-five (25) pages, were amended on January 30, 1991, by the written consent of the stockholders of the corporation.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and affixed the corporate seal this 30th day of January, 1991.

/s/ J. Casey McGlynn

J. Casey McGlynn, Secretary

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.

UNDERWRITER'S 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 "Underwriter") or its registered assigns (the Underwriter and any such registered assign, a "Holder") is the owner of warrants (the "Underwriter's 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").

This Underwriter's Warrant is issued pursuant to an Underwriting Agreement dated _____ ___, 1996 between the Company and the Underwriter in connection with a public offering through the Underwriter (the "Public Offering") of (i) 1,500,000 shares of Common Stock and 1,500,000 warrants, and (ii) pursuant to this Underwriter's 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 Underwriter and American Stock Transfer & Trust Company (the "Warrant Agreement").

1. Exercise of the Underwriter's Warrant.

(a) The rights represented by this Underwriter's 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:

(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-____) of the Company, as amended (the "Registration Statement").

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

(b) The rights represented by this Underwriter's Warrant may be exercised at any time within the period above specified, in whole or in part, by (i) the surrender of this Underwriter's 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 Underwriter's 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 Underwriter's 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 Underwriter's Warrant shall have been so exercised.

2. Restrictions on Transfer. This Underwriter's 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 Underwriter 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 Underwriter's 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 Underwriter's Warrant or Underwriter's 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 Underwriter's 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 Underwriter's 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 Underwriter's 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 Underwriter's 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 Underwriter's 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 Underwriter's 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 Underwriter's 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 Underwriter's 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 Underwriter's Warrant or has exercised this Underwriter's 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 Underwriter's Warrant. The Holder may thereafter exercise this Underwriter's 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 Underwriter's 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 Underwriter's Warrants or Registrable Securities if the aggregate number of shares of Common Stock and Warrant Shares included in and underlying the Underwriter's 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 Underwriter's Warrant and Registrable Securities as of the date of the initial issuance of the Underwriter's 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 Underwriter's 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 Underwriter's 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 underwriter 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 Underwriter's 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 Underwriter's Warrant Price in respect of the Common Stock issuable upon exercise of this Underwriter's Warrant (but not the exercise price of the Warrants issuable upon exercise of this Underwriter's 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 Underwriter's 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 Underwriter's 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 Underwriter's Warrant Price immediately prior to such issuance or sale; provided, however, that in no event shall the Underwriter's Warrant Price be adjusted pursuant to this computation to an amount in excess of the Underwriter's 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 "Underwriter's Warrant Price" shall mean the exercise price per share of Common Stock issuable upon exercise of the Underwriter's 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 Underwriter's 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 Underwriter's 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 Underwriter's Warrant shall be adjusted to the

nearest full whole number by multiplying a number equal to the Underwriter's Warrant Price in effect immediately prior to such adjustment by the number of shares of Common Stock issuable upon exercise of the Underwriter's Warrant immediately prior to such adjustment and dividing the product so obtained by the adjusted Underwriter's 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 Underwriter's Warrant immediately prior to any such events (but not the shares of Common Stock issuable upon exercise of any Warrants underlying the Underwriter's Warrant) at a price equal to the product of (x) the number of shares issuable upon exercise of the Underwriter's Warrant (but not the shares of Common Stock issuable upon exercise of any Warrants underlying the Underwriter's 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 Underwriter's 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 Underwriter's Warrant, the shares of Common Stock or Warrants issuable upon the exercise of the Underwriter's Warrant or the shares of Common Stock issuable upon exercise of the Warrants underlying the Underwriter's 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 (cents)) per share of Common Stock.

(g) Adjustment of Warrants Underlying Underwriter 's Warrant. With respect to the Warrants underlying the Underwriter's 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 Underwriter's 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 Underwriter's 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 Underwriter's 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 Underwriter's 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 Underwriter's Warrant (but not the shares of Common Stock issuable upon exercise of any Warrants underlying the Underwriter's 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 Underwriter's 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 Underwriter's Warrant shall be entitled, in addition to the shares of Common Stock or other securities receivable upon the exercise of the Underwriter's 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 Underwriter's Warrant remains exercisable other than shares of Common Stock issuable upon exercise of the Warrants underlying Underwriter's Warrant.

(k) Notice in Event of Dissolution. In case of the dissolution, liquidation or winding-up of the Company, all rights under the Underwriter's 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 Underwriter's 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 Underwriter's Warrant; provided, however, that if the Holder exercises the Underwriter's 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 Underwriter's Warrant, by acceptance hereof, expressly waives his right to receive any fractional share of Common Stock or fractional Warrant upon exercise of this Underwriter's Warrant.

9. Redemption of Warrants Underlying the Underwriter's Warrant. The Warrants underlying the Underwriter's 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 underwriter) 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 Underwriter's Warrant shall no longer be exercisable for Warrants).

10. Miscellaneous.

(a) This Underwriter's 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 Underwriter may from time to time supplement or amend this Underwriter's 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 Underwriter may deem necessary or desirable and which the Company and the Underwriter deem not to materially adversely affect the interest of the Holders.

(d) All the covenants and provisions of this Underwriter's 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 Underwriter's Warrant shall be construed to give to any person or corporation other than the Company and the Underwriter and any other registered Holder or Holders, any legal or equitable right, and this Underwriter's Warrant shall be for the sole and exclusive benefit of the Company and the Underwriter and any other Holder or Holders.

(f) This Underwriter's 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 Underwriter's Warrant to be signed by its duly authorized officer and to be dated _____ ___, 1996.

INTEGRATED SURGICAL SYSTEMS, INC.

By: /s/ Dr. Ramesh Trivedi

Name: Dr. Ramesh Trivedi

Title: President and Chief Executive Officer

PURCHASE FORM

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

The undersigned, the Holder of the foregoing Underwriter's Warrant, hereby irrevocably elects to exercise the purchase rights represented by such Underwriter's 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 Underwriter's 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 Underwriter's 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:

_____

_____

EXHIBIT 4.2

INTEGRATED SURGICAL SYSTEMS, INC.
a Delaware corporation,

RICKEL & ASSOCIATES, INC.

and

[NAME OF WARRANT AND TRANSFER AGENT]

TABLE OF CONTENTS

WARRANT AGREEMENT, dated as of _____ ___, 1996, among INTEGRATED SURGICAL SYSTEMS, INC., a Delaware corporation (the "Company"), RICKEL & ASSOCIATES, INC. ("Rickel"), and [NAME OF WARRANT AND 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 (the "Underwriter"), 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 and, pursuant to the Underwriter's overallotment option (the "Overallotment Option"), up to an additional 225,000 shares of Common Stock and 225,000 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 Underwriter warrants (the "Underwriter's Warrant") to purchase up to 150,000 shares of Common Stock and up to 150,000 warrants (the "Underlying Warrants" and together with the redeemable Common Stock purchase warrants offered to the public in the IPO, the "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 Underwriter's 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 Underwriter, 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 Underwriter 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 Underwriter 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 Underwriter 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 Underwriter 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 Underwriter with such information, in connection with the exercise of each Warrant, as the Underwriter shall reasonably request.

(ii) The Company hereby authorizes and instructs the Warrant Agent to deliver to the Underwriter 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 Underwriter in the amount of such Exercise Fee. In the event that an Exercise Fee is paid to the Underwriter 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 Underwriter is not entitled to an Exercise Fee, the Underwriter will return such Exercise Fee to the Warrant Agent which shall forthwith return such fee to the Company.

The Underwriter 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 Underwriter.

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, 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 Underwriter's Warrant, the shares of Common Stock or Warrants issuable upon the exercise of the Underwriter's Warrant or the shares of Common Stock issuable upon exercise of the Warrants underlying the Underwriter's 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 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 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 cents) 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 windingup, 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 first-class 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 $0.10 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 150% of the then current Exercise Price of the Warrants, 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. 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: Chief Executive Officer and President

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 Underwriter 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: _____
Dr. Ramesh C. Trivedi
Chief Executive Officer and President

RICKEL & ASSOCIATES, INC.

By: _____

[NAME OF WARRANT & TRANSFER AGENT]

By: _____

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 _____ corporation (the "Company"), at any time from _____, 1997 (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") 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 $0.10 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 20 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 150% 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 $0.10 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 AND 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.

EXHIBIT 4.5

Number D-1 INTEGRATED SURGICAL SYSTEMS, INC. _____ Shares
A Delaware Corporation Series D Preferred Stock

Common Stock _____ Shares Series D Preferred Stock _____ Shares

THIS CERTIFIES THAT _____ is the record holder of _____ shares of the Series D Preferred Stock of INTEGRATED SURGICAL SYSTEMS, INC. transferable only on the share register of the corporation, in person or by duly authorized attorney, upon surrender of this certificate properly endorsed or assigned.

This certificate and the shares represented hereby are issued and shall be held subject to all the provisions of the Restated Certificate of Incorporation and the Bylaws of the corporation and any amendments thereto, to all of which the holder of this certificate, by acceptance hereof, assents. The shares represented by this certificate are subject to the legends affixed to the back of this certificate.

The shares represented by this certificate are convertible into shares of Common Stock at any time at the election of the holder thereof and shall be automatically converted into shares of Common Stock upon the occurrence of certain events as set forth in the Restated Certificate of Incorporation of the corporation.

A statement of all of the rights, preferences, privileges and restrictions granted to or imposed upon the respective classes and/or series of shares of stock of the corporation and upon the holders thereof may be obtained by any stockholder upon request and without charge, at the principal office of the corporation, and the corporation will furnish any stockholder, upon request and without charge, a copy of such statement.

WITNESS the Seal of the corporation and the signatures of its duly authorized officers this 21st day of December, 1995.

_____ _____
Secretary President

FOR VALUE RECEIVED _____ HEREBY SELL, ASSIGN, AND TRANSFER UNTO _____ SHARES REPRESENTED BY THE WITHIN CERTIFICATE AND DO HEREBY IRREVOCABLY CONSTITUTE _____ AND APPOINT _____, ATTORNEY TO TRANSFER THE SAID SHARES OF STOCK ON THE STOCK REGISTER OF THE WITHIN NAMED CORPORATION WITH FULL POWER OF SUBSTITUTION IN THE PREMISES.

DATED _____, 19__

IN PRESENCE OF _____ (Witness)

_____ (Shareholder)

_____ (Shareholder)

NOTICE: THE SIGNATURE ON THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THIS CERTIFICATE, IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT, OR ANY CHANGE WHATSOEVER.

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. 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.

THE SECURITIES REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS OF AN AMENDED AND RESTATED STOCKHOLDERS AGREEMENT DATED AS OF NOVEMBER 13, 1992, AND OF AN INVESTORS AGREEMENT DATED AS OF DECEMBER 21, 1995 EACH 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.

EXHIBIT 4.6

RICKEL & ASSOCIATES, INC.
875 THIRD AVENUE
NEW YORK, NEW YORK 10022

CONSULTING AGREEMENT

_____ __, 1996

Integrated Surgical Systems, Inc.
829 West Stadium Lane
Sacramento, California 95834

Attn: Dr. Ramesh C. Trivedi
President and Chief Executive Officer

Gentlemen:

This is to confirm our agreement whereby Integrated Surgical Systems, Inc. (the "Company") has requested Rickel & Associates, Inc. (the "Consultant") to render services to it and the Consultant has agreed to render such services on the terms and conditions set forth herein:

1. Agreement Regarding Services. (a) The Company shall retain the Consultant as management and financial consultant to the Company for a fee equal to $35,000 per year. The entire fee shall be payable at the closing of the Company's initial public offering of securities.

(b) In the event that any acquisition of and/or merger with other companies or joint ventures or other contracts or arrangements with any third parties including, without limitation, the sale of the business, assets or stock of the Company or any of its subsidiaries or affiliates or any significant portion thereof or the purchase of the business, assets or stock of a third party (collectively, a "Transaction"), occur which result from or are caused by, and occur within eighteen (18) months of, introductions made by the Consultant during the term of this Agreement, the Company shall pay the Consultant as follows:

Legal Consideration	Fee
$-0- to $1,000,000	5% of Legal Consideration
$1,000,001 to $2,000,000	4% of Legal Consideration

$2,000,001 to $3,000,000	3% of Legal Consideration
$3,000,001 to $4,000,000	2% of Legal Consideration
Over $4,000,000	1% of Legal Consideration

All introductions to the Company by the Consultant shall be made only through one or more of the Company's executive officers. If the Company believes that an introduction made to it by the Consultant is not subject to the terms of this Agreement, then it shall, within ten (10) business days after such introduction, give written notice thereof to the Consultant.

The phrase "Legal Consideration" for the purpose of this Agreement, shall mean the total value of the securities (valued as determined in the applicable agreement governing the terms of the Transaction or, if not so valued, at market on the day of closing, or if there is no public market, valued as set forth herein for other property), cash and assets and property or other benefits exchanged by the Company or received by the Company or its shareholders as consideration as a result of or arising out of the Transaction, irrespective of the period of payment or terms (all valued at fair market present value as agreed or, if not, by an independent appraiser).

(c) All fees payable under this Section 1 are due and payable to the Consultant, in cash or by certified check, at the closing or closings of any Transaction; provided, that if the Legal Consideration on any Transaction is other than all cash, the payment to the Consultant shall be, at the option of the Company, either the cash equivalent or such other consideration proportionate with the types of Legal Consideration paid on such Transaction. No fees shall be payable under this Section 1 or otherwise if, for any reason, the Transaction is not consummated.

2. Term of Agreement. This agreement shall be for a term of one (1) year from the date hereof.

3. Expenses. The Consultant shall bear all costs and expenses incurred by the Consultant directly in connection with the introduction or attempted introduction(s) made by the Consultant in connection with any acquisition, merger or joint venture or other contracts or arrangements with any third parties and otherwise in connection with the performance of its services hereunder, unless otherwise agreed to by the Company.

4. Use of Name and Reports. Use of the Consultant's name in annual reports or any other reports of the Company or press releases issued by the Company shall require the prior written approval of Consultant.

5. Status as Independent Contractor. The Consultant shall perform its services as an independent contractor and not as an employee of the Company or affiliate thereof. It is expressly understood and agreed to by the parties that the Consultant, and any individual

or entity that the Consultant shall employ in order to perform its services hereunder, shall have no authority to act for, represent or bind the Company or any affiliate thereof in any manner, except as may be expressly agreed to by the Company in writing from time to time.

6. Entire Agreement. This agreement constitutes the entire understanding between the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral or written, with respect thereto. This agreement may not be modified or terminated orally or in any manner other than by an agreement in writing signed by the parties hereto.

7. Notices. Any notices required or permitted to be given hereunder shall be in writing and shall be deemed given when mailed by certified mail or private courier service, return receipt requested, addressed to each party at its respective address set forth above, or such other address as may be given by either party in a notice given pursuant to this Section 7.

8. Successors and Assigns. This agreement may not be assigned by either party without the written consent of the other. This agreement shall be binding upon and shall inure to the benefit of the parties hereto and, except where prohibited, to their successors and assigns.

9. Non-Exclusivity. Nothing herein shall be deemed to restrict or prohibit the engagement by the Company of other consultants providing the same or similar services or the payment by the Company of fees to such parties.

10. Applicable Law. This agreement shall be construed and enforced in accordance with the laws of the state of New York applicable to agreements made and to be performed entirely in New York.

If the foregoing correctly sets forth the understanding between the Consultant and the Company with respect to the foregoing, please so indicate your agreement by signing in the place provided below, at which time this agreement shall become a binding contract.

RICKEL & ASSOCIATES, INC.

By:_____
Name: Gregg Smith
Title: Managing Director

AGREED AND ACCEPTED:
INTEGRATED SURGICAL SYSTEMS, INC.

By:_____
Name: Ramesh C. Trivedi
Title: President and Chief Executive Officer

EXHIBIT 4.13

INTEGRATED SURGICAL SYSTEMS, INC.

1995 STOCK PLAN

1. Purposes of the Plan. The purposes of this Stock Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees and Consultants of the Company and its Subsidiaries and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant of an Option and subject to the applicable provisions of Section 422 of the Code and the regulations promulgated thereunder. Stock Purchase Rights may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees appointed pursuant to Section 4 of the Plan.

(b) "Board" means the Board of Directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended.

(d) "Committee" means a Committee appointed by the Board of Directors in accordance with Section 4 of the Plan.

(e) "Common Stock" means the Common Stock of the Company.

(f) "Company" means Integrated Surgical Systems, Inc., a Delaware corporation.

(g) "Consultant" means any person who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services and is compensated for such services, and any Director of the Company whether compensated for such services or not. If the Company registers any class of any equity security pursuant to the Exchange Act, the term Consultant shall thereafter not include Directors who are not compensated for their services or are paid only a Director's fee by the Company.

(h) "Continuous Status as an Employee or Consultant" means that the employment or consulting relationship with the Company, any Parent or Subsidiary is not interrupted or terminated. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. A leave of

absence approved by the Company shall include sick leave, military leave, or any other personal leave approved by an authorized representative of the Company. For purposes of Incentive Stock Options, no such leave may exceed 90 days, unless reemployment upon expiration of such leave is guaranteed by statute or contract, including Company policies. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, on the 91st day of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option.

(i) "Director" means a member of the Board of Directors of the Company.

(j) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a Director's fee by the Company shall not be sufficient to constitute "employment" by the Company.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(l) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(m) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(n) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(o) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(p) "Option" means a stock option granted pursuant to the Plan.

(q) "Optioned Stock" means the Common Stock subject to an Option or a Stock Purchase Right.

(r) "Optionee" means an Employee or Consultant who receives an Option or Stock Purchase Right.

(s) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(t) "Plan" means this 1995 Stock Plan.

(u) "Restricted Stock" means shares of Common Stock acquired pursuant to a grant of a Stock Purchase Right under Section 11 below.

(v) "Section 16(b)" means Section 16(b) of the Securities Exchange Act of 1934, as amended.

(w) "Share" means a share of the Common Stock, as adjusted in accordance with Section 12 below.

(x) "Stock Purchase Right" means a right to purchase Common Stock pursuant to Section 11 below.

(y) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 12 of the Plan, the maximum aggregate number of Shares which may be subject to option and sold under the Plan is 1,640,890 Shares. The Shares may be authorized but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an option exchange program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). However, Shares that have actually been issued under the Plan, upon exercise of either an Option or Stock Purchase Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if Shares of Restricted Stock are repurchased by the Company at their original purchase price, and the original purchaser of such Shares did not receive any benefits of ownership of such Shares, such Shares shall become available for future grant under the Plan. For purposes of the preceding sentence, voting rights shall not be considered a benefit of Share ownership.

4. Administration of the Plan.

(a) Initial Plan Procedure. Prior to the date, if any, upon which the Company becomes subject to the Exchange Act, the Plan shall be administered by the Board or a Committee appointed by the Board.

(b) Plan Procedure After the Date, if any, upon Which the Company becomes Subject to the Exchange Act.

(i) Multiple Administrative Bodies. If permitted by Rule 16b-3, the Plan may be administered by different bodies with respect to Directors, Officers and Employees who are neither Directors nor Officers.

(ii) Administration With Respect to Directors and Officers. With respect to grants of Options and Stock Purchase Rights to Employees who are also Officers or Directors of the Company, the Plan shall be administered by (A) the Board if the Board may administer the Plan in compliance with the rules under Rule 16b-3 promulgated under the Exchange Act or any successor thereto ("Rule 16b-3") relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made, or (B) a Committee designated by the Board to administer the Plan, which Committee shall be constituted to comply with the rules under Rule 16b-3 relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the rules under Rule 16b-3 relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made.

(iii) Administration With Respect to Other Employees and Consultants. With respect to grants of Options and Stock Purchase Rights to Employees or Consultants who are neither Directors nor Officers of the Company, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which committee shall be constituted in such a manner as to satisfy the legal requirements relating to the administration of incentive stock option plans, if any, of applicable corporate and securities laws, of the Code, and of any applicable stock exchange (the "Applicable Laws"). Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws.

(c) Powers of the Administrator. Subject to the provisions of the Plan and, in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, including the approval, if required, of any stock exchange upon which the Common Stock is listed, the Administrator shall have the authority in its discretion:

(i) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(l) of the Plan;

(ii) to select the Consultants and Employees to whom Options and Stock Purchase Rights may from time to time be granted hereunder;

(iii) to determine whether and to what extent Options and Stock Purchase Rights or any combination thereof are granted hereunder;

(iv) to determine the number of Shares to be covered by each such award granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions of any award granted hereunder;

(vii) to determine whether and under what circumstances an Option may be settled in cash under subsection 9(f) instead of Common Stock;

(viii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option has declined since the date the Option was granted; and

(ix) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan.

(d) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees and any other holders of any Options or Stock Purchase Rights.

5. Eligibility.

(a) Nonstatutory Stock Options and Stock Purchase Rights may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees. An Employee or Consultant who has been granted an Option or Stock Purchase Right may, if otherwise eligible, be granted additional Options or Stock Purchase Rights.

(b) Each Option shall be designated in the written option agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such

designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds $100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(c) Neither the Plan nor any Option or Stock Purchase Right shall confer upon any Optionee any right with respect to continuation of his or her employment or consulting relationship with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment or consulting relationship at any time, with or without cause.

(d) Upon the Company or a successor corporation issuing any class of common equity securities required to be registered under Section 12 of the Exchange Act or upon the Plan being assumed by a corporation having a class of common equity securities required to be registered under Section 12 of the Exchange Act, the following limitations shall apply to grants of Options and Stock Purchase Rights to Employees:

(i) No Employee shall be granted, in any fiscal year of the Company, Options and Stock Purchase Rights to purchase more than 75% of the Shares reserved for issuance under the Plan.

(ii) The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 12.

(iii) If an Option or Stock Purchase Right is cancelled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section 12), the cancelled Option or Stock Purchase Right shall be counted against the limit set forth in subsection (i) above. For this purpose, if the exercise price of an Option or Stock Purchase Right is reduced, such reduction will be treated as a cancellation of the Option or Stock Purchase Right and the grant of a new Option or Stock Purchase Right.

6. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the stockholders of the Company, as described in Section 18 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 14 of the Plan.

7. Term of Option. The term of each Option shall be the term stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

8. Option Exercise Price and Consideration.

(a) The per share exercise price for the Shares to be issued upon exercise of an Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option

(A) granted to a person who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of the grant.

(B) granted to any other person, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). Such consideration may consist of (1) cash, (2) check, (3) promissory note, (4) other Shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (5) delivery of a properly executed exercise notice together with such other documentation as the Administrator and a broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price, or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan, but in no case at a rate of less than 20% per year over five (5) years from the date the Option is granted.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Administrator, consist of any consideration and method of payment allowable under Section 8(b) hereof. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote, receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 12 hereof.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Employment or Consulting Relationship. In the event of termination of an Optionee's Continuous Status as an Employee or Consultant (but not in the event of an Optionee's change of status from Employee to Consultant (in which case an Employee's Incentive Stock Option shall automatically convert to a Nonstatutory Stock Option on the date three (3) months and one day following such change of status) or from Consultant to Employee), such Optionee may, but only within such period of time as is determined by the Administrator, of at least thirty (30) days, with such determination in the case of an Incentive Stock Option not exceeding three (3) months after the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent that the Optionee was entitled to exercise it at the date of such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of such termination, or if the Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate.

(c) Disability of Optionee. In the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of his or her disability, the Optionee may, but only within twelve (12) months from the date of such termination (and in no event later than the expiration

date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. If such disability is not a "disability" as such term is defined in Section 22(e)(3) of the Code, in the case of an Incentive Stock Option such Incentive Stock Option shall automatically cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option on the day three months and one day following such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of termination, or if the Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. In the event of the death of an Optionee, the Option may be exercised at any time within twelve (12) months following the date of death (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant) by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent that the Optionee was entitled to exercise the Option on the date of death. If, at the time of death, the Optionee was not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall immediately revert to the Plan. If, after the Optionee's death, the Optionee's estate or a person who acquires the right to exercise the Option by bequest or inheritance does not exercise the Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Rule 16b-3. Options granted to persons subject to Section 16(b) of the Exchange Act must comply with Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

(f) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares, an Option previously granted, based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

10. Non-Transferability of Options and Stock Purchase Rights. Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

11. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing of the terms, conditions and restrictions related to the offer, including the number of Shares that such person shall be entitled to purchase, the price to be paid, and the time within which such person must accept such offer, which shall in no event exceed thirty (30) days from the date upon which the Administrator makes the determination to grant the Stock

Purchase Right. The offer shall be accepted by execution of a Restricted Stock purchase agreement in the form determined by the Administrator. Shares purchased pursuant to the grant of a Stock Purchase Right shall be referred to herein as "Restricted Stock."

(b) Repurchase Option. Unless the Administrator determines otherwise, the Restricted Stock purchase agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's employment with the Company for any reason (including death or disability). The purchase price for Shares repurchased pursuant to the Restricted Stock purchase agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at such rate as the Administrator may determine, but in no case at a rate of less than 20% per year over five years from the date of purchase.

(c) Other Provisions. The Restricted Stock purchase agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion. In addition, the provisions of Restricted Stock purchase agreements need not be the same with respect to each purchaser.

(d) Rights as a Stockholder. Once the Stock Purchase Right is exercised, the purchaser shall have rights equivalent to those of a stockholder and shall be a stockholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 12 of the Plan.

12. Adjustments Upon Changes in Capitalization or Merger.

(a) Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each outstanding Option or Stock Purchase Right, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify the Optionee at least fifteen (15) days prior to such proposed action. To the extent it has not been previously exercised, the Option or Stock Purchase Right shall terminate immediately prior to the consummation of such proposed action.

(c) Merger. In the event of a merger of the Company with or into another corporation, each outstanding Option or Stock Purchase Right may be assumed or an equivalent option or right may be substituted by such successor corporation or a parent or subsidiary of such successor corporation. If, in such event, an Option or Stock Purchase Right is not assumed or substituted, the Option or Stock Purchase Right shall terminate as of the date of the closing of the merger. For the purposes of this paragraph, the Option or Stock Purchase Right shall be considered assumed if, following the merger, the Option or Stock Purchase Right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option or Stock Purchase Right immediately prior to the merger, the consideration (whether stock, cash, or other securities or property) received in the merger by holders of Common Stock for each Share held on the effective date of the transaction (and if the holders are offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares). If such consideration received in the merger is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share of Optioned Stock subject to the Option or Stock Purchase Right, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger.

13. Time of Granting Options and Stock Purchase Rights. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such other date as is determined by the Administrator. Notice of the determination shall be given to each Employee or Consultant to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

14. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made which would impair the rights of any Optionee under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with Rule 16b-3 under the Exchange Act or with Section 422 of the Code (or any other applicable law or regulation, including the requirements of the NASD or an established stock exchange), the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) Effect of Amendment or Termination. Any such amendment or termination of the Plan shall not affect Options or Stock Purchase Rights already granted, and such Options and Stock Purchase Rights shall remain in full force and effect as if this Plan had not been amended or

terminated, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company.

15. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option or Stock Purchase Right unless the exercise of such Option or Stock Purchase Right and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option or Stock Purchase Right, the Company may require the person exercising such Option or Stock Purchase Right to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

16. Reservation of Shares. The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17. Agreements. Options and Stock Purchase Rights shall be evidenced by written agreements in such form as the Administrator shall approve from time to time.

18. Stockholder Approval. Continuance of the Plan shall be subject to approval by the stockholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such stockholder approval shall be obtained in the degree and manner required under applicable state and federal law and the rules of any stock exchange upon which the Common Stock is listed.

19. Information to Optionees and Purchasers. The Company shall provide to each Optionee and to each individual who acquires Shares pursuant to the Plan, not less frequently than annually during the period such Optionee or purchaser has one or more Options or Stock Purchase Rights outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company shall not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.

EXHIBIT 4.14

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN COMPLIANCE WITH THAT ACT. THIS WARRANT IS SUBJECT TO THE PROVISIONS OF A SERIES D PREFERRED STOCK AND WARRANT PURCHASE AGREEMENT DATED AS OF DECEMBER 21, 1995, BETWEEN INTEGRATED SURGICAL SYSTEMS, INC., INTERNATIONAL BUSINESS MACHINES CORPORATION AND CERTAIN OF THE STOCKHOLDERS OF THE COMPANY, COPIES OF WHICH ARE ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE COMPANY.

WARRANT

FOR THE PURCHASE OF SERIES D PREFERRED STOCK
PAR VALUE $0.01 PER SHARE

OF

INTEGRATED SURGICAL SYSTEMS, INC.

VOID AFTER DECEMBER 31, 2005

THIS CERTIFIES THAT, for $666,666.00 received by the Company, INTERNATIONAL BUSINESS MACHINES CORPORATION ("IBM") or assigns (the "Holder") is entitled to purchase from INTEGRATED SURGICAL SYSTEMS, INC., a Delaware corporation (the "Company"), at the price of $0.01 per share (such price as from time to time adjusted as hereinafter provided, the "Warrant Price"), and in accordance with the terms and conditions set forth hereinafter and in the Series D Preferred Stock and Warrant Purchase Agreement dated December 21, 1995, between the Company, and the Investors listed therein (the "Series D Agreement"), at any time on or before December 31, 2005, up to 1,025,640 shares (subject to adjustment as hereinafter provided) of Series D Preferred Stock, par value $0.01 per share, of Company, and to receive a certificate or certificates for the shares of Series D Preferred Stock so purchased, upon presentation and surrender of this Warrant, at the office of the Company, which is at 829 West Stadium Lane, Sacramento, California 95834 as of the date hereof, together with the Warrant Price of the shares so purchased.

1. Reservation of Shares. The Company shall reserve and keep available out of its authorized but unissued Series D Preferred Stock for issuance upon the exercise of this Warrant, free from preemptive rights, such number of shares of Series D Preferred Stock for which this Warrant shall from time to time be exercisable. All shares which may be issued upon the exercise of this Warrant will, upon issuance, be fully paid and nonassessable and be free from all taxes, liens and charges in respect of the issuance thereof. The Company further covenants and agrees that if any shares of Series D Preferred Stock to be reserved for the purpose of the issuance of shares upon the exercise of this Warrant require registration with or approval of any governmental authority under any Federal or State law before such shares may be validly issued or delivered upon exercise of this Warrant, then the Company will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be, and the right to exercise this Warrant shall be extended until 10 Business Days (as defined below) after the completion of any such registration or approval. "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.

2. Term. The purchase rights represented by this Warrant are exercisable at the option of the Holder in whole at any time, or in part from time to time (but not as to a fractional share of Series D Preferred Stock), on or before December 31, 2005. In case of the purchase upon exercise of this Warrant of a number of shares of Series D Preferred Stock less than the total number of shares of Series D Preferred Stock then issuable upon exercise of this Warrant, the Company shall cancel this Warrant upon surrender hereof and shall execute and deliver a new Warrant of like tenor and date for the balance of the shares issuable upon the exercise hereof (except any remaining fractional share).

3. Conversion Price Adjustments. The rate at which the Series D Preferred Stock is convertible into shares of Common Stock of the Company (initially one-for-one) is subject to adjustment as set forth in Article 4, Section 5 of the Company's Restated Certificate of Incorporation. Any adjustment to the conversion rate of the Series D Preferred Stock of the Company effected prior to any exercise or conversion of this Warrant shall apply to any shares of Series D Preferred Stock thereafter issued pursuant to the terms hereof.

4. Merger, Consolidation or Sale of Assets. If any consolidation or merger of the Company with another corporation, or any statutory exchange of securities with another person, or the sale of all or substantially all of its assets to another corporation, shall be effected, then, as a condition of such consolidation, merger, exchange or sale, lawful and adequate provision shall be made whereby the Holder shall thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in this Warrant and in lieu of the shares of the Series D Preferred Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Series D Preferred Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby had such consolidation, merger, exchange or sale not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of the Holder to the end that the provisions hereof (including without limitation

provisions for adjustment for the Warrant Price and of the number of shares purchasable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company shall not effect any such consolidation, merger, exchange or sale, unless prior to or simultaneously with the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation, merger or exchange or the corporation purchasing such assets shall assume by written instrument executed and delivered to the Holder at the address of the holder appearing in the books of the Company, the obligation to deliver to the Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, the Holder may be entitled to purchase.

5. Notice of Certain Events. In case at any time:

(a) the Company shall declare or pay any dividend or make any distribution to the holders of its Series D Preferred Stock;

(b) the Company shall offer for subscription pro rata to the holders of its Series D Preferred Stock any additional shares of stock of any class or other rights;

(c) there shall be any capital reorganization or reclassification of the capital stock of the Company or consolidation or merger of the Company with, or any statutory exchange of the Company's securities with the securities of, or sale of all or substantially all of its assets to, another corporation; or

(d) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then, in any one or more of said cases, the Company shall give written notice, by first class mail, postage prepaid, addressed to the Holder at the address of the Holder as shown on the books of the Company, of the date on which (i) the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights, or (ii) such reorganization, reclassification, consolidation, merger, exchange, 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 Series D Preferred Stock of record shall participate in said dividend, distribution or subscription rights, or shall be entitled to exchange their Series D Preferred Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, exchange, sale, dissolution, liquidation or winding up, as the case may be. Such written notice shall be given not less than 20 days prior to the record date or the date on which the transfer books of the Company are closed in respect thereto in the case of an action specified in clause (i) and at least 20 days prior to the action in question in the case of an action specified in clause (ii).

6. No Impairment. The Company shall not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company but will at

all times in good faith assist in the carrying out of all the provisions of Sections 3 through 5 and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder.

7. No Voting Rights. This Warrant shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company whatsoever, except the rights expressed herein or in the Series D Agreement, and no dividend or interest shall be payable or accrue in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until and unless, and except to the extent that, this Warrant shall be exercised.

8. Warrant Unregistered. Neither this Warrant nor any of the shares to be issued upon the exercise hereof have been registered under the Securities Act of 1933, and nothing herein contained shall be deemed to require the Company so to register this Warrant. This Warrant is issued subject to the conditions, and the Holder agrees with the Company,

(a) that this Warrant has been acquired for the purpose of investment and not with a view to or for sale in connection with any distribution thereof, subject to the disposition of the Holder's property being at all times within its control; and

(b) that the Company has the right to demand and receive from the Holder, prior to the purchase of any shares pursuant hereto, assurances satisfactory to it that such shares are being purchased for the purpose of investment and not with a view to or for sale in connection with any distribution thereof, subject to the disposition of the Holder's property being at all times within its control.

9. Exchangeability. This Warrant is exchangeable, upon the surrender hereof by the Holder at said office of the Company, for new Warrants of like tenor and date representing in the aggregate the right to purchase the number of shares of Series D Preferred Stock which may be purchased hereunder, each of such new Warrants to represent the right to purchase such number of shares as shall be designated by the Holder at the time of such surrender.

10. Transferability. This Warrant shall be transferable in whole or in part to one or more transferees.

11. Payment of Purchase Price. The Warrant Price for the shares of Series D Preferred Stock issuable upon the exercise hereof shall be paid be certified check.

12. Stock Certificates. The issuance of stock certificates upon the exercise of this Warrant shall be made without charge to the Holder for any tax (other than taxes attributable to any difference between the fair market value and the exercise price of this Warrant on the date of the exercise of this Warrant) in respect of the issue thereof. The Holder shall for all purposes be deemed to have become the holder of record of the shares issued upon the exercise of this Warrant on the date on which the Warrant was surrendered and payment of the Warrant Price was made, irrespective of the date of delivery of the certificate for such shares, except that, if the date of such surrender and

payment is a date when the stock transfer books of the Company are closed, the Holder shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open (provided that if such books shall remain closed for five days, the close of business on such fifth day shall be the time the Holder shall be deemed to have become the holder of such shares.)

13. Lost, Stolen, Mutilated or Destroyed Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, mutilation or destruction of this Warrant and, in case of loss, theft or destruction, upon the agreement of the Holder to indemnify the Company or, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall issue a new Warrant of like denomination and tenor as the Warrant so lost, stolen, mutilated or destroyed. Any such new Warrant shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone.

14. Applicable Law. This Warrant 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.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its proper officers thereunto duly authorized and the Company's corporate seal to be hereunto affixed this 29th day of February, 1996.

INTEGRATED SURGICAL SYSTEMS, INC.

by

_____
Name:
Title:

EXHIBIT 10.2

LICENSE AGREEMENT

BETWEEN

INTERNATIONAL BUSINESS MACHINES CORPORATION

AND

INTEGRATED SURGICAL SYSTEMS, INC.

February 6, 1991

THIS LICENSE AGREEMENT shall be deemed to have been entered into on the sixth day of February, 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 rights and licenses necessary to develop and market a robotic surgery software application;

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 prothesis, or (iii) correct or prevent other joint diseases.

1.2 "AML/X" shall mean a general purpose high level programming language designed for use in manufacturing and computer aided design applications, as presented by employees of IBM in the Proceedings of the Fall Joint Computer Conference, November 2-6, 1986, held in Dallas, Texas.

1.3 "AML/2" shall mean an abbreviation for "A Manufacturing Language/2," which is an IBM version of AML/X extended with specialized functions for motion control.

1.4 "IBM AML Software" shall mean any IBM Product Offering which contains the AML/X Interpreter, but which may or may not contain other elements of the IBM AML/2 Software, such as features specially designed for the support and control of Robot Systems.

1.5 "AML/2 Software" shall mean two IBM Product Offerings based upon AML/2 which are Generally Available on the Effective Date of this Agreement, and Maintenance Modifications and enhancements thereto, if any, which are developed by IBM's Manufacturing Systems Products organization in Boca Raton, Florida and which are made Generally Available by IBM to its Manufacturing Systems Integrator distribution channel. The AML/2 Software provides the following functions for controlling IBM Robot Systems:

(A) "AML/2 Manufacturing Control System" or "MCS" shall mean a single

licensed program consisting of six distinct and severable program elements compiled to execute on the IBM Robot Controller and which are described below:

(1) The "AML/X Interpreter" shall mean a portion of AML/2 MCS written in the "C" programming language which defines the language characteristics and which interprets and executes applications written in AML/2.

(2) The "AML/2 Extensions" shall mean a portion of AML/2 MCS written in the "C" programming language which provides the robotic specific language interface to the AML/X Interpreter.

(3) The "Motion Control System" shall mean a portion of AML/2 MCS written in the "C" and "assembler" programming languages which controls Manipulator motion and digital inputs and outputs, and further, which defines a set of unique related extensions to the AML/X language.

(4) The "Runtime Environment" shall mean a portion of AML/2 MCS written in the AML/2 programming language which defines the user and operator interfaces to the IBM Robotic System.

(5) The "Direct Control Software" shall mean a portion of AML/2 MCS consisting of microcode which is downloaded from the memory storage of a host Robot Controller at power-on and which executes on an IBM Robot Control Adapter card.

(6) The "Communication Device Drivers" shall mean a portion of AML/2 MCS consisting of DOS Operating System device drivers which define and support the programming interface to IBM asynchronous adapters used within the IBM Robot Controller.

(B) "AML/2 Application Development Environment" and "AML/2 ADE" shall mean a single licensed program consisting of a set of application development tools which are useful in developing and debugging an application program which executes under IBM's AML/2 Manufacturing Control System program.

1.6 "ISS AML/2 Software" shall mean a Deriviative Work of IBM's AML/2 Software developed by or for ISS in the exercise of the rights and licenses granted at Article II ("Licenses").

1.7 "Contract Manager" shall mean an employee of each party designated 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.

1.8 "Derivative Work" shall mean a work which is based upon preexisting Software or supporting Documentation, such as a revision, modification, translation,

1.17 "Micro Computer" shall mean data processing machines utilizing Intel Corporation's 80286, 80386SX, 80386 and 80486 microprocessors. The term shall also include compatible follow-on data processing machines containing enhanced versions of such Intel microprocessors.

1.18 "Object Code" shall mean Software in a machine executable format.

1.19 "Product Offering" shall mean Software products based on the AML/2 Software or ISS AML/2 Software, including supporting Documentation, which are made Generally Available by either party to its End Users and Distributors.

1.20 "Annual Royalty Amount" shall mean the sum of all Royalty Fees accruing during a Royalty Annum.

1.21 "Robodoc Software" shall mean Software delivered to ISS under Section 3.1 of the Robodoc/Orthodoc License Agreement between IBM and ISS (executed) concurrently herewith) written in the "C", "assembler," and "AML/2" programming languages and which directs a Manipulator to automatically cut a cavity in a bone to precisely fit a selected prosthetic implant. In addition, "Robodoc Software" shall mean Derivative Works made by or for ISS to the foregoing Software.

1.22 "Robot Controller" shall mean a Micro Computer capable of controlling the actions of a Manipulator.

1.23 "Robot Control Adapter" shall mean an electronic card designed to operate within a Micro Computer and which functions to control a motion or robot device through a Servo Power Module and which inputs position feedback and which outputs drive signals.

1.24 "Robot System" shall mean a complete and useful combination of the following Components:

(A) a Robot Controller,
(B) a Servo Power Module,
(C) a Manipulator,
(D) AML/2 Software, and
(E) Robodoc Software

1.25 "Royalty Fee" shall mean a sum payable to IBM on account of each copy of the IBM AML/2 Manufacturing Control System, or a Derivative Work thereof, which is shipped to ISS to End Users or Distributors. The methodology for calculating Royalty Fees is set forth at Article IV "Royalty Fees"). Royalty Fees shall be aggregated upon the expiration of each Royalty Annum and shall be paid as Annual Royalty Amounts to IBM in U.S. dollars within thirty (30) days from the end of each Royalty Annum.

1.26 "Royalty Annum" shall mean a twelve (12) month period, after which: (1) all copies of the AML/2 Manufacturing Control System and Derivative Works thereof which have been distributed to End Users and Distributors shall be tabulated, (2) the appropriate Royalty Fees shall be computed, and (3), a Annual Royalty Amount shall be payable to IBM. The Royalty Annum shall begin on the first day of January of each year and shall end on the last day of December.

1.27 "Servo Power Module" shall mean an electronic device required for the operation of a Robot System which interfaces a Robot Controller to a Manipulator.

1.28 "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.

1.29 "Source Code" shall mean a human readable format of Software that cannot be executed by a data processing machine but from which Object Code (i) can be produced by compilation, and/or assembly, or (ii) can be invoked by interpretation.

1.30 "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.

1.31 "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.

1.32 "Active Robot Robotic Surgery" shall mean surgery in which an automatically movable electromechanical Manipulator performs at least one step in a surgical procedure.

1.33 "Medical Field" shall mean the research, diagnosis or treatment of diseases and other bodily maladies.

Article II

2. Licenses

2.1 Upon the Effective Date of this Agreement, IBM hereby grants to ISS a nonexclusive, worldwide, royalty-free license under IBM copyrights to use, execute, reproduce, display, and prepare (or have prepared as a work for hire for ISS) Derivative Works based upon, copies of the AML/2 Manufacturing Control System and AML/2 Application Development Environment for internal development purposes only; provided however that any Derivative Works made by or for ISS to the foregoing Software shall be exclusively adapted to execute on a Micro Computer under the DOS Operating System; and further provided that such Derivative Works shall be primarily designed for the control of Manipulators used with the Robodoc Software in Orthopedic Robotic Surgery for purposes permitted in Section 2.2, as modified by Section 2.12.

2.2 Subject to the provisions of Article IV ("Royalty Fees"), 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 to End Users and Distributors in its own name, copies of the AML/2 Manufacturing Control System, and Derivative Works made by or for ISS to the foregoing; provided however, that: (A) such copies shall be only written and compiled to execute on a Micro Computer under the DOS Operating System, and (B) such copies shall be licensed solely for the control of Manipulators used with Robodoc Software, and (C) such copies shall not be licensed to perform tasks other than Orthopedic Robotic Surgery, and (D) any such copies distributed by or for ISS shall be in Object Code form only, except for the Runtime Environment, which may be distributed in Source Code form.

2.3 Notwithstanding the copyright licenses granted to ISS at Sections 2.1, 2.2, and 2.4, ISS shall have no right under this Agreement to make Derivative Works of the AML/X Interpreter, the Direct Control Software, the Communication Device Drivers or the AML/2 Application Development Environment, nor shall ISS receive Source Code for such portions of the AML Software, until the occurrence of the events described at Section 3.5 of Article III ("Source Code"); upon ISS' receipt of such Source Code, ISS shall be licensed to create Derivative Works of such Software under the terms of Section 2.1 or 2.2, as applicable.

2.4 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, distribute in its own name and have distributed in ISS' own name, the IBM

Documentation; provided however, such IBM Documentation shall be solely used in support of activity undertaken by ISS under this Agreement; and further provided, that ISS shall remove all references to IBM contained in such material, except for a copyright notice, which shall be made in accordance with Section 2.7, and except for general references to other IBM products and services.

2.5 Nothing in this Agreement shall in any way limit or restrict IBM's ability to develop and market versions of the IBM AML Software, including versions that are similar to, or competitive with, the AML/2 Software developed by ISS in the exercise of its rights under this Article II.

2.6 "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 party, 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."

(A) Each patent for an Invention other than a Joint Invention, shall be the property of ISS subject to a license described in Paragraph (E) 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.

(B) ISS shall notify IBM promptly as to each country in which it elects to seek protection 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.

(C) 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.

(D) 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 2.6.

(E) All licenses granted to IBM under this Section 2.6 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 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.

(F) Other than provided in this Section 2.6, 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 applications arising out of any other inventions of either party.

2.7 ISS agrees that any copies it makes of IBM copyrighted materials which are licensed to ISS under this Article II, including the AML/2 Software and IBM Documentation, 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' 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.

2.8 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 Derivative Works of the AML/2 Manufacturing Control System and the AML/2 Application Development Environment, and Documentation related thereto, made by or for ISS Derivative Works in Product Offerings which are designed and marketed specifically for the Medical Field. Any ISS Derivative Works of these programs created after the fifth anniversary of the Effective Date will not be subject to this license to IBM.

2.9 The licenses granted to each party at Sections 2.1, 2.2, 2.4 and 2.8 ("Copyright Licenses") 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 a party terminates this Agreement pursuant to the terms of Sections 6.8 or Section 6.9, the Copyright Licenses granted to the other party shall also terminate. Notwithstanding the foregoing, copies of any AML/2 Product Offering which have been shipped to End Users or Distributor prior to the effective date of such a termination, and for which the applicable Royalty Fees, if any, have been paid to the other party, shall survive such termination.

2.10 ISS agrees to distribute copies of the AML/2 Manufacturing Control System, and Derivative Works thereof, pursuant to a license agreement having terms at least

commensurate with the terms of the Section entitled "License" of the IBM Program License Agreement (a copy of which is set forth at Attachment B). In addition, such ISS license agreement shall contain other terms sufficient to meet ISS' obligations under this Agreement, including but not limited to, the terms of Section 2.2, Section 3.5 and Section 6.11 hereof. ISS agrees to submit such license agreement to IBM for its review and approval prior to ISS delivering the ISS AML/2 Software to its customers.

2.11 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.

2.12 Provision (C) of Section 2.2 shall expire two (2) years from the Effective Date of this Agreement. All other provisions of Section 2.2 shall remain in full force and effect. Prior to such expiration, ISS may propose to develop Derivative Works of the AML/2 Manufacturing Control System and Documentation for uses other than Orthopedic Robotic Surgery. IBM may accept or reject such proposal solely at IBM's discretion, and IBM's decision shall be final during this time period. When provision (C) of Section 2.2 expires, the license granted ISS in Section 2.2 will expand from the field of Orthopedic Robotics Surgery to the entire Medical Field.

Article III

3. Source Code

3.1 IBM shall convey to ISS a copy of the Source Code for the Runtime Environment, the AML/2 Extensions and the Motion Control System, 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 materials; IBM shall not furnish ISS with Source Code for the AML/X Interpreter, the Direct Control Software, the Communication Device Drivers or the Application Development Environment, except in accordance with the terms of Section 3.5 below.

3.2 ISS agrees to deliver to IBM copies of Source Code, Object Code, and Documentation for ISS Derivative Works of AML/2 Manufacturing Control System within thirty (30) days of its receipt of a written request from IBM. IBM will treat the Source Code of ISS Derivative Works of AML/2 Manufacturing Control System as the confidential information of ISS pursuant to the terms of Article V ("Confidential Information").

3.3 All Software and Documentation, including Source Code materials, which are provided by each party to the other under this Agreement shall be furnished "AS-IS," without warranty of any kind.

Royalty Period Beginning	Royalty Period Ending	Royalty Amount Due
January 1	December 31	February 1

4.3 Maintenance Modifications made to the AML/2 Manufacturing Control System may be offered by ISS to existing End Users of the ISS AML/2 Software at no additional charge or royalty obligation to IBM.

4.4 Royalty Fees shall accrue as copies of the AML/2 Manufacturing Control System, or copies of Derivative Works made thereto, are shipped by ISS to End Users or Distributors.

4.5 No Royalty Fees shall be owed to IBM on account of the use of the IBM AML/2 Software, and Derivative Works thereof, for demonstration purposes, where the Software is used for a short duration and is not put into productive use.

4.6 No Royalty Fees shall be owed to IBM for ISS' use of the IBM Documentation.

4.7 ISS shall keep retain accurate records of its shipments of the ISS AML/2 Software for audit purposes for the current year and for the immediately preceding two years. One time each calendar year, and upon the written request of IBM, ISS shall provide access to such accounting records and to other records reasonably related to ISS' obligations under this Agreement to an independent accounting organization selected and compensated by IBM. Such audit shall be conducted during normal business hours.

Article V

5. Information

5.1 IBM and ISS agree that Source Code exchanged by the parties under the terms of this Agreement, shall be considered as the "confidential information" of the party owning such Source Code, except for Source Code modules which are part of the Runtime Environment and which are made Generally Available by IBM to its End Users. In addition, the contents of all drafts of this Agreement, including the final, executed copy, shall be considered as the confidential information of IBM. All other information exchanged between the parties shall be considered "nonconfidential."

5.2 The receiving party agrees to use the same care and discretion to avoid disclosure, publication, or dissemination of the confidential information 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.

of employees within the receiving party and its Subsidiaries.

5.6 Disclosure of confidential information received by a party pursuant to this Agreement shall not breach the obligations set forth in this Article V, provided that 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 such party's rights under this Agreement; provided however, that such party shall first have given notice to the party owning such confidential information and provided that party an opportunity to review the information to be disclosed; and provided further, that the party disclosing confidential information under this Section 5.6 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 confidential information subject to such a disclosure.

5.7 Notwithstanding any other provisions of this Agreement, the obligations specified in Section 5.2 shall not apply to any confidential information that is released for public disclosure, without obligation of confidentiality, by the party owning such confidential information.

5.8 Confidential information 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 confidential information shall have given its prior written consent to such disclosure, which consent shall not be unreasonably withheld; and further provided, that such third party shall have agreed in writing to hold and secure such confidential information under terms at least commensurate with the provisions of this Article V, including the right of IBM to directly enforce the terms of such Agreement. 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.

Article VI

6. General Provisions

6.1 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.

6.2 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.

6.3 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.

6.4 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
Attention: President

For IBM:

Mr. David Klein
IBM Corporation
P.O. Box 1328
Boca Raton, Florida 33132

cc: Office of Site Counsel
IBM Corporation
P.O. Box 1328
Boca Raton, Florida 33132

6.5 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 duly authorized representatives of both parties.

6.6 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.

6.7 This Agreement shall be governed in all respects by the laws of the State of New York as they apply to contacts executed and fully performed in New York.

6.8 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.

6.9 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.

6.10 The furnishing of information, programs, or other material under this Agreement 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.

6.11 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 AML/2 Software, IBM Documentation, or other materials licensed or furnished 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 non-appealable 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 supplies (including IBM) 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 6.11. 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 claims 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 6.11 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 the AML Software.

6.12 In order to meet ISS' obligations set forth at Section 6.11 above and elsewhere in this Agreement, beginning on the date on which ISS makes a Product Offering Generally Available based on the AML/2 Software and Documentation, and continuing for so long as the ISS AML/2 Software and related Documentation are distributed to End Users by or for ISS, ISS agrees to maintain a valid insurance policy with a financially sound and reputable insurance company naming IBM as an additional named insured party in the amount of five million dollars ($5,000,000). ISS agrees to obtain IBM's written approval prior to adding other parties under such insurance policy.

6.13 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.

6.14 Except as required by law, ISS shall not make any public statements regarding the AML/2 licensing transaction contemplated herein, other than an expressly agreed to by IBM in writing. In addition, ISS shall consider all drafts and executed

copies of this Agreement, and the contents thereof, as the confidential information of IBM and shall treat such materials in accordance with Article V ("Information").

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
X _____	X _____
By _____	By _____
Title _____	Title _____
Date _____	Date _____

ATTACHMENT A

IBM Documentation

1. IBM 7575 and 7576 Manufacturing Systems Hardware Library Site Preparation, Installation, and Specifications, Part number 70X8867.

2. IBM 7575 and 7576 Manufacturing Systems Hardware Library Operator's Guide, Part number 70X8903

3. IBM 7575 and 7576 Manufacturing Systems Hardware Library Maintenance Information, Part number 70X8904

4. IBM 7575 and 7576 Manufacturing Systems Software Library AML/2 Language Reference, Part number 67X1369

5. IBM 7575 and 7576 Manufacturing Systems Software Library AML/2 Manufacturing Control System User's Guide, Part number 67X1370

6. IBM 7575 and 7576 Manufacturing Systems Software Library AML/2 Application Development Environment User's Guide, Part number 67X1371

7. IBM 7575 and 7576 Manufacturing Systems Software Library AML/2 Application Simulator User's Guide, Part number 67X1372

ISS payment of royalty fees to IBM, as described in the License Agreement between IBM and ISS, shall be sent to the following address:

Application Solutions Balance Sheet Manager
c/o IBM Corp.
472 Wheelers Farm Rd.
Milford, Connecticut 06460

/s/ W. G. Burger 2/7/91
- ----------

EXHIBIT 10.5

INTEGRATED SURGICAL SYSTEMS, INC.

SERIES D PREFERRED STOCK AND WARRANT

PURCHASE AGREEMENT

December 21, 1995

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

EXHIBITS

INTEGRATED SURGICAL SYSTEMS, INC.

SERIES D PREFERRED STOCK AND WARRANT PURCHASE AGREEMENT

THIS SERIES D PREFERRED STOCK AND WARRANT PURCHASE AGREEMENT (the "Agreement") is made as of the 21st day of December 1995, 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."

THE PARTIES HEREBY AGREE AS FOLLOWS:

1. Recapitalization of the Company; Purchase and Sale of Stock and Warrants.

1.1 Authorization. Before the First Closing (as defined below), the Company shall adopt and file with the Secretary of State of Delaware the Restated Certificate of Incorporation in the form attached hereto as Exhibit B. The shares of Series D Preferred Stock sold to certain of the Investors pursuant to this Agreement are hereinafter referred to as the "Shares." The Warrants to Purchase Shares of Series D Preferred Stock, in the form attached hereto as Exhibit H, sold to certain of the Investors pursuant to this Agreement are hereinafter referred to as the "Series D Warrants." The shares of Series D Preferred Stock issuable upon the conversion of the Series D Warrants are hereinafter referred to as the "Series D Warrant Shares." The total amount of Common Stock and other securities issuable upon conversion of the Shares and the Series D Warrant Shares is hereinafter referred to as the "Conversion Stock." The Shares, the Series D Warrants, the Series D Warrant Shares and the Conversion Stock are hereinafter collectively referred to as the "Securities."

1.2 Recapitalization of the Company. Before and upon the First Closing (as defined below), the Company will complete a recapitalization (the "Recapitalization") consisting of the following:

(a) a reverse 1-for-5 stock split of all outstanding capital stock of the Company and the conversion of all outstanding Series B and Series C Preferred Stock into Common Stock, to be effected upon the filing of the Restated Certificate of Incorporation in the form attached hereto as Exhibit B;

(b) the issuance, before the First Closing, to International Business Machines Corporation ("IBM") of a warrant in the form attached hereto as Exhibit I exercisable for 187,752 shares of Common Stock at $0.01 per share (the "IBM 1995 Common Warrant"), in exchange for the cancellation of the outstanding principal amount of and accrued interest on the Convertible Subordinated Loan Note dated February 6, 1991, issued to IBM;

(c) the issuance, upon the First Closing, to IBM of the Warrant for the Purchase of Common Stock dated February 6, 1991, as amended in the form attached hereto as

Exhibit J (the "IBM 1991 Common Warrant"), amended to extend its term to December 31, 2000 and to adjust the number of shares of Common Stock subject thereto;

(d) the issuance, upon the First Closing, to the holders of the Company's Series B Preferred Stock and Series C Preferred Stock of an aggregate of 60,054 shares of Common Stock in exchange for the cancellation of all accumulated dividends on the Series B Preferred Stock and Series C Preferred Stock;

(e) the issuance, upon the First Closing, to Sutter Health, a California nonprofit public benefit corporation, ("Sutter Health") of a warrant in the form attached hereto as Exhibit K exercisable for 578,353 shares of Common Stock at $0.50 per share (the "Sutter Health Warrant");

(f) the issuance, upon the First Closing, to Sutter Health Venture Partners I, L.P. ("Sutter VP") of a warrant in the form attached hereto as Exhibit L exercisable for 17,605 shares of Common Stock at $0.50 per share (the "Sutter VP Warrant"); and

(g) the issuance, upon the First Closing, to Keystone Financial Corporation, a Pennsylvania Not-For-Profit Corporation ("Keystone") of a warrant in the form attached hereto as Exhibit M exercisable for 64,065 shares of Common Stock at $0.50 per share (the "Keystone Warrant").

1.3 Sale of Series D Shares and Series D Warrants at the First Closing. Subject to the terms and conditions of this Agreement, each Investor agrees, severally, to purchase at the First Closing (as defined below) and the Company agrees to sell and issue to each Investor at the First Closing, that number of shares of the Company's Series D Preferred Stock or that number of Series D Warrants, as the case may be, set forth opposite each Investor's name in the column entitled "First Closing" at the purchase prices set forth in Exhibit A attached hereto.

1.4 Option and Call to Purchase Additional Series D Shares and Series D Warrants. Subject to the terms and conditions hereof, at any time from the First Closing Date through the Mandatory Option Exercise Date (as defined below) each Investor will have the option to purchase from the Company no fewer than the number of Series D Shares or Series D Warrants, as the case may be, set forth opposite such Investor's name in the column entitled "Second Closing" at the purchase prices set forth in Exhibit A attached hereto and the Company shall have a call option on the terms set forth below (the "Series D Option"). An Investor may exercise such option by delivering written notice (the "Exercise Notice") to the Company, which notice shall specify the number of shares to be purchased and the date and time at which such purchase and sale will occur (the "Second Closing Date"), which Second Closing Date shall be the tenth day following the date of the Exercise Notice. Unless the context otherwise requires, the term "Closing" shall apply to each of the First Closing and the Second Closing.

Each Investor must exercise its Series D Option, if such Series D Option has not yet been exercised, on or before February 19, 1996 (the "Mandatory Option Exercise Date"), unless the Company shall have received prior to February 19, 1996, from an investor or investors other than the Investors the aggregate amount of $1,000,000 in exchange for the issuance by the Company to such investor or investors of Series D Shares or Series D Warrants on terms at least as advantageous to the Company as the terms set forth in this Agreement.

An Investor may assign its Series D Option only if (a) the Company has consented to the assignment, (b) the assignee is an "Accredited Investor" as defined in Regulation D under the Securities Act of 1933, as amended, and (c) the assignee executes a counterpart of this Agreement, the Investors Agreement and the Registration Rights Agreement.

2. Closing Date; Delivery; Rights Offering.

2.1 First Closing. The closing of the initial purchase and sale of 1,025,641 shares of the Shares and 2,051,282 of the Series D Warrants shall take place at such time and place as the Company and the Investors pursuant hereto mutually agree upon (which time and place are designated as the "First Closing"). At the First Closing the Company shall deliver to each Investor certificate(s) representing the Shares or warrants representing the Series D Warrants 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.

2.2 Second Closing. The closing of the purchase and sale of the Shares and Series D Warrants pursuant to the Series D Option shall take place at such place as the Company and the Investors pursuant hereto mutually agree upon, at 10:00 A.M. on the Second Closing Date specified in the Exercise Notice for each such exercise. At the Second Closing the Company shall deliver to each Investor certificate(s) representing the Shares or warrants representing the Series D Warrants which such Investor is purchasing pursuant to the Series D Option 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.

2.3 Offer to Nonparticipating Stockholders. Within 30 days after the First Closing, the Company will offer to all stockholders of the Company that did not purchase shares of Series D Preferred Stock or Series D Warrants pursuant to this Agreement (the "Nonparticipating Stockholders") the opportunity to purchase shares of Series D Preferred Stock (the "Rights Offering"). Up to an aggregate of 1,115,000 shares of Series D Preferred Stock may be sold in accordance with the Rights Offering. Each Nonparticipating Stockholder will have 45 days from receipt of notice of the Rights Offering to elect whether or not to participate in the Rights Offering, and the sale of the shares of Series D Preferred Stock to the Nonparticipating Investors pursuant to this paragraph 2.3 will be completed not later than 90 days after the First Closing. The maximum number of shares of Series D Preferred Stock which any Nonparticipating Stockholder may purchase in the Rights Offering shall be that number of shares of Series D Preferred Stock which bears the same relation to 1,115,000 that the number of Voting Securities (as defined in Section 9.6(c) below)

held by such Nonparticipating Stockholder bears to the total number of Voting Securities held by all Nonparticipating Stockholders. All such sales of Series D Preferred Stock to Nonparticipating Investors shall be made on the terms and conditions set forth in this Agreement. Any shares of Series D Preferred Stock sold pursuant to this paragraph 2.3 shall be deemed to be "Series D Preferred Stock" for all purposes under this Agreement and shall be deemed to be "Shares" sold pursuant to this Agreement, and any purchasers thereof shall be deemed to be "Investors" for all purposes under this Agreement. Should any such sales be made, the Company shall prepare and distribute to the Investors a revised Exhibit A to this Agreement reflecting such sales.

3. 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 the Schedule of Exceptions attached hereto as Exhibit C, which exceptions shall be deemed to be representations and warranties as if made hereunder, as follows:

3.1 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.

3.2 Capitalization. As of and immediately following the First Closing, the authorized capital of the Company consists of:

(a) 5,750,000 shares of Preferred Stock, $0.01 par value (the "Preferred Stock"), of which all 5,750,000 shares have been designated Series D Preferred Stock. Immediately prior to the First Closing, no shares of Series D Preferred Stock will be outstanding. Up to an aggregate of 5,730,383 shares and warrants to purchase shares of Series D Preferred Stock will be sold pursuant to this Agreement (as part of the First Closing, Second Closing and Rights Offering). 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) 15,000,000 shares of Common Stock, $0.01 par value (the "Common Stock"). As of and immediately following the First Closing, 405,313 shares of Common Stock will be outstanding.

(c) a warrant to purchase up to 187,752 shares of Common Stock at an exercise price of $0.01 per share;

(d) a warrant to purchase up to 100,000 shares of Common Stock at an exercise price of $.05 per share;

(e) warrants to purchase up to 660,024 shares of Common Stock at an exercise price of $0.50 per share;

(f) Outstanding options to purchase up to 111,450 shares of Common Stock (the "Options") pursuant to the Company's 1991 Incentive Stock Option Plan (the "1991 Plan"), and 66,814 shares of Common Stock reserved for future option grants under the 1991 Plan.

(g) Except for (i) the conversion privileges of the Preferred Stock (ii) the rights set forth in the Investors Agreement attached hereto as Exhibit F and in the Amended and Restated Stockholders Agreement dated November 13, 1992, (the "November 1992 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.

3.3 Subsidiaries. Except for Integrated Surgical Systems B.V., a corporation organized under the laws of the Netherlands and a wholly-owned subsidiary of the Company, the Company does not presently own or control, directly or indirectly, any interest in any other corporation, association, or other business entity.

3.4 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 and Series D Warrants 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.

3.5 Shares, Series D Warrants, Series D Warrant Shares and Conversion Stock.

(a) The Shares and Series D Warrants, 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 or Series D Warrants hereunder. Neither the issuance, initial sale or delivery of the Shares or Series D Warrants 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 D Preferred Stock when issued, upon exercise and in accordance with the terms of the Series D Warrant, 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 D 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.

3.6 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 Series D Warrants (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.

3.7 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, 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.

3.8 Proprietary Information Agreements. Each officer and key employee 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 officer or employee 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.

3.9 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.

3.10 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.

3.11 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 9.5.

(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) Except for the November 1992 Stockholders Agreement and the Investors 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.

3.12 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.

3.13 Registration Rights. As of and immediately following the First Closing, the registration rights provided in the Registration Rights Agreement attached hereto as Exhibit G will be the only such rights outstanding.

3.14 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.

3.15 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.

3.16 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 of 1974.

3.17 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.

3.18 Financial Statements. The Company has delivered to the Investors its unaudited financial statements for the month ended October 31, 1995 (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 October 31, 1995; 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.

3.19 Changes. To the Company's knowledge, since October 31, 1995, there has not been any event of any type that has materially and adversely affected the business, properties, or financial condition of the Company.

3.20 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.

3.21 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.

3.22 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, 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.

3.23 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.

3.24 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.

4. Representations and Warranties of the Investors. Each Investor hereby represents and warrants (with respect to itself) that:

4.1 Due Organization and Authorization. Each Investor has all requisite power and authority to enter into this Agreement and the Investors Agreement and to consummate the transactions contemplated hereby and thereby. The execution and delivery by each Investor of this Agreement and the Investors 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 Investors Agreement each constitutes the valid and legally binding obligation of each Investor, enforceable in accordance with its terms.

4.2 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 or Series D Warrants, as the case may be, 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, except as provided in the preceding sentence. Each Investor represents that it has full power and authority to enter into this Agreement.

4.3 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 3 of this Agreement or the right of the Investors to rely thereon.

4.4 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 or the Series D Warrants. If other than an individual, the Investor also represents it has not been organized for the purpose of acquiring the Shares or the Series D Warrants.

4.5 Restricted Securities. Each Investor understands that the Shares or Series D Warrants 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.

4.6 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 Series D Warrants (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.

4.7 Legends. It is understood that the certificates evidencing the Shares and Series D Warrants (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 Investors Agreement.

4.8 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.

5. Conditions of Investors' Obligations at First Closing. The obligations of each Investor under Section 1.3 of this Agreement are subject to the fulfillment on or before the First Closing of each of the following conditions, the waiver of which shall not be effective against any Investor that does not consent in writing thereto:

5.1 Representations and Warranties. The representations and warranties of the Company contained in Section 3 shall be true on and as of the First Closing with the same effect as though such representations and warranties had been made on and as of the date of such First Closing.

5.2 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 First Closing.

5.3 Compliance Certificate. The President of the Company shall deliver to each Investor at the First Closing a certificate dated as of the First Closing date certifying as to the fulfillment of the conditions specified in Sections 5.1 and 5.2.

5.4 Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated at the First 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 originals and certified or other copies of such documents as they may reasonably request.

5.5 Cancellation of IBM Note and Interest; Amendment of Warrant. Before the First Closing, IBM shall have agreed to the cancellation of the IBM Note and all accrued interest with respect to the IBM Note, and the IBM Note and all such accrued interest shall have been cancelled, in exchange for the IBM 1995 Common Warrant, and the Company shall have agreed to amend the IBM 1991 Common Warrant, all as described in Section 1.2 hereof.

5.6 Cancellation of Accumulated Dividends. All accumulated dividends with respect to the Series B and Series C Preferred Stock shall have been cancelled in exchange for shares of Common Stock, as described in Section 1.2 hereof.

5.7 Opinion of Company Counsel. Each Investor shall have received from Wilson, Sonsini, Goodrich & Rosati, counsel for the Company, an opinion, dated as of the First Closing, in the form attached hereto as Exhibit E.

5.8 Investors Agreement. The Investors Agreement in the form attached hereto as Exhibit F shall have been executed and delivered by all of the parties thereto.

5.9 Registration Rights Agreement. The Company, IBM and the holders of 50% of the Registrable Securities (as defined therein) shall have executed and delivered the Registration Rights Agreement attached hereto as Exhibit G.

5.10 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.

5.11 Stock Certificates. The Company shall have delivered to the Investors the certificates and warrants referred to Section 2.1.

5.12 Board of Directors. As of the date of the First Closing, the Company's Board of Directors shall consist of John Kapoor (or another designee of E.J. Financial), James McGroddy, Paul Pankow, Wendy Shelton-Paul and Ramesh Trivedi. Subject to the provisions of Section 6.7 of the Integrated Surgical Systems, Inc. Series C Preferred Stock Purchase Agreement dated November 13, 1992 (the "Series C Agreement"), Keystone Financial Group shall have the right to designate one individual who shall have Board observer rights as provided in the Series C Agreement and who shall be furnished the same materials as provided to members of the Company's Board of Directors.

5.13 Ramesh Trivedi Involvement. The Company and Ramesh Trivedi shall have entered into a final agreement, the form of which shall have been approved by the Investors, concerning Mr. Trivedi's employment by the Company.

6. Conditions of the Company's Obligations at First Closing. The obligations of the Company to each Investor under this Agreement are subject to the fulfillment on or before the First

Closing of each of the following conditions, the waiver of which shall not be effective unless consented to in writing by the Company:

6.1 Representations and Warranties. The representations and warranties of each Investor contained in Section 4 shall be true on and as of the First Closing with the same effect as though such representations and warranties had been made on and as of the First Closing.

6.2 Cancellation of IBM Note and Interest. Before the First Closing, IBM shall have agreed to the cancellation of the IBM Note and all accrued interest with respect to the IBM Note, and the IBM Note and all such accrued interest shall have been cancelled, in exchange for the IBM 1995 Common Warrant, all as described in Section 1.2 hereof.

6.3 Cancellation of Accumulated Dividends. All accumulated dividends with respect to the Series B and Series C Preferred Stock shall have been cancelled in exchange for shares of Common Stock, as described in Section 1.2 hereof.

6.4 Payment of Purchase Price. All of the Investors shall have delivered the purchase price provided for in Section 2.1.

6.5 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.

6.6 Investors Agreement. The Investors Agreement in the form attached hereto as Exhibit F shall have been executed and delivered by all of the parties thereto.

7. Condition of Investors' Obligations at Second Closing. The obligations of each Investor under Section 1.4 of this Agreement are subject to the fulfillment on or before the Second Closing of the following conditions, the waiver of which shall not be effective against any Investor that does not consent in writing thereto:

7.1 Representations and Warranties. The representations and warranties of the Company contained in Section 3 shall be true on and as of the Second Closing with the same effect as though such representations and warranties had been made on and as of the date of such Second Closing.

7.2 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 Second Closing.

7.3 Compliance Certificate. The President of the Company shall deliver to each Investor at the Second Closing a certificate dated as of the Second Closing date certifying as to the fulfillment of the conditions specified in Sections 7.1 and 7.2.

7.4 No Alternative Investor. The Company shall not have received prior to February 19, 1996, from an investor or investors other than the Investors the aggregate amount of $1,000,000 in exchange for the issuance by the Company to such investor or investors of Series D Shares or Series D Warrants on terms at least as advantageous to the Company as the terms set forth in this Agreement.

7.5 Option Plan. The Company's 1995 Stock Plan shall have been approved by the Board of Directors and the stockholders of the Company, the Company's 1991 Incentive Stock Option Plan shall have been terminated, and all holders of vested options thereunder shall have agreed to cancel their vested options in exchange for new options under the Company's 1995 Stock Plan.

8. Conditions of the Company's Obligations at Second Closing. The obligations of the Company to each Investor under this Agreement are subject to the fulfillment on or before the Second Closing of each of the following conditions, the waiver of which shall not be effective unless consented to in writing by the Company:

8.1 Representations and Warranties. The representations and warranties of each Investor contained in Section 4 shall be true on and as of the Second Closing with the same effect as though such representations and warranties had been made on and as of the Second Closing.

8.2 Payment of Purchase Price. All of the Investors shall have delivered the purchase price provided for in Section 2.2.

9. Covenants of the Company.

9.1 Delivery of Financial Statements. The Company shall deliver to each Investor that holds, together with its affiliates, an aggregate of 500,000 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, a capitalization chart setting forth the principal stockholders of the Company, and a balance sheet and statements of operations and cash flow for such fiscal year. Such year-end financial reports shall 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.

(b) within thirty (30) days after 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 9.1, 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.

9.2 Inspection. The Company shall permit each Investor which holds, together with its affiliates, an aggregate of 500,000 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; pro vided, however, that the Company shall not be obligated pursuant to this Section 9.2 to provide access to any information which it reasonably considers to be a trade secret or similar confidential information.

9.3 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.

9.4 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.

9.5 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.

9.6 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 9.6 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 9.6 are not transferable and shall terminate with respect to each Investor when such Investor holds less than 500,000 shares of the Securities.

9.7 Termination of Covenants. The covenants set forth in this Section 9 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.

10. Termination and Amendment of Prior Agreements.

(a) The covenants set forth in Section 7.16, Section 7.17, Article IX and Article X of the IBM Loan Agreement are hereby terminated. Section 11.02 of the IBM Loan Agreement is hereby amended to delete the references contained therein to Section 10.03, 10.04, 10.05, 10.06 or 10.07 of the IBM Loan Agreement. The foregoing amendments to the IBM Loan Agreement shall be effective upon execution of this Agreement by the Company and IBM.

(b) The IBM Note is terminated effective immediately prior to the execution of this Agreement by the Company and IBM. Such termination shall operate as a waiver of any condition or restriction on such termination and results from the payment in full of all outstanding principal and interest accrued thereon.

(c) The IBM 1991 Common Warrant is hereby amended to provide that the purchase rights represented by such Common Warrant are exercisable on or before December 31, 2000. The foregoing amendment to the Common Warrant shall be effective upon execution of this Agreement by the Company and IBM.

11. Miscellaneous.

11.1 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.

11.2 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.

11.3 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.

11.4 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.

11.5 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.

11.6 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.

11.7 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.

11.8 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.

11.9 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 11.9 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 or Section 7 hereof may be waived with respect to any Investor that does not consent thereto.

11.10 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.

11.11 Aggregation of Stock. All Shares or Series D Warrants 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.

11.12 Stock Splits. All references to numbers of shares in this Agreement shall be appropriately adjusted to reflect any stock dividend, split, combination or other recapitalization of shares by the Company occurring after the date of this Agreement.

11.13 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 Series D Preferred Stock and Warrant Purchase Agreement as of the date first above written.

INTEGRATED SURGICAL SYSTEMS, INC.

By: _____

Title: _____

INTERNATIONAL BUSINESS MACHINES CORPORATION

By: _____

Title: _____

EJ FINANCIAL INVESTMENTS V, L.P.

By: _____

Title: _____

EXHIBIT A

SCHEDULE OF INVESTORS

Name and Address	First Closing: Series D Shares or Warrants	First Closing: Purchase Price	Second Closing(1): Series D Shares or Warrants	Second Closing(1): Purchase Price
International Business Machines Corporation IBM Research Division T.J. Watson Research Center Yorktown Heights, NY 10598 Attn: Daniel P. McCurdy	2,051,282 (warrants)	$1,333,333.30	1,025,640 (warrants)	$666,666.00
EJ Financial Investments V, L.P. c/o EJ Financial Enterprises, Inc. 225 East Deerpath Suite 250 Lake Forest, IL 60045 Attn: Robert May	1,025,641 (shares)	$ 666,666.65	512,820 (shares)	$333,333.00
TOTAL	3,076,923	$1,999,999.95	1,538,460	$999,999.00

(1) Assumes that the Second Closing involves $999,999.00 aggregate principal amount of investment at $0.65 per Series D Share or Series D Warrant.

EXHIBIT B

RESTATED CERTIFICATE OF INCORPORATION

OF

INTEGRATED SURGICAL SYSTEMS, INC.

Integrated Surgical Systems, Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies that:

1. The name of the Corporation is Integrated Surgical Systems, Inc. The Corporation was originally incorporated under the same name, and the original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on October 1, 1990.

2. This Certificate restates and amends the provisions of the Corporation's Certificate of Incorporation to read as set forth in Exhibit A attached to this Certificate.

3. This restatement and amendment of the Corporation's Certificate of Incorporation has been duly adopted by the Corporation's Board of Directors in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware, and by the holders of each class of outstanding stock entitled to vote thereon as a class by written consent given in accordance with Section 228 of the General Corporation Law of the State of Delaware. Written notice pursuant to Section 228 has been given to those stockholders of the Corporation who have not consented in writing to this action.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Restatement of Certificate of Incorporation to be signed by Ramesh Trivedi, its President, this 20th day of December, 1995.

INTEGRATED SURGICAL SYSTEMS, INC.

By: _____
Ramesh Trivedi, President

EXHIBIT A

RESTATED CERTIFICATE OF INCORPORATION

OF

INTEGRATED SURGICAL SYSTEMS, INC.

1. The name of this corporation is Integrated Surgical Systems, Inc. (the "Corporation").

2. The address of the Corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, Zip Code 19801. The name of its registered agent at such address is The Corporation Trust Company.

3. The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

4. The Corporation is authorized to issue two classes of capital stock: Preferred Stock, $0.01 par value per share, and Common Stock, $0.01 par value per share. The total number of shares of Preferred Stock which the Corporation shall have the authority to issue is 5,750,000 of which 5,750,000 shares shall be designated Series D Preferred Stock ("Series D Preferred"). The total number of shares of Common Stock which the Corporation shall have the authority to issue is 15,000,000. The Series D Preferred is herein collectively referred to as the "Preferred Stock."

Upon the filing of this Restated Certificate of Incorporation with the Delaware Secretary of State, each currently outstanding share of Common Stock, Series B Preferred Stock and Series C Preferred Stock shall be split up and converted into 0.20 shares of Common Stock, and the Series A Preferred Stock, the Series B Preferred Stock and the Series C Preferred Stock shall be eliminated from the authorized capital stock of the corporation. No shares of Series A Preferred Stock have ever been issued or outstanding. Also upon the filing of this Restated Certificate of Incorporation, each $8.87 of accrued dividends with respect to the Series B Preferred Stock shall be converted into 0.20 shares of Common Stock and each $10.56 of accrued dividends with respect to the Series C Preferred Stock shall be converted into 0.20 shares of Common Stock. No fractional shares shall be issued in connection with such reverse stock split and conversion and the number of shares issuable to each stockholder shall be determined by rounding upward to the next whole share on a certificate-by-certificate basis.

The relative rights, preferences, privileges and restrictions granted to or imposed upon the respective classes of shares of capital stock or holders thereof are as set forth below.

Section 1. Ranking. The Series D Preferred shall rank, subject to the rights of any other series of Preferred Stock which may from time to time come into existence pursuant to the terms hereof, prior to any other equity securities of the Corporation, including the Common Stock, upon liquidation, dissolution or winding-up.

Section 2. Dividends.

The holders of Series D Preferred shall be entitled to receive a dividend (the "Participating Dividend" for such series) payable in cash on the payment date for each cash dividend declared on the shares of Common Stock in an amount per share of Preferred Stock of such series equal to the number of shares (or fraction thereof) of Common Stock into which each share of Preferred Stock on such series is then convertible times the cash dividend to be paid on each full share of Common Stock.

Following the filing of this Restated Certificate of Incorporation, the right to dividends on shares of the Common Stock and Preferred Stock shall not be cumulative, and no right shall accrue to holders of Common Stock or Series D Preferred Stock by reason of the fact that dividends on said shares are not declared in any prior period.

Section 3. Liquidation. The shares of Series D Preferred shall rank prior to the shares of Common Stock and any other class or series of capital stock of the Corporation ranking junior to the Series D Preferred Stock upon liquidation, dissolution or winding-up, so that in the event of any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, the holders of shares of Series D Preferred shall be entitled to receive out of the assets of the Corporation available for distribution to its stockholders, whether from capital, surplus or earnings, before any distribution is made to holders of shares of Common Stock or any other such junior stock, an amount per share equal to $0.65 for each outstanding share of Series D Preferred (the "Original Series D Issue Price") plus an amount equal to all accrued and unpaid dividends on each share of Series D Preferred (such sum being referred to as the liquidation preference of the Series D Preferred). After payment has been made to the holders of the Series D Preferred of the full amount to which they shall be entitled, the remaining assets of the Corporation shall be distributed ratably to the holders of any capital stock of the Corporation ranking junior to the Series D Preferred.

If the assets and funds of the Corporation distributable among the holders of shares of Series D Preferred shall be insufficient to permit the payment in full to such holders of the respective liquidation preferences payable to such holders, in the event of any liquidation, dissolution or winding up of the Corporation, then the entire assets and funds of the Corporation legally available for distribution shall be distributed among such holders ratably in proportion to the aggregate liquidation preferences of the shares of Preferred Stock held by such holders.

For purposes of this Section 3, an Acquisition (as defined below) shall be treated as a liquidation, dissolution or winding-up of the Corporation. For purposes of this section "Acquisition" shall mean any consolidation, merger or other reorganization of the Corporation; any sale, exchange or other disposition (whether in one transaction or a series of related transactions) of all, or any substantial part, of the assets of the Corporation and its subsidiaries taken as a whole; or any other transaction or series of related transactions which would result in the holders of the Voting Securities immediately prior thereto continuing to beneficially own less than a majority of the Total Voting

Power (as defined in Section 4(d)(iii)) of the Corporation, successor or acquiring corporation immediately thereafter.

Section 4. Voting.

(a) Except as otherwise required by law and as set forth herein, the holders of shares of Series D Preferred issued and outstanding shall have no right to vote their shares of Series D Preferred.

(b) The holders of shares of Series D Preferred shall have the right to vote, together with the holders of all the outstanding shares of Common Stock and not by classes (except as otherwise provided in this Section 4 or by applicable law), on all matters on which holders of shares of Common Stock have the right to vote. Each holder of shares of Series D Preferred shall have the right, for the shares of Series D Preferred held by such holder on the applicable record date, to cast that number of votes on each such matter equal to the number of shares of Common Stock into which such shares of Series D Preferred could be converted as of such record date, with any fractions rounded down to the next full vote, multiplied by the number of votes per share which the holders of shares of Common Stock then have with respect to such matter.

(c) Whenever holders of shares of Series D Preferred or Common Stock are required or permitted to take any action by vote, such action may be taken without a meeting by written consent, setting forth the action so taken and signed by the holders of shares of Series D Preferred or Common Stock, as the case may be, having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all such shares entitled to vote thereon were present and voted.

(d) The consent of holders of at least a majority of the outstanding shares of Series D Preferred, voting separately as a class, shall be required before the Corporation shall (or shall permit any of its subsidiaries to):

(i) either directly or indirectly or through merger, consolidation or other reorganization with any other person, amend, alter or repeal any of the provisions hereof so as to affect adversely the powers, preferences or relative, participating, optional or other special rights of the Series D Preferred;

(ii) adopt any amendment to the Corporation's Restated Certificate of Incorporation to change the Corporation's authorized capital; or

(iii) enter into any Control Transaction (as defined below) with any person.

"Control Transaction" shall mean any consolidation, merger or other reorganization of the Corporation; any sale, lease, exchange or other disposition (whether in one transaction or a series of related transactions) of all, or any substantial part, of the assets of the

Corporation and its subsidiaries taken as a whole; or any other transaction or series of related transactions which would result in the holders of the Voting Securities immediately prior thereto continuing to beneficially own less than fifty percent (50%) of the Total Voting Power of the Corporation, successor or acquiring corporation immediately thereafter.

"Total Voting Power of the Corporation" shall mean the total number of votes that may be cast in the election of directors of the Corporation at any meeting of stockholders of the Corporation if all Voting Securities (assuming full conversion, exchange or exercise of all securities (including rights, warrants and options) convertible into, exchangeable for or exercisable for any securities of the Corporation entitled to vote generally in the election of directors of the Corporation) 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 Corporation entitled to vote generally in the election of directors of the Corporation, and any other securities (including rights, warrants and options) convertible into, exchangeable for or exercisable for, any of the foregoing (whether or not presently convertible, exchangeable or exercisable).

(e) In addition to voting together with the holders of Voting Securities for the election of other directors of the Corporation, the holders of record of the Series D Preferred, voting separately as a class (the "Series D Group"), to the exclusion of the holders of Common Stock and any other series of Preferred Stock then outstanding, shall, at any annual meeting of stockholders for the election of directors (and at each subsequent annual meeting of stockholders), vote for the election of two directors (each a "Series D Director") of the Corporation. In the election of the Series D Directors, the holders of Series D Preferred shall be entitled to cast one vote per share of Series D Preferred they hold. Any director who shall have been elected pursuant to this Section 4(e) may be removed at any time by, and removed without cause only by, the affirmative vote of the holders of the Preferred Stock of the group that had elected such director who are entitled to cast a majority of the votes entitled to be cast for the election of any such director at a special meeting of such holders called for that purpose, and any vacancy thereby created may be filled only by the vote of such holders of the Preferred Stock of such group. The holder of each share of Preferred Stock shall be entitled to notice of any stockholders' meeting in accordance with the Bylaws of the Corporation and shall vote with the holders of the Common Stock upon the election of the remaining directors authorized by the Bylaws of the Corporation. The Corporation shall take any action from time to time as shall be necessary to amend the Bylaws of the Corporation to provide for a change in the authorized number of members of the Board as may be required to give effect to this Section 4(e).

Section 5. Conversion.

(a) General. On the terms and subject to the conditions of this Section 5, the holder of a share of Series D Preferred shall have the right, at its option, at any time (subject to the next sentence and to Section 5(i)) to convert such share into that number of shares of Common Stock

(calculated as to each conversion to the nearest 1/100th of a share) obtained by dividing the Original Series D Issue Price (as defined in Section 3) by the Conversion Price for such series (as defined in Section 5(d)) and by surrender of such share pursuant to Section 5(b) (the shares of Common Stock issuable upon such conversion being called "Conversion Shares").

(b) Conversion Procedures. In order to exercise the conversion privilege, the holder of any shares of Series D Preferred to be converted shall surrender the certificate representing such shares at the principal office of the Corporation, with a written notice stating that such holder elects to convert all or a specified whole number of such shares pursuant to this Section 5 and specifying the name or names in which such holder wishes the certificate or certificates for Conversion Shares to be issued. In the case of any mandatory conversion pursuant to Section 5(i), on or after the date of the occurrence of the event set forth in Section 5(i) (and within 10 days after receipt of written notice, if any, from the Corporation of the occurrence of such event), each holder of shares of Series D Preferred shall surrender the certificate representing such shares at the principal office of the Corporation, together with a written notice specifying the name or names in which such holder wishes the certificate or certificates for Conversion Shares to be issued. Unless the Conversion Shares are to be issued in the same name as the name in which such shares of Series D Preferred are registered, the certificate representing the shares surrendered for conversion shall be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder or its duly authorized attorney. As promptly as practicable after such surrender of a certificate for shares of Series D Preferred, and in any event within five business days (as defined below) thereafter, the Corporation shall issue and deliver at such office to such holder, or on such holder's written order, (i) a certificate or certificates for the applicable number of full Conversion Shares, (ii) if less than the full number of shares of Series D Preferred evidenced by the surrendered certificate is being converted, a new certificate, of like tenor, for the number of shares of Series D Preferred evidenced by such surrendered certificate less the number of shares being converted and (iii) the cash payment in settlement of any fractional Conversion Share provided for in Section 5(c).

Upon conversion of any shares of Series D Preferred, the holder thereof shall be entitled to receive an amount equal to all declared and unpaid dividends on such shares prior to such conversion. The payment for such declared and unpaid dividends on a mandatory conversion under Section 5(i) shall be paid in cash or Common Stock at the election of the Corporation. For purposes of the payment of the declared and unpaid dividend in Common Stock, the fair market value of the Common Stock shall be deemed to be the issuance price of the Common Stock in the public offering which triggers the mandatory conversion under Section 5(i).

A "business day" is a day other than a Saturday, Sunday or other day on which banks in the State of New York or the State of California are authorized to be closed.

In the case of the exercise of the conversion privilege, each conversion shall be deemed to have been effected as of the close of business on the date on which the certificate for shares of Series D Preferred is surrendered and such notice is received by the Corporation as aforesaid, and the person or persons in whose name or names any certificate or certificates for

Conversion Shares are issuable shall be deemed to have become the holder or holders of such Conversion Shares at such time on such date and such conversion shall be at the applicable Conversion Price in effect at such time on such date, unless the stock transfer books of the Corporation are closed on that date, in which event such person or persons shall be deemed to have become such holder or holders of record at the close of business on the next day on which such stock transfer books are open (provided that if such books shall remain closed for five days, such fifth day shall be the date any such person shall become such a holder), but such conversion shall be at the applicable Conversion Price in effect on the date on which such certificate was surrendered and such notice was received. In the case of any mandatory conversion pursuant to Section 5(i), on the date of the occurrence of the event set forth in Section 5(i), each holder of shares of Series D Preferred shall be deemed to be a holder of record of the Common Stock issuable upon such conversion, notwithstanding that the certificates representing such shares of Series D Preferred shall not have been surrendered at the office of the Corporation, that notice from the Corporation shall not have been received by any holder of shares of Series D Preferred or that the certificates evidencing such shares of Common Stock shall not then be actually delivered to such person. Upon delivery, all Conversion Shares shall be duly authorized, validly issued, fully paid, nonassessable, free of all liens and charges and not subject to any preemptive or subscription rights.

(c) Settlement of Fractional Conversion Shares. No fractional Conversion Shares or scrip representing fractions of Conversion Shares shall be issued upon conversion of shares of Series D Preferred. Instead of any fractional Conversion Share otherwise deliverable, the Corporation shall pay to the holder of the converted shares an amount in cash equal to the current market price (as defined below) of such fractional Conversion Share on the date of conversion. If more than one share is surrendered for conversion at one time by the same holder, the number of full Conversion Shares shall be computed on the basis of the aggregate number of shares so surrendered. The "current market price" per share of Common Stock on any day is the average of the daily market prices for the 30 consecutive trading days immediately prior to the day in question. The "daily market price" of a share of Common Stock is the price of a share of Common Stock on the relevant day, determined on the basis of the last reported sale price, regular way, of the Common Stock as reported on the composite tape, or similar reporting system, for issues listed or admitted to trading on the New York Stock Exchange (or if the Common Stock is not then listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which the Common Stock is then listed or admitted to trading) or on the Nasdaq National Market or, if there is no such reported sale on the day in question, on the basis of the average of the closing bid and asked quotations as so reported or, if the Common Stock is not then listed or admitted to trading on any national securities exchange or on the Nasdaq National Market on the basis of the average of the high bid and low asked quotations on the day in question in the over-the-counter market as reported by the National Association of Securities Dealers' Automated Quotation System, or, if not so quoted, as reported by National Quotation Bureau, Incorporated, or a similar organization. If the current market price is not determinable as aforesaid, it shall be determined in good faith by the Board and evidence of such determination shall be filed with the minutes of the Corporation. A "trading day" is a day on which the principal national securities exchange on which the Common Stock is listed or admitted to trading

is open for the transaction of business or, if the Common Stock is not then listed or admitted to trading on any national securities exchange, any day other than Saturday, Sunday or a federal holiday.

(d) Conversion Price. "Series D Conversion Price" shall mean $0.65 as adjusted pursuant to this Section 5(d). "Conversion Price" shall generally mean the Series D Conversion Price. The Series D Conversion Price (and the kind and amount of consideration receivable by holders of shares of Series D Preferred upon conversion) shall be adjusted from time to time as follows:

(i) If, after the date of the Corporation's Series D Preferred Stock and Warrant Purchase Agreement with respect to the Series D Conversion Price (such date being referred to as the "Conversion Reference Date" for such series), the Corporation (A) pays a dividend or makes a distribution on the Common Stock in shares of Common Stock, (B) subdivides or combines its outstanding shares of Common Stock into a greater or smaller number of shares or (C) issues by reclassification of the Common Stock any shares of capital stock of the Corporation, then the Series D Conversion Price in effect immediately prior to such action shall be adjusted so that the holder of any share of Series D Preferred thereafter surrendered for conversion shall be entitled to receive, at the time of such conversion, the number of shares of Common Stock or other capital stock of the Corporation that it would have owned or been entitled to receive immediately following such action had such share been converted immediately prior to such action or the record date therefor, whichever is earlier. Such adjustment shall become effective immediately after the record date, in the case of a dividend or distribution, or immediately after the effective date, in the case of a subdivision, combination or reclassification.

(ii) If the Corporation issues any Additional Shares as defined below for a consideration per share less than the Conversion Price for a series of Preferred Stock in effect immediately prior to such issuance, then the Conversion Price for such series shall be adjusted by multiplying such Conversion Price in effect immediately prior to such issuance by a fraction (I) the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to the issuance of such Additional Shares plus the number of shares of Common Stock that the aggregate consideration for such Additional Shares would purchase at a consideration per share equal to such Conversion Price and (II) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to the issuance of such Additional Shares plus the number of Additional Shares so issued. Such adjustment shall become effective immediately after the issuance of such Additional Shares. For purposes of this Section 5, the issuance of any Additional Shares or other securities, warrants, options or rights includes any sale and any reissuance or resale.

"Additional Shares" shall mean any shares of Common Stock of the Corporation issued by the Corporation, excluding:

(A) any shares of Common Stock issued upon the exercise of the Warrant issued by the Corporation on February 6, 1991, for the purchase of 500,000 shares of Common Stock (prior to the split-up effected herein), as amended on the First Closing Date, as defined in the Corporation's Series D Preferred Stock and Warrant Purchase Agreement;

(B) any shares of Common Stock issued upon the exercise of the warrants issued by the Corporation on the First Closing Date to purchase an aggregate of 846,845 shares of Common Stock (as such number of shares may be increased on the Second Closing Date pursuant to the terms of such warrants), as those terms are defined in the Corporation's Series D Preferred Stock and Warrant Purchase Agreement;

(C) any shares of Common Stock issued upon conversion of the Series D Preferred issuable upon the exercise of any warrant to purchase shares of Series D Preferred issued by the Corporation on the First Closing Date or the Second Closing Date, as those terms are defined in the Corporation's Series D Preferred Stock and Warrant Purchase Agreement;

(D) any shares of Common Stock issued upon the conversion of the Series D Preferred;

(E) up to 1,640,762 shares of Common Stock issuable (x) to any officer, employee, consultant or director of the Corporation pursuant to any arrangement or plan, including any incentive stock plan, adopted by the Board of Directors of the Corporation or (y) pursuant to the conversion of Rights or Convertible Securities (as defined in Section 5(d)(iii)) issuable to lending or leasing institutions; and

(E) up to 4,000 shares of Common Stock issuable at fair market value to vendors of goods or services to the Corporation in payment for such goods and services.

(iii) If, after the Series D Preferred Conversion Reference Date, the Corporation issues any warrants, options or other rights entitling the holders thereof to subscribe for or purchase either any Additional Shares or evidences of debt, shares of capital stock or other securities that are convertible into or exchangeable for, with or without payment of additional consideration, Additional Shares (such warrants, options or other rights being called "Rights" and such convertible or exchangeable evidences of debt, shares of capital stock or other securities being called "Convertible Securities"), and the consideration per share for which Additional Shares may at any time thereafter be issuable pursuant to such Rights or Convertible Securities (when added to the consideration per share of Common Stock, if any, received for such Rights), is less than the Conversion Price for the Series D Preferred, the Series D Preferred Conversion Price shall be adjusted as provided in Section 5(d)(ii) on the basis that (A) the maximum number of Additional Shares issuable pursuant to all such Rights or necessary to effect the conversion or exchange of all such Convertible Securities shall be deemed to have been issued and (B) the aggregate consideration (plus the consideration, if any, received for such Rights) for such maximum number of Additional Shares shall be deemed to be the consideration received and receivable by the Corporation for the issuance of such Additional Shares pursuant to such Rights or Convertible Securities.

(iv) If, after the Series D Preferred Conversion Reference Date, the Corporation issues Convertible Securities and the consideration per share for which Additional Shares may at any time thereafter be issuable pursuant to such Convertible Securities is less than the

Conversion Price for such series, such Conversion Price shall be adjusted as provided in Section 5(d)(ii) on the basis that (A) the maximum number of Additional Shares necessary to effect the conversion or exchange of all such Convertible Securities shall be deemed to have been issued and (B) the aggregate consideration for such maximum number of Additional Shares shall be deemed to be the consideration received and receivable by the Corporation for the issuance of such Additional Shares pursuant to such Convertible Securities. No adjustment of a Conversion Price shall be made under this Section 5(d)(iv) upon the issuance of any Convertible Securities issued pursuant to the exercise of any Rights, to the extent that such adjustment was previously made upon the issuance of such Rights pursuant to Section 5(d)(iii).

(v) For purposes of Sections 5(d)(iii) and 5(d)(iv), the relevant Series D Conversion Price shall be the applicable Conversion Price in effect immediately prior to the earlier of (A) the record date for the holders of Common Stock entitled to receive the Rights or Convertible Securities and (B) the initial issuance of the Rights or Convertible Securities, and the adjustment provided for in either such Section shall become effective immediately after the earlier of the times specified in clauses (A) and (B).

(vi) No adjustment of any Conversion Price shall be made under Section 5(d)(ii) upon the issuance of any Additional Shares pursuant to the exercise of any Rights or of any conversion or exchange rights pursuant to any Convertible Securities, if such adjustment was previously made in connection with the issuance of such Rights or Convertible Securities (or in connection with the issuance of any Rights therefor) pursuant to Section 5(d)(iii) or 5(d)(iv).

(vii) If any Rights (or any portions thereof) that gave rise to an adjustment pursuant to Section 5(d)(iii) or any conversion or exchange rights pursuant to any Convertible Securities that gave rise to an adjustment pursuant to Section 5(d)(iii) or 5(d)(iv) expire or terminate without the exercise thereof and/or if by reason of the provisions of such Rights or Convertible Securities there has been any increase, with the passage of time or otherwise, in the consideration payable upon the exercise thereof, then the Series D Conversion Price shall be readjusted (but to no greater extent than originally adjusted) on the basis of (A) eliminating from the computation Additional Shares corresponding to such expired or terminated Rights or conversion or exchange rights, (B) treating the Additional Shares, if any, actually issued or issuable pursuant to the previous exercise of such Rights or conversion or exchange rights as having been issued for the consideration actually received and receivable therefor and (C) treating any such Rights or conversion or exchange rights that remain outstanding as being subject to exercise on the basis of the consideration payable upon the exercise or conversion thereof as is in effect at such time; provided, however, that any consideration actually received by the Corporation in connection with the issuance of such Rights or Convertible Securities shall form part of the readjustment computation even though such Rights or conversion or exchange rights expired without being exercised. The Series D Conversion Price shall be adjusted as provided in Section 5(d)(ii) and any applicable provisions of Section 5(d)(iii) or 5(d)(iv) as a result of any increase in the number of Additional Shares issuable, or any decrease in the consideration payable upon any issuance of Additional Shares, pursuant to any antidilution provisions of any Rights or Convertible Securities.

(viii) (A) If any Additional Shares, Convertible Securities or Rights are issued for cash, the consideration received therefor shall be deemed to be the amount of cash received.

(B) If any Additional Shares, Convertible Securities or Rights are offered by the Corporation for subscription, the consideration received therefor shall be deemed to be the subscription price.

(C) If any Additional Shares, Convertible Securities or Rights are sold to underwriters or dealers for public offering without a subscription offering, the consideration received therefor shall be deemed to be the public offering price.

(D) In any case covered by Section 5(d)(viii) (A), (B) or (C), in determining the amount of any consideration received by the Corporation in whole or in part other than in cash, the amount of such consideration shall be deemed to be the fair market value of such consideration as determined in good faith by the Board of Directors of the Corporation, and evidence of such determination shall be filed with the minutes of the Corporation. If Additional Shares are issued as part of a unit with Rights, the consideration received for the Rights shall be deemed to be the portion of the consideration received for such unit determined in good faith at the time of issuance by the Board of directors of the Corporation, and evidence of such determination shall be filed with the minutes of the Corporation. If the Board does not make any such determination, the consideration received for the Rights shall be deemed to be zero. In either event, the consideration received for the Additional Shares shall be deemed to be the consideration received for such unit less the consideration deemed to have been received for the Rights.

(E) In any case covered by Section 5(d)(viii) (A), (B), (C) or (D), in determining the amount of consideration received by the Corporation, (I) any amounts received or receivable for accrued interest or accrued dividends shall be excluded and (II) any compensation, underwriting commissions or concessions or expenses paid or incurred in connection therewith shall not be deducted.

(F) In any case covered by Section 5(d)(viii) (A), (B), (C) or (D), there shall be added to the consideration received by the Corporation at the time of issuance or sale (I) the minimum aggregate amount of additional consideration payable to the Corporation upon the exercise of Rights that relate to Convertible Securities and (II) the minimum aggregate amount of consideration payable upon the conversion or exchange thereof.

(G) If any Additional Shares, Convertible Securities or Rights are issued in connection with any merger, consolidation or other reorganization in which the Corporation is the surviving corporation, the amount of consideration received therefor shall be deemed to be the fair market value, as determined in good faith by the Board of Directors of the Corporation, of such portion of the assets and business of the non-surviving person or persons as the Board of Directors of the Corporation determines in good faith to be attributable to such Additional Shares, Convertible

Securities or Rights, and evidence of such determination shall be filed with the minutes of the Corporation.

(ix) If the corporation effects any merger, consolidation or other reorganization to which the Corporation is a party (other than a merger or consolidation in which the Corporation is the surviving corporation), any sale or conveyance to another person of all or substantially all the assets of the Corporation or any statutory exchange of securities with another person (including any exchange effected in connection with a merger of a third person into the Corporation), the holder of each share of Series D Preferred then outstanding shall have the right thereafter to convert such share into the kind and amount of consideration receivable pursuant to such transaction by a holder of the number of shares of Common Stock into which such share of Series D Preferred might have been converted immediately prior to such transaction, assuming such holder of Common Stock failed to exercise its rights of election, if any, as to the kind or amount of consideration receivable upon such transaction (provided that if the kind or amount of consideration receivable pursuant to such transaction is not the same for each share of Common Stock in respect of which such rights of election shall not have been exercised ("non-electing share"), then, for purposes of this Section 5(d)(ix), the kind and amount of consideration receivable pursuant to such transaction for each non-electing share shall be deemed to be the kind and amount so receivable per share by a plurality of the non-electing shares). Thereafter, the holders of shares of Series D Preferred shall be entitled to appropriate adjustments with respect to their conversion rights to the end that the provisions set forth in this Section 5 shall correspondingly be made applicable, as nearly as may reasonably be, to any consideration thereafter deliverable on conversion of shares of Series D Preferred. Notwithstanding the foregoing, this Section 5(d)(ix) shall not apply, with regard to any series, to an event which is treated as a liquidation, dissolution or winding-up of the Corporation with respect to such series pursuant to Section 3.

(x) If a purchase, tender or exchange offer is made to the holders of outstanding shares of Common Stock and, upon the consummation of such offer, the person having made such offer (together with its affiliates) beneficially owns 50% or more of the outstanding shares of Common Stock, the Corporation shall not effect any merger, consolidation or other reorganization with or sale, lease or other disposition of material assets or issuance of securities to the person having made such offer or any affiliate of such person, unless prior to the consummation thereof each holder of shares of Series D Preferred shall have been given a reasonable opportunity to elect to receive, upon conversion of the shares of Series D Preferred then held by such holder (in lieu of the kind and amount of consideration otherwise receivable upon conversion pursuant to this Section 5(d)), the consideration that would have been received pursuant to such offer by a holder of that number of shares of the Common Stock into which one share of Series D Preferred might then be converted if all such shares had been tendered and accepted pursuant to such offer.

(xi) If the Corporation distributes generally to holders of its outstanding shares of Common Stock or any other securities entitled generally to participate in the earnings or assets of the Corporation ("Common Equity") evidences of its debt, securities or other assets (excluding any cash dividends and excluding any dividends or distributions payable in Rights or

Convertible Securities for which adjustment is otherwise made pursuant to this Section 5(d)), each Conversion Price shall be adjusted by multiplying such Conversion Price in effect immediately prior to the record date for such dividend or distribution by a fraction of which (X) the numerator shall be the current market price per share of the Common Equity (determined, if the Common Equity is not Common Stock, in the same way that the current market price for Common Stock is determined) on such record date less the then fair market value, as determined in good faith by the Board of Directors of the Corporation, of the portion of the evidences of debt, securities or other assets so distributed or applicable to the holder of one share of Common Equity and (Y) the denominator shall be such current market price per share of the Common Equity, and evidence of such determination shall be filed with the minutes of the Corporation. Such adjustment shall become effective immediately after the record date for such dividend or distribution.

(xii) If a state of facts not specifically controlled by the provisions of this Section 5(d) occurs or is proposed that would result in the conversion provisions of the Series D Preferred Stock not being fairly protected in accordance with the essential intent and principles of such provisions, the Board of Directors of the Corporation shall make an adjustment in the application of such provisions, in accordance with such essential intent and principles, so as to protect such conversion provisions, and evidence of the determination by the Board of Directors of the Corporation of such adjustment shall be filed with the minutes of the Corporation.

(xiii) No adjustment in the Series D Conversion Price shall be required to be made unless it would require an increase or decrease of at least one cent, but any adjustments not made because of this Section 5(d)(xiii) shall be carried forward and taken into account in any subsequent adjustment otherwise required. All calculations under this Section 5(d) shall be made to the nearest cent or to the nearest 1/100th of a share, as the case may be. All adjustments with respect to a transaction or event shall apply to subsequent such transactions and events. Anything in this Section 5(d) to the contrary notwithstanding, the Board of directors of the Corporation shall be entitled to make such irrevocable reduction in the Series D Conversion Price, in addition to the adjustments required by this Section 5(d), as in its discretion it shall determine to be advisable in order to avoid or diminish any income deemed to be received for Federal income tax purposes by any holder of shares of Common Stock, Series D Preferred resulting from any event or occurrence giving rise to an adjustment pursuant to this Section 5(d) or from any similar event or occurrence, and evidence of the determination by the Board of Directors of the Corporation of such adjustment shall be filed with the minutes of the Corporation.

(xiv) Whenever the Series D Conversion Price is adjusted pursuant to this Section 5(d), (A) the Corporation shall promptly file with the minutes of the Corporation a certificate of a firm of nationally recognized independent public accountants or of its chief accounting officer setting forth the Series D Conversion Price (and any change in the kind or amount of consideration to be received by holders of shares of Series D Preferred upon conversion) after such adjustment and setting forth a brief statement of the facts requiring such adjustment and the manner of computing the same and (B) a notice stating that the Series D Conversion Price has been adjusted, stating the effective date of such adjustment and enclosing the certificate referred to in Section 5(d)(xiv)(A)

above shall forthwith be mailed by the Corporation to the holders of shares of Series D Preferred at their addresses as shown on the stock books of the Corporation.

(xv) If as a result of any adjustment pursuant to this Section 5(d), the holder of any share of Series D Preferred surrendered for conversion becomes entitled to receive any consideration other than Common Stock, then (A) the Series D Conversion Price with respect to such other consideration shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in this Section 5(d) and (B) in case such consideration shall consist of shares of Common Stock and some other kind of consideration or of two or more kinds of consideration, the Board of Directors of the Corporation shall determine in good faith the fair allocation of the adjusted Series D Conversion Price between or among such types of consideration, and evidence of such determination shall be filed with the minutes of the Corporation.

(e) Specified Events. For purposes of this Section 5(e), a "Specified Event" occurs if (i) the Corporation takes any action that would require any adjustment in the Series D Conversion Price pursuant to Section 5(d)(xi), (ii) the Corporation authorizes the granting to the holders of the Common Stock of any Rights or of any other rights, (iii) there is any capital stock reorganization or reclassification of the Common Stock (other than a subdivision or combination of the outstanding Common Stock and other than a change in the par value of the Common Stock), or any merger, consolidation or other reorganization to which the Corporation is a party, or any statutory exchange of securities with another person and for which approval of any stockholders of the Corporation is required, or any sale or transfer of all or substantially all the assets of the Corporation or (iv) there is a voluntary liquidation, dissolution or winding up of the Corporation. If a Specified Event occurs, the Corporation shall cause to be filed with the minutes of the Corporation, and shall cause to be mailed to the holders of shares of the Series D Preferred, as the case may be, at their addresses as shown on the stock books of the Corporation, at least 10 days prior to the applicable date specified below, a notice stating (A) the date on which a record is to be taken for the purpose of any distribution or Rights relating to such Specified Event or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such distribution or Rights are to be determined, or (B) the date on which the reorganization, reclassification, consolidation, merger, statutory exchange, sale, transfer, dissolution, liquidation or winding-up relating to such Specified Event is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such Specified Event.

(f) Reservation of Common Stock. The Corporation shall at all times reserve and keep available, free from preemptive and subscription rights, out of its authorized but unissued shares of Common Stock, for the purpose of effecting conversions of the Series D Preferred, the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of Series D Preferred not theretofore converted. For this purpose, the number of shares of Common Stock deliverable upon the conversion of all outstanding shares of Series D Preferred shall be computed as if at the time of computation all such outstanding shares were held by a single holder.

(g) Listing. The Corporation shall use its best efforts to list any securities required to be delivered upon conversion of the Series D Preferred prior to such delivery upon each securities exchange, if any, upon which such securities are listed at the time of such delivery. Prior to the delivery of any such securities, the Corporation shall use its best efforts to comply with all laws and regulations thereunder requiring the registration of such securities with, or any approval of or consent to the delivery thereof by, any governmental authority.

(h) Taxes. The Corporation shall pay all documentary stamp or similar issue or transfer taxes payable in respect of the issue or delivery of securities on conversion of the Series D Preferred; provided, however, that (i) the Corporation shall not be required to pay any tax payable in respect of any transfer involved in the issue or delivery of securities in a name other than that of the holder of the shares of Series D Preferred to be converted and (ii) no such issue or delivery shall be made unless and until such holder has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid or provided for.

(i) Mandatory Conversion. All issued and outstanding shares of Series D Preferred shall be deemed to have been converted into, and shall (without any action of the holder thereof) become, that number of fully paid and nonassessable shares of Common Stock into which such shares of Series D Preferred are then convertible in accordance with the provisions of this Section 5 immediately upon the consummation of the Corporation's sale of 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 pursuant to the Securities Act of 1933, which public offering results in aggregate gross cash proceeds to the Corporation of at least $7,500,000 at a sale price per share of Common Stock (as adjusted for combinations, stock dividends, subdivisions or split-ups) of at least $3.25.

Section 6. Status of Shares. Upon any conversion or any redemption, repurchase or other acquisition by the Corporation of shares of Series D Preferred, the shares of Series D Preferred so converted, redeemed, repurchased or acquired shall be retired and cancelled and shall not be available for reissuance.

Section 7. Definitions and Construction. As used in this Article 4, (a) "herein," "hereof," "hereunder" and other like words mean or refer to this Article 4; (b) "outstanding," when used with reference to shares of stock, means issued shares, excluding shares held by the Corporation or a subsidiary; (c) "person" means any corporation, partnership, trust, organization, association or other entity or individual; (d) "affiliate" of any person means any other person controlling, controlled by or under common control with such person; (e) headings are for convenience of reference only and shall not define, limit or affect any of the provisions hereof; and (f) references to Sections are to Sections of this Article Four.

Section 8. Residual Rights. All rights accruing to the outstanding shares of the Corporation not expressly provided for or to the contrary herein shall be vested in the Common Stock.

5. The Corporation is to have perpetual existence.

6. In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, amend or repeal the Bylaws of the Corporation.

7. The number of directors which will constitute the whole Board of Directors of the Corporation shall be as specified in the Bylaws of the Corporation.

8. The election of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

9. At the election of directors of the Corporation, each holder of stock or of any class or classes or of a series or series thereof shall be entitled to as many votes as shall equal the number of votes which (except for such provision as to cumulative voting) he would be entitled to cast for the election of directors with respect to his shares of stock multiplied by the number of directors to be elected by him, and he may cast all of such votes for a single director or may distribute them among the number to be voted for, or for any two or more of them as he may see fit.

10. Meeting of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provisions contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

11. To the fullest extent permitted by the Delaware General Corporation Law as the same exists or as may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. Neither any amendment nor repeal of this Article, nor the adoption of any provision of this Restated Certificate of Incorporation inconsistent with this Article, shall eliminate or reduce the effect of this Article in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

12. Advance notice of new business and stockholder nomination for the election of directors shall be given in the manner and to the extent provided in the Bylaws of the Corporation.

13. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

EXHIBIT C

SCHEDULE OF EXCEPTIONS

This Schedule of Exceptions, dated as of December 21, 1995 is made and given pursuant to Section 3 of the Integrated Surgical Systems, Inc. Series D Preferred Stock and Warrant Purchase Agreement dated as of December 21, 1995 (the "Agreement"). The section numbers in this Schedule of Exceptions correspond to the section numbers in the Agreement; however, any information disclosed under any section number should be deemed to be disclosed and incorporated into any other section number under the Agreement where such disclosure would be appropriate. Any terms defined in the Agreement shall have the same meaning when used in this Schedule of Exceptions as when used in the Agreement unless the context otherwise requires.

3.2 Capitalization.

(f) Following the First Closing, the Company intends to obtain the approval of the Board of Directors of the termination of its Amended 1991 Incentive Stock Option Plan. The Company intends to obtain the approval of the Board of Directors and the stockholders of a 1995 Stock Plan and the reservation of 1,640,890 shares of Common Stock for issuance thereunder. Following approval of the 1995 Stock Plan, the Company intends to obtain the agreement of all holders of vested options under the Amended 1991 Incentive Stock Option Plan to the cancellation of such vested options in exchange for new options under the 1995 Stock Plan.

(g) (ii) The Loan and Warrant Purchase Agreement dated February 6, 1991 between IBM and the Company ("IBM Loan Agreement"), as amended by the Agreement, grants IBM rights to purchase its pro rata portion of voting securities issued by the Company. The Series B Preferred Stock Purchase Agreement dated April 10, 1992 (together with the Exhibits thereto, the "Series B Purchase Agreement") between the Company and the investors parties thereto (the "Series B Investors") grants to the Series B Investors rights to purchase their pro rata portion of voting securities issued by the Company. The Series C Preferred Stock Purchase Agreement dated November 13, 1992 (together with the Exhibits thereto, the "Series C Purchase Agreement") between the Company and the investors parties thereto (the "Series C Investors") grants to the Series C Investors rights to purchase their pro rata portion of voting securities issued by the Company.

3.9 Patents and Trademarks.

The Company entered into a Robodoc/Orthodoc License Agreement dated February 4, 1991 granting the Company certain non-exclusive and partially exclusive rights and licenses necessary to develop and market robtic surgery software and pre-surgical planning software ("IBM License Agreement Number 1").

The Company entered into a License Agreement dated February 6, 1991 with IBM and obtained certain non-exclusive rights and licenses necessary to develop and market a robotic surgery software application ("IBM License Agreement Number 2").

3.10 Compliance with Other Instruments.

(a) As of the date hereof, the Company is consummating the issuance to IBM of a warrant for the purchase of shares of Common Stock in exchange for the forgiveness and cancellation by IBM of the outstanding principal amount of and accrued interest on the IBM Note.

The Company is currently in default with respect to and under the terms of the Sankyo Note (as defined below).

3.11 Agreements; Action.

(a) The Company has entered into the following agreements with IBM; IBM Loan Agreement, IBM License Agreement No. 1 and IBM License Agreement No. 2. In addition, IBM has provided various services without charge to the Company and has sold equipment to the Company under standard remarketer and/or developer discount programs.

The Company has entered into the following agreements with Sutter Health, a California nonprofit public benefit corporation: Series B Purchase Agreement and Series C Purchase Agreement.

The Company has entered into the following agreements with Wendy Shelton-Paul, a member of the Company's Board of Directors and the Company's former acting Chief Executive Officer: Option Agreement dated April 5, 1995; Proprietary Information and Noncompetition Agreement dated December 29, 1993.

The Company has entered into the following agreements with Michael Tomczak, its Vice President and Chief Financial Officer: Option Agreements dated February 4, 1992, February 2, 1993, January 4, 1994 and April 25, 1995; Proprietary Information and Noncompetition Agreement dated October 25, 1991.

The Company has entered into the following agreements with Ramesh Trivedi, its President and Chief Executive Officer and, effective upon the First Closing, a member of the Company's Board of Directors: employment agreement dated December 8, 1995, and Proprietary Information and Noncompetition Agreement dated December 8, 1995. In addition, the Company has made a commitment to grant to Mr. Trivedi options to purchase Common Stock representing six percent of the Company, calculated as of immediately following the Second Closing. Such options shall be granted under the Company's 1995 Stock Plan, upon the adoption of such plan.

The Company has entered into an Agreement with the Berufsgenossenschaftliche Unfallklinik (BGU) dated May 3, 1994 (the "BGU Agreement"). The

BGU Agreement provides for the purchase by BGU of a TUV-certified ROBODOC Surgical Assistant System. Under the terms of the BGU Agreement, the Company has installed at BGU a system that is not TUV-certified, pending the installation of a TUV-certified system. BGU has paid the Company $400,000 plus VAT of $69,993 as a deposit on the TUV-certified system. At BGU's sole discretion, BGU may void the BGU Agreement and return the non-TUV-certified system, entitling it to a $469,993 refund from the Company (the "Right of Return"). If the TUV-certified system is delivered to BGU prior to BGU's exercising the Right of Return, BGU will no longer have a right to the $469,993 refund from the Company.

(b) As of October 25, 1995, the Company has the following agreements and accounts payable, all incurred in the ordinary course of business, involving in excess of $25,000;

The Company has a real property lease dated December 3, 1990, as amended, covering its office space located at 829 West Stadium Lane, Sacramento, California. Total monthly rent is approximately $5,260. The current lease expires in June 1996.

The Company has a real property lease dated March 4, 1993, as amended, covering its office and manufacturing space located at 830 West Stadium Lane, Sacramento, California. Total monthly rent is approximately $6,731. The current lease expires in June 1998. The Lease Agreement has a provision which allows the Company to terminate its lease in June 1996 for a fee of approximately $34,000.

The Company has previously described certain license agreements with IBM.

(c) The Company has borrowed a total of $3,000,000 from IBM under the IBM Note. In addition, as of November 30, 1995, there is approximately $1,208,717 of accrued interest owing on the IBM Note. As of the date hereof, the Company is consummating the issuance to IBM of a warrant for the purchase of shares of Common Stock in exchange for the forgiveness and cancellation by IBM of the outstanding principal amount of and accrued interest on the IBM Note.

The Company has issued a Promissory Note in the principal amount of approximately $258,000 to Sankyo Seiki America (the "Sankyo Note"). Such principal amount and accrued and unpaid interest with respect to the Sankyo Note as of November 30, 1995, in the amount of $15,126, was due and payable on September 30, 1995.

(e) See Exception to Section 3.2(g)(ii).

3.22 Insurance.

CARRIER	TYPE OF INSURANCE	DEDUCTIBLE	COVERAGE	TOTAL PREMIUM
Chubb	COMMERCIAL PACKAGE			
	Blanket Business Personal Property	$1,000	$1,600,000	$7,625/yr.
	Blanket Computer Equipment	1,000	400,000	
	Extra Expense - Loc. 1 & 2	1,000	50,000 ea.	
	General Liability	1,000	1,000,000	
	Employee Benefits	1,000	1,000,000	
	Non Owned and Hired Auto Liab.	1,000	1,000,000	
Chubb	Foreign Property at any Location	1,000	200,000	2,500/yr.
Chubb	DOMESTIC AND FOREIGN TRANSIT			
	Domestic Transit	1,000	200,000	
	Domestic Exhibition/Trade Shows	1,000	200,000	
	Foreign Transit	1,000	200,000	
National Union	Products Liability	25,000 (occur.) 125,000 (agg.)	4,000,000	50,636/yr.
Chubb	Umbrella Liability (excludes products)	N/A	4,000,000	4,500/yr.
California Casualty	Workers Compensation	N/A	1,000,000	9,308/yr.
FHP Take Care	Medical	10 copay	HMO	4,400/mo.
Fortis	Dental	50	50-100%	1,150/mo.
Fortis	Employee Life Insurance	N/A	80,000/emp.	250/mo.
Fortis	Long-term Disability	N/A	60% of pay	330/mo.

3.23 Effect of Transaction.

As part of the Recapitalization described in Section 1.2 of the Agreement, the Company will issue to IBM the IBM 1995 Common Warrant in exchange for the cancellation of the outstanding principal amount of and all interest accrued on the IBM Note.

EXHIBIT D

INTEGRATED SURGICAL SYSTEMS, INC.

EMPLOYMENT, CONFIDENTIAL INFORMATION AND
INVENTION ASSIGNMENT AGREEMENT

As a condition of my employment with Integrated Surgical Systems, Inc., its subsidiaries, affiliates, successors or assigns (together the "Company"), and in consideration of my employment with the Company and my receipt of the compensation now and hereafter paid to me by Company, I agree to the following:

1. At-Will Employment. I UNDERSTAND AND ACKNOWLEDGE THAT MY EMPLOYMENT WITH THE COMPANY IS FOR AN UNSPECIFIED DURATION AND CONSTITUTES "AT-WILL" EMPLOYMENT. I ACKNOWLEDGE THAT THIS EMPLOYMENT RELATIONSHIP MAY BE TERMINATED AT ANY TIME, WITH OR WITHOUT GOOD CAUSE OR FOR ANY OR NO CAUSE, AT THE OPTION EITHER OF THE COMPANY OR MYSELF, WITH OR WITHOUT NOTICE.

2. Confidential Information.

(a) Company Information. I agree at all times during the term of my employment and thereafter, to hold in strictest confidence, and not to use, except for the benefit of the Company, or to disclose to any person, firm or corporation without written authorization of the Board of Directors of the Company, any Confidential Information of the Company. I understand that "Confidential Information" means any Company proprietary information, technical data, trade secrets or know-how, including, but not limited to, research, product plans, products, services, customer lists and customers (including, but not limited to, customers of the Company on whom I called or with whom I became acquainted during the term of my employment), markets, software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances or other business information disclosed to me by the Company either directly or indirectly in writing, orally or by drawings or observation of parts or equipment. I further understand that Confidential Information does not include any of the foregoing items which has become publicly known and made generally available through no wrongful act of mine or of others who were under confidentiality obligations as to the item or items involved.

(b) Former Employer Information. I agree that I will not, during my employment with the Company, improperly use or disclose any proprietary information or trade secrets of any former or concurrent employer or other person or entity and that I will not bring onto the premises of the Company any unpublished document or proprietary information belonging to any such employer, person or entity unless consented to in writing by such employer, person or entity.

(c) Third Party Information. I recognize that the Company has received and in the future will receive from third parties their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. I agree to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out my work for the Company consistent with the Company's agreement with such third party.

3. Inventions.

(a) Inventions Retained and Licensed. I have attached hereto, as Exhibit A, a list describing all inventions, original works of authorship, developments, improvements, and trade secrets which were made by me prior to my employment with the Company (collectively referred to as "Prior Inventions"), which belong to me, which relate to the Company's proposed business, products or research and development, and which are not assigned to the Company hereunder; or, if no such list is attached, I represent that there are no such Prior Inventions. If in the course of my employment with the Company, I incorporate into a Company product, process or machine a Prior Invention owned by me or in which I have an interest, the Company is hereby granted and shall have a nonexclusive, royalty-free, irrevocable, perpetual, worldwide license to make, have made, modify, use and sell such Prior Invention as part of or in connection with such product, process or machine.

(b) Assignment of Inventions. I agree that I will promptly make full written disclosure to the Company, will hold in trust for the sole right and benefit of the Company, and hereby assign to the Company, or its designee, all my right, title, and interest in and to any and all inventions, original works of authorship, developments, concepts, improvements or trade secrets, whether or not patentable or registrable under copyright or similar laws, which I may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the period of time I am in the employ of the Company (collectively referred to as "Inventions"), except as provided in Section 3(f) below. I further acknowledge that all original works of authorship which are made by me (solely or jointly with others) within the scope of and during the period of my employment with the Company and which are protectible by copyright are "works made for hire," as that term is defined in the United States Copyright Act.

(c) Inventions Assigned to the United States. I agree to assign to the United States government all my right, title, and interest in and to any and all Inventions whenever such full title is required to be in the United States by a contract between the Company and the United States or any of its agencies.

(d) Maintenance of Records. I agree to keep and maintain adequate and current written records of all Inventions made by me (solely or jointly with others) during the term of my employment with the Company. The records will be in the form of notes, sketches, drawings, and any other format that may be specified by the Company. The records will be available to and remain the sole property of the Company at all times.

(e) Patent and Copyright Registrations. I agree to assist the Company, or its designee, at the Company's expense, in every proper way to secure the Company's rights in the Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments which the Company shall deem necessary in order to apply for and obtain such rights and in order to assign and convey to the Company, its successors, assigns, and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. I further agree that my obligation to execute or cause to be executed, when it is in my power to do so, any such instrument or papers shall continue after the termination of this Agreement. If the Company is unable because of my mental or physical incapacity or for any other reason to secure my signature to apply for or to pursue any application for

any United States or foreign patents or copyright registrations covering Inventions or original works of authorship assigned to the Company as above, then I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact, to act for and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent or copyright registrations thereon with the same legal force and effect as if executed by me.

(f) Exception to Assignments. I understand that the provisions of this Agreement requiring assignment of Inventions to the Company do not apply to any invention which qualifies fully under the provisions of California Labor Code Section 2870 (attached hereto as Exhibit B). I will advise the Company promptly in writing of any inventions that I believe meet the criteria in California Labor Code Section 2870 and not otherwise disclosed on Exhibit A.

4. Conflicting Employment. I agree that, during the term of my employment with the Company, I will not engage in any other employment, occupation, consulting or other business activity directly related to the business in which the Company is now involved or becomes involved during the term of my employment, nor will I engage in any other activities that conflict with my obligations to the Company.

5. Returning Company Documents. I agree that, at the time of leaving the employ of the Company, I will deliver to the Company (and will not keep in my possession, recreate or deliver to anyone else) any and all devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings blueprints, sketches, materials, equipment, other documents or property, or reproductions of any aforementioned items developed by me pursuant to my employment with the Company or otherwise belonging to the Company, its successors or assigns. In the event of the termination of my employment, I agree to sign and deliver the "Termination Certification" attached hereto as Exhibit C.

6. Notification of New Employer. In the event that I leave the employ of the Company, I hereby grant consent to notification by the Company to my new employer about my rights and obligations under this Agreement.

7. Solicitation of Employees. I agree that for a period of twelve (12) months immediately following the termination of my relationship with the Company for any reason, whether with or without cause, I shall not either directly or indirectly solicit, induce, recruit or encourage any of the Company's employees to leave their employment, or take away such employees, or attempt to solicit, induce, recruit, encourage or take away employees of the Company, either for myself or for any other person or entity.

8. Conflict of Interest Guidelines. I agree to diligently adhere to the Conflict of Interest Guidelines attached as Exhibit D hereto.

9. Representations. I agree to execute any proper oath or verify any proper document required to carry out the terms of this Agreement. I represent that my performance of all the terms of this Agreement will not breach any agreement to keep in confidence proprietary information acquired by me in confidence or in trust prior to my employment by the Company. I have not entered into, and I agree I will not enter into, any oral or written agreement in conflict herewith.

10. Arbitration and Equitable Relief.

(a) Arbitration. EXCEPT AS PROVIDED IN SECTION 10(b) BELOW, I AGREE THAT ANY DISPUTE OR CONTROVERSY ARISING OUT OF, RELATING TO, OR CONCERNING ANY INTERPRETATION, CONSTRUCTION, PERFORMANCE OR BREACH OF THIS AGREEMENT, SHALL BE SETTLED BY ARBITRATION TO BE HELD IN SACRAMENTO COUNTY, CALIFORNIA, IN ACCORDANCE WITH THE RULES THEN IN EFFECT OF THE AMERICAN ARBITRATION ASSOCIATION. THE ARBITRATOR MAY GRANT INJUNCTIONS OR OTHER RELIEF IN SUCH DISPUTE OR CONTROVERSY. THE DECISION OF THE ARBITRATOR SHALL BE FINAL, CONCLUSIVE AND BINDING ON THE PARTIES TO THE ARBITRATION. JUDGMENT MAY BE ENTERED ON THE ARBITRATOR'S DECISION IN ANY COURT HAVING JURISDICTION. THE COMPANY AND I SHALL EACH PAY ONE-HALF OF THE COSTS AND EXPENSES OF SUCH ARBITRATION, AND EACH OF US SHALL SEPARATELY PAY OUR COUNSEL FEES AND EXPENSES.

THE ARBITRATION CLAUSE CONSTITUTES A WAIVER OF EMPLOYEE'S RIGHT TO A JURY TRIAL AND RELATES TO THE RESOLUTION OF ALL DISPUTES RELATING TO ALL ASPECTS OF THE EMPLOYER/EMPLOYEE RELATIONSHIP (EXCEPT AS PROVIDED IN SECTION 10(b) BELOW), INCLUDING, BUT NOT LIMITED TO, THE FOLLOWING CLAIMS:

i. ANY AND ALL CLAIMS FOR WRONGFUL DISCHARGE OF EMPLOYMENT; BREACH OF CONTRACT, BOTH EXPRESS AND IMPLIED; BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING, BOTH EXPRESS AND IMPLIED; NEGLIGENT OR INTENTIONAL INFLICTION OF EMOTIONAL DISTRESS; NEGLIGENT OR INTENTIONAL MISREPRESENTATION; NEGLIGENT OR INTENTIONAL INTERFERENCE WITH CONTRACT OR PROSPECTIVE ECONOMIC ADVANTAGE; AND DEFAMATION;

ii. ANY AND ALL CLAIMS FOR VIOLATION OF ANY FEDERAL, STATE OR MUNICIPAL STATUTE, INCLUDING, BUT NOT LIMITED TO, TITLE VII OF THE CIVIL RIGHTS OF 1964, THE CIVIL RIGHTS ACT OF 1991, THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, THE AMERICANS WITH DISABILITIES ACT OF 1990, THE FAIR LABOR STANDARDS ACT, THE CALIFORNIA FAIR EMPLOYMENT AND HOUSING ACT, AND LABOR CODE SECTION 201, et seq.;

iii. ANY AND ALL CLAIMS ARISING OUT OF ANY OTHER LAWS AND REGULATIONS RELATING TO EMPLOYMENT OR EMPLOYMENT DISCRIMINATION.

(b) Equitable Remedies. I AGREE THAT IT WOULD BE IMPOSSIBLE OR INADEQUATE TO MEASURE AND CALCULATE THE COMPANY'S DAMAGES FROM ANY BREACH OF THE COVENANTS SET FORTH IN SECTIONS 2, 3 AND 5 HEREIN. ACCORDINGLY, I AGREE THAT IF I BREACH ANY OF SUCH SECTIONS, THE COMPANY WILL HAVE AVAILABLE, IN ADDITION TO ANY OTHER RIGHT OR REMEDY AVAILABLE, THE RIGHT TO OBTAIN AN INJUNCTION FROM A COURT OF COMPETENT JURISDICTION RESTRAINING SUCH BREACH OR THREATENED BREACH AND TO SPECIFIC PERFORMANCE OF ANY SUCH PROVISION OF THIS AGREEMENT. I FURTHER AGREE THAT NO BOND OR OTHER SECURITY SHALL BE REQUIRED IN OBTAINING SUCH EQUITABLE RELIEF AND I HEREBY CONSENT TO THE ISSUANCE OF SUCH INJUNCTION AND TO THE ORDERING OF SPECIFIC PERFORMANCE.

(c) Consideration. I UNDERSTAND THAT EACH PARTY'S PROMISE TO RESOLVE CLAIMS BY ARBITRATION IN ACCORDANCE WITH THE PROVISIONS OF THIS AGREEMENT, RATHER THAN THROUGH THE COURTS, IS CONSIDERATION FOR OTHER PARTY'S LIKE PROMISE. I FURTHER UNDERSTAND THAT I AM OFFERED EMPLOYMENT IN CONSIDERATION OF MY PROMISE TO ARBITRATE CLAIMS.

11. General Provisions.

(a) Governing Law; Consent to Personal Jurisdiction. This Agreement will be governed by the laws of the State of California. I hereby expressly consent to the personal jurisdiction of the state and federal courts located in California for any lawsuit filed there against me by the Company arising from or relating to this Agreement.

(b) Entire Agreement. This Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter herein and merges all prior discussions between us. No modification of or amendment to this Agreement, nor any waiver of any rights under this agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in my duties, salary or compensation will not affect the validity or scope of this Agreement.

(c) Severability. If one or more of the provisions in this Agreement are deemed void by law, then the remaining provisions will continue in full force and effect.

(d) Successors and Assigns. This Agreement will be binding upon my heirs, executors, administrators and other legal representatives and will be for the benefit of the Company, its successors, and its assigns.

Date:

Signature

Name of Employee (typed or printed)

- ---
Witness

EXHIBIT A

LIST OF PRIOR INVENTIONS
AND ORIGINAL WORKS OF AUTHORSHIP

Title	Date	Identifying Number or Brief Description

No inventions or improvements

Additional Sheets Attached

Signature of Employee: _____

Print Name of Employee: _____

Date: _____

EXHIBIT B

CALIFORNIA LABOR CODE SECTION 2870
EMPLOYMENT AGREEMENTS;
ASSIGNMENT OF RIGHTS

"(a) Any provisions in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable."

EXHIBIT C

INTEGRATED SURGICAL SYSTEMS, INC.

TERMINATION CERTIFICATION

This is to certify that I do not have in my possession, nor have I failed to return, any devices, records, data, notes, reports, proposals, lists correspondence, specifications, drawings, blueprints, sketches, materials, equipment, other documents or property, or reproductions of any aforementioned items belonging to Integrated Surgical Systems, Inc., its subsidiaries, affiliates, successors or assigns (together, the "Company").

I further certify that I have complied with all the terms of the Company's Employment Confidential Information and Invention Assignment Agreement signed by me, including the reporting of any inventions and original works of authorship (as defined therein), conceived or made by me (solely or jointly with others) covered by that agreement.

I further agree that, in compliance with the Employment, Confidential Information and Invention Assignment Agreement, I will preserve as confidential all trade secrets, confidential knowledge, data or other proprietary information relating to products, processes, know-how, designs, formulas, developmental or experimental work, computer programs, data bases, other original works of authorship, customer lists, business plans, financial information or other subject matter pertaining to any business of the Company or any of its employees, clients, consultants, or licensees.

I further agree that for twelve (12) months from this date, I will not hire any employees of the Company and I will not solicit, induce, recruit or encourage any of the Company's employees to leave their employment.

Date:

(Employee's Signature)

(Type/Print Employee's Name)

EXHIBIT D

INTEGRATED SURGICAL SYSTEMS, INC.

CONFLICT OF INTEREST GUIDELINES

It is the policy of Integrated Surgical Systems, Inc. to conduct its affairs in strict compliance with the letter and spirit of the law and to adhere to the highest principles of business ethics. Accordingly, all officers, employees and independent contractors must avoid activities which are in conflict, or give the appearance of being in conflict, with these principles and with the interests of the Company. The following are potentially compromising situations which must be avoided. Any exceptions must be reported to the President and written approval for continuation must be obtained.

1. Revealing confidential information to outsiders or misusing confidential information. Unauthorized divulging of information is a violation of this policy whether or not for personal gain and whether or not harm to the Company is intended. (The Employment, Confidential Information and Invention Assignment Agreement elaborates on this principle and is a binding agreement.)

2. Accepting or offering substantial gifts, excessive entertainment, favors or payments which may be deemed to constitute undue influence or otherwise be improper or embarrassing to the Company.

3. Participating in civic or professional organizations that might involve divulging confidential information of the Company.

4. Initiating or approving personnel actions affecting reward or punishment of employees or applicants where there is a family relationship or is or appears to be a personal or social involvement.

5. Initiating or approving any form of personal or social harassment of employees.

6. Investing or holding outside directorship in suppliers, customers, or competing companies, including financial speculations, where such investment or directorship might influence in any manner a decision or course of action of the Company.

7. Borrowing from or lending to employees, customers or suppliers.

8. Acquiring real estate of interest to the Company.

9. Improperly using or disclosing to the Company any proprietary information or trade secrets of any former or concurrent employer or other person or entity with whom obligations of confidentiality exist.

10. Unlawfully discussing prices, costs, customers, sales or markets with competing companies or their employees.

11. Making any unlawful agreement with distributors with respect to prices.

12. Improperly using or authorizing the use of any inventions which are the subject of patent claims of any other person or entity.

13. Engaging in any conduct which is not in the best interest of the Company.

Each officer, employee and independent contractor must take every necessary action to ensure compliance with these guidelines and to bring problem areas to the attention of higher management for review. Violations of this conflict of interest policy may result in discharge without warning.

EXHIBIT E

December 21, 1995

To the Investors Listed in
Exhibit A to the Integrated
Surgical Systems, Inc.
Series D Preferred Stock and Warrant
Purchase Agreement Dated as of December 21, 1995
Sutter Health, a California nonprofit
public benefit corporation ("Sutter Health")
Sutter Health Venture Partners I, L.P.,
a California limited partnership ("Sutter Ventures")
Keystone Financial Corporation, a
Pennsylvania Not-For-Profit Corporation ("Keystone")

Ladies and Gentlemen:

Reference is made to the Series D Preferred Stock and Warrant Purchase Agreement, dated as of December 21, 1995, complete with all listed exhibits thereto (the "Agreement"), by and among Integrated Surgical Systems, Inc., a Delaware corporation (the "Company"), and the persons and entities listed in Exhibit A to the Agreement (the "Investors"), which provides for the issuance by the Company to the Investors of shares of Series D Preferred Stock of the Company (the "Shares") and warrants to purchase shares of Series D Preferred Stock of the Company ("Series D warrants"), and for the issuance by the Company to Sutter Health, Sutter Ventures and Keystone (together, the "Warrantholders") of rights to purchase shares of the Company's Common Stock (the "Series C (Investor Common Warrants"). This opinion is rendered to the Investors pursuant to Section 5.7 of the Agreement and to the Warrantholders pursuant to Section 14 of each of the Warrant Agreements of even date herewith between the Company and each of Sutter Health, Sutter Ventures and Keystone (together, the "Warrant Agreements"). All terms used herein have the meanings defined for them in the Agreement and the Warrant Agreements unless otherwise defined herein.

We have acted as counsel for the Company in connection with the negotiation of the Agreement and the Warrant Agreements and the issuance of the Shares and Series D Warrants and Series C Investor Common Warrants. As such counsel, we have made such legal and factual examinations and inquiries as we have deemed advisable or necessary for the purpose of rendering this opinion. In addition, we have examined originals or copies of such corporate records of the Company, certificates of public officials and such other documents which we consider necessary or advisable for the purpose of rendering this opinion. In such examination we have assumed the

genuineness of all signatures on original documents, the authenticity and completeness of all documents submitted to us as originals, the conformity to original documents of all copies submitted to us and the due execution and delivery of all documents (except as to due execution and delivery by the Company) where due execution and delivery are a prerequisite to the effectiveness thereof.

As used in this opinion, the expression "to our knowledge," "known to us" or similar language with reference to matters of fact means that, after an examination of documents made available to us by the Company, and after inquiries of officers of the Company, but without any further independent factual investigation, we find no reason to believe that the opinions expressed herein are factually incorrect. Further, the expression "to our knowledge", "known to us" or similar language with reference to matters of fact refers to the current actual knowledge of the attorneys of this firm who have worked on matters for the Company. Except to the extent expressly set forth herein or as we otherwise believe to be necessary to our opinion, we have not undertaken any independent investigation to determine the existence or absence of any fact, and no inference as to our knowledge of the existence or absence of any fact should be drawn from our representation of the Company or the rendering of the opinion set forth below.

For purposes of this opinion, we are assuming that the Investors and the Warrantholders have all requisite power and authority, and have taken any and all necessary corporate or partnership action, to execute and deliver the Agreement and the Warrant Agreements, respectively, and we are assuming that the representations and warranties made by the Investors in the Agreement and pursuant thereto and by the Warrantholders in the Warrant Agreements and pursuant thereto are true and correct. We are also assuming that the Investors are purchasing the Shares and the Series D Warrants for value, in good faith and without notice of any adverse claims within the meaning of the California Uniform Commercial Code. We are also assuming that, upon the exercise of the Warrants, the Warrantholders will be purchasing the shares of Common Stock to which the Warrants apply for the exercise price set forth in the Warrants, in good faith and without notice of any adverse claims within the meaning of the California Uniform Commercial Code.

The opinions hereinafter expressed are subject to the following qualifications:

(a) We express no opinion as to the effect of applicable bankruptcy, insolvency, reorganization, moratorium or other similar federal or state laws affecting the rights of creditors;

(b) We express no opinion as to the effect of rules of law governing specific performance, injunctive relief or other equitable remedies (regardless of whether any such remedy is considered in a proceeding at law or in equity);

(c) We express no opinion as to compliance with the anti-fraud provisions of applicable securities laws;

(d) We express no opinion as to the enforceability of the indemnification provisions of Sections 4,5,6,7 or 8 of the Registration Rights Agreement to the extent the

provisions thereof may be subject to limitations of public policy and the effect of applicable statutes and judicial decisions;

(e) We are members of the Bar of the State of California and, except as set forth in paragraph 7 below with respect to the securities laws of other states, we express no opinion as to any matter relating to the laws of any jurisdiction other than the federal laws of the United States of America, the laws of the State of California and with respect to paragraphs 1, 2 and 4 only, the General Corporation Law of the State of Delaware. To the extent this opinion addresses applicable securities laws of states other than the State of California, we have not retained nor relied on the opinion of counsel admitted to the bar of such states, but rather have relied on compilations of the securities laws of such states contained in reporting services presently available to us.

(f) We express no opinion as to compliance with Federal and State laws, rules and regulations relating to the manufacture, sale or use of medical devices.

(g) We express no opinion as the enforceability of the Investors Agreement or the November 1992 Stockholders Agreement or Section 4 of the Proprietary Information and Noncompetition Agreement attached to the Agreement as Exhibit D.

(h) We express no opinion as to the organization, standing, qualification or capitalization of Integrated Surgical Systems B.V., the Company's subsidiary.

(i) We express no opinion as to that certain letter agreement dated December 13, 1995, by and among Sutter Health, a California nonprofit public benefit corporation, the Company, International Business Machines Corporation and EJ Financial Investments V, L.P.

(j) The issuance of the Series C Investor Common Warrant to Keystone is subject to the execution by Keystone of the Warrant Agreement between the Company and Keystone, which Warrant Agreement contains certain representations of and transfer restrictions pertaining to Keystone. As of the date hereof, the Warrant Agreement between the Company and Keystone has not been executed by Keystone.

Based upon and subject to the foregoing, and except as set forth in the Schedule of Exceptions to the Agreement, we are of the opinion that:

1. The Company is a corporation duly organized and validly existing under, and by virtue of, the laws of the State of Delaware and is in good standing under such laws. The Company has the requisite corporate power to own and operate its properties and assets, and to carry on its business as presently conducted. The Company is qualified to do business as a foreign corporation in California. The Company is not qualified to do business as a foreign corporation in any other jurisdiction and such qualification is not presently required, except to the extent that the failure to so qualify would not have a material adverse affect on the Company.

2. The Company has all requisite legal and corporate power to execute and deliver the Agreement, the Investors Agreement, the Registration Rights Agreement and the Warrant Agreements, to sell and issue the Shares and the Series D Warrants under the Agreement, to issue the shares of Series D Preferred Stock upon exercise of the Series D Warrants (the "Warrant Shares") and the Common Stock issuable upon conversion of the Shares and of the Warrant Shares and to issue the shares of Common Stock upon exercise of the Series C Investor Common Warrants and to carry out and perform its obligations under the terms of the Agreement, the Registration Rights Agreement, the Restated Certificate of Incorporation and the Warrant Agreements.

3. The authorized capital stock of the Company consists of 15,000,000 shares of Common Stock, 405,313 shares of which are issued and outstanding as of and immediately following the First Closing, and 5,750,000 shares of Preferred Stock, 5,750,000 of which are designated Series D Preferred Stock, none of which was issued and outstanding immediately prior to the First Closing. All such issued and outstanding shares of Common Stock have been duly authorized and validly issued and are fully paid and nonassessable and free of any preemptive or similar rights contained in the Restated Certificate of Incorporation or Bylaws of the Company or, to our knowledge, in any agreement to which the Company is a party, except as specifically provided in the Investors Agreement or the November 1992 Stockholders Agreement or as set forth in the Schedule of Exceptions. The Series D Preferred Stock issuable upon exercise of the Series D Warrants has been duly and validly reserved, and when issued in accordance with the terms of the Series D Warrants will be validly issued, fully paid and nonassessable. The Common Stock issuable upon conversion of the Shares and of the Warrant Shares has been duly and validly reserved, and when issued in accordance with the Company's Restated Certificate of Incorporation will be validly issued, fully paid and nonassessable. The Common Stock issuable upon exercise of the Series C Investor Common Warrants has been duly and validly reserved, and when issued in accordance with the terms of the Series C Investor Common Warrants will be validly issued, fully paid and nonassessable. The Shares and Series D Warrants issued under the Agreement are validly issued, fully paid and nonassessable and free of any liens, encumbrances and preemptive or similar rights contained in the Restated Certificate of Incorporation or Bylaws of the Company, or, to our knowledge, in any agreement to which the Company is a party, except as specifically provided in the Agreement, the Investors Agreement and the November 1992 Stockholders Agreement and as set forth in the Schedule of Exceptions; provided, however, that the Series D Warrants and the Shares and Warrant Shares (and the Common Stock issuable upon conversion thereof) may be subject to restrictions on transfer under state and/or federal securities laws as set forth in the Agreement. To our knowledge, except for rights described in the Agreement, the Schedule of Exceptions, the Restated Certificate of Incorporation and the Warrant Agreements, there are no other options, warrants, conversion privileges or other rights presently outstanding to purchase or otherwise acquire any authorized but unissued shares of capital stock or other securities of the Company, or any other agreements to issue any such securities or rights. The issuance of the Series D Warrants and the Shares as contemplated under the Agreement and the issuance of the Warrant Shares issuable upon exercise of the Series D Warrants and the issuance of the shares of Common Stock issuable upon conversion of the Shares and the Warrant Shares and the issuance of the Series C Investor Common Warrants as contemplated under the Warrant Agreements and the issuance of the shares of Common Stock issuable upon exercise of

the Series C Investor Common Warrants will not result in any adjustment under the antidilution provisions set forth in the Restated Certificate of Incorporation or with regard to any of the outstanding securities referred to in this paragraph 3 which adjustment has not been waived.

4. All corporate action on the part of the Company, its directors, stockholders and noteholder necessary for (a) the authorization, execution and delivery of the Agreement, Investors Agreement, Registration Rights Agreement and Warrant Agreements, (b) the execution and filing of the Restated Certificate of Incorporation by the Company, (c) the authorization, sale (except with respect to the Series C Investor Common Warrants), issuance and delivery of the Series D Warrants (and the Warrant Shares issuable upon exercise thereof) and the Shares (and the Common Stock issuable upon conversion of the Shares and the Warrant Shares) and the Series C Investor Common Warrants (and the shares of Common Stock issuable upon exercise thereof) and (d) the performance of the Company's obligations under the Agreement, the Registration Rights Agreement and the Warrant Agreements have been taken. The Agreement, the Registration Rights Agreement and the Warrant Agreements have been duly and validly executed and delivered by the Company and constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms.

5. The execution, delivery and performance of and compliance with the terms of the Agreement and the Registration Rights Agreement, and the issuance of the Series D Warrants (and the Warrant Shares issuable upon exercise thereof) and the Shares (and the Common Stock issuable upon conversion of the Shares and the Warrant Shares) do not violate any provision of (a) the Restated Certificate of Incorporation or Bylaws, (b) any judgment, order decree, statute, law, ordinance or regulation applicable to the Company or any of its properties or assets, or (c) to our knowledge, 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.

6. To our knowledge, there are no actions, suits, proceedings or investigations pending against the Company or its properties before any court or governmental agency (nor, to our knowledge, has the Company received any written threat thereof), which, either in any case or in the aggregate, are likely to result in any material adverse change in the business or financial condition of the Company or any of its properties, or in any material impairment of the right or ability of the Company to carry on its business as now conducted, or which questions the validity of the Agreement or any action taken or to be taken by the Company in connection therewith.

7. No consent, approval or authorization of or designation, declaration or filing with any governmental authority on the part of the Company is required in connection with the valid execution and delivery of the Agreement, Investors Agreement, Registration Rights Agreement, or the offer, sale or issuance of the Series D Warrants (and the Warrant Shares issuable upon exercise thereof) and the Shares (and the Common Stock issuable upon conversion of the Shares and the Warrant Shares) or the consummation of any other transaction contemplated by the Agreement and the Registration Rights Agreement, except (a) filing of the Restated Certificate of Incorporation in the Office of the

Secretary of State of the State of Delaware, and (b) qualification (or taking such action as may be necessary to secure an exemption from qualification, if available) under the California Corporate Securities Law and other applicable blue sky laws (but excluding jurisdiction outside of the United States) of the offer and sale of the Series D Warrants (and the Warrant Shares issuable upon exercise thereof) and the Shares (and the Common Stock issuable upon conversion of the Shares and the Warrant Shares) and the modification of rights of stockholders contemplated by the Agreement. The filing referred to in clause (a) above has been accomplished and is effective. Our opinion herein is otherwise subject to the timely and proper completion of all filings and other actions contemplated herein where such filings and actions are to be undertaken on or after the date hereof.

8. Subject to the accuracy of the Investors' representations in Section 4 of the Agreement and their responses (if any) to the Company's inquiries, we are of the opinion that the offer, sale and issuance of the Shares and the Series D Warrants in conformity with the terms of the Agreement constitute transactions exempt from the registration requirements of Section 5 of the Securities Act of 1933, as amended.

9. To our knowledge, other than the rights granted under the Registration Rights Agreement, there are no outstanding rights which permits the holder hereof 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.

This opinion is furnished to the Investors solely for their benefit in connection with the purchase of the Shares and the Series D Warrants, and to the Warrantholders solely for their benefit in connection with the issuance of the Series C Investor Common Warrants, and may not be relied upon by any other person or for any other purpose without our prior written consent.

Very truly yours,

WILSON, SONSINI, GOODRICH & ROSATI
Professional Corporation

J. Casey McGlynn

EXHIBIT F

INVESTORS AGREEMENT

This INVESTORS AGREEMENT is entered into as of December 21, 1995, by and among INTERNATIONAL BUSINESS MACHINES CORPORATION, a New York corporation ("IBM"), the investors in the Company listed on Schedule F-1 hereto as Founders (the "Founders"), the investors in the Company listed on Schedule F-1 hereto as Series B Investors (the "Series B Investors"), the investors in the Company listed on Schedule F-1 hereto as Contracting Series C Investors (the "Contracting Series C Investors"), the investors in the Company listed on Schedule F-1 hereto as Series D Investors (the "Series D Investors") and Integrated Surgical Systems, Inc., a Delaware corporation (the "Company").

IBM previously entered into a loan and warrant purchase agreement dated February 6, 1991 (the "Loan and Warrant Agreement") with the Company pursuant to which IBM (i) granted a loan to the Company in an amount of up to $3,000,000 and received a Convertible Subordinated Loan Note (the "Loan Note") convertible into shares of Series A Preferred Stock, $0.01 par value, of the Company, which is convertible into Common Stock, $0.01 par value ("Common Stock"), of the Company, and (ii) acquired a warrant (the "IBM 1991 Common Warrant") for the purchase of up to 500,000 shares of Common Stock. In connection with the Loan and Warrant Agreement, IBM, the Founders and the Company entered into a Stockholders Agreement dated February 6, 1991 (the "February 1991 Stockholders Agreement").

The Series B Investors consummated their purchase of securities of the Company in accordance with a stock purchase agreement dated as of April 10, 1992 (the "Series B Purchase Agreement"), pursuant to which the Series B Investors purchased an aggregate of 451,000 shares of Series B Preferred Stock, $0.01 par value ("Series B Preferred Stock"), of the Company, which is convertible into Common Stock, for an aggregate purchase price of $4,000,370. In connection with the Series B Purchase Agreement, IBM, the Founders, the Series B Investors and the Company entered into an Amended and Restated Stockholders Agreement dated April 22, 1992 (the "April 1992 Stockholders Agreement"), which amended the February 1991 Stockholders Agreement.

The Contracting Series C Investors and Keystone Financial Corporation, a Pennsylvania Not-For-Profit Corporation ("Keystone") consummated their purchase of securities of the Company in accordance with a stock purchase agreement dated as of November 13, 1992 (the "Series C Purchase Agreement"), pursuant to which the Contracting Series C Investors and Keystone purchased an aggregate of 757,576 shares of Series C Preferred Stock, $0.01 par value ("Series C Preferred Stock"), of the Company, which is convertible into Common Stock, for an aggregate purchase price of $8,000,002.56. In connection with the Series C Purchase Agreement, IBM, the Founders, the Series B Investors, the Contracting Series C Investors and Keystone and the Company entered into an Amended and Restated Stockholders Agreement dated November 13, 1992 (the "November 1992 Stockholders Agreement"), which amended the April 1992 Stockholders Agreement.

Pursuant to and upon the filing of the Company's Restated Certificate of Incorporation with the Delaware Secretary of State, which filing occurred on December 20, 1995, each share of Common Stock, Series B Preferred Stock and Series C Preferred Stock outstanding prior to the filing

of such Restated Certificate was split up and converted into 0.20 shares of Common Stock, and the Series A Preferred Stock, the Series B Preferred Stock and the Series C Preferred Stock were eliminated from the authorized capital stock of the corporation. Also pursuant to and upon the filing of such Restated Certificate of Incorporation, each $8.87 of accrued dividends with respect to the Series B Preferred Stock was converted into 0.20 shares of Common Stock and each $10.56 of accrued dividends with respect to the Series C Preferred Stock was converted into 0.20 shares of Common Stock.

As of the date hereof, the Series D Investors are consummating their purchase of shares of Series D Preferred Stock and warrants to purchase shares of Series D Preferred Stock of the Company in accordance with a stock and warrant purchase agreement (the "Series D Purchase Agreement"), pursuant to which the Series D Investors have agreed to purchase an aggregate of 1,025,641 shares of Series D Preferred Stock, $0.01 par value ("Series D Shares") of the Company, which is convertible into Common Stock, and warrants to purchase an aggregate of 2,051,282 shares of Series D Preferred Stock (the "Series D Warrants"), for an aggregate purchase price of $1,999,999.95. Pursuant to the Series D Purchase Agreement, the Series D Investors may, and upon the occurrence of certain events, must purchase an additional 512,820 shares of Series D Preferred Stock and additional 1,025,640 Series D Warrants for an aggregate purchase price of $999,999.00.

As of the date hereof, the Company is consummating the issuance to the Series B Investors and the Contracting Series C Investors and Keystone of an aggregate of 60,054 shares of Common Stock in exchange for the cancellation and forgiveness by the Series B Investors and the Contracting Series C Investors and Keystone of all accumulated and unpaid dividends on the Series B Preferred Stock and the Series C Preferred Stock. As of the date hereof, the Company is consummating the amendment of the IBM 1991 Common Warrant, to adjust the number of shares of Common Stock subject to such warrant and to extend such warrant's term to December 31, 2000. As of the date hereof, the Company is consummating the issuance to IBM of a warrant for the purchase of 187,752 shares of Common Stock (the "IBM 1995 Common Warrant") in exchange for the forgiveness and cancellation by IBM of the outstanding principal amount of and accrued interest on the Loan Note. As of the date hereof, the Company is consummating the issuance of warrants for the purchase of an aggregate of 660,024 shares of Common Stock to the Contracting Series C Investors and Keystone (the "Series C Investor Common Warrants").

In connection with the Series D Purchase Agreement, IBM, the Founders, the Series B Investors, the Contracting Series C Investors, the Series D Investors and the Company desire to enter into this Investors Agreement. The November 1992 Stockholders Agreement shall remain in effect following the date hereof.

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 rights represented by the Series D Preferred Stock) or subject to any options, warrants or rights (including the IBM 1991 Common Warrant, the IBM 1995 Common Warrant, the Series D Warrants and the Series C Investor Common Warrants) 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. "Series B Affiliate" shall mean any of the following that is not a Competitor: (i) either Series B Investor, (ii) John Kapoor, any entity controlled by John Kapoor and beneficially owned by John Kapoor or members of his immediate family, or a trust established by John Kapoor for the benefit of his immediate family with John Kapoor, Editha Kapoor, an entity controlled by John Kapoor or Editha Kapoor, or a financial institution as trustee (each a "Kapoor Affiliate"), (iii) (A) any nonprofit corporation controlled by Sutter Health and whose sole corporate member is either Sutter Health or another nonprofit corporation whose sole corporate member is Sutter Health; (B) a corporation whose majority of outstanding shares of stock are beneficially owned directly or indirectly by Sutter Health; or (C) a partnership whose sole general partner is Sutter Health or a Sutter Health affiliate described in clause (A) or (B). "Series C Affiliate" shall mean any of the following that is not a Competitor: (i) any Contracting Series C Investor; and (ii) Sutter Health and its affiliates as stated in (iii) of the definition of Series B Affiliate above. "Series D Affiliate" shall mean any of the following that is not a Competitor: (i) any Series D Investor; and (ii) John Kapoor and his affiliates as stated in subpart (ii) of the definition of Series B Affiliate above.

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 $l 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 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, as amended, 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), any Series B Investor, any Contracting Series C Investor and any Series D Investor or any Significant Stockholder who may become a party to this Agreement which proposes to sell, assign, pledge or otherwise transfer any Voting Securities.

"Series B Affiliate" and "Series C Affiliate" and "Series D Affiliate" shall have the meanings provided under "Affiliate."

"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) convertible 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 on Sale of Voting Securities by a Selling Party.

(a) Subject to Section 2(f), so long as 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 (collectively, "sell") its beneficial interest in any Voting Securities of the Company to a Competitor without the prior written consent of IBM.

(b) Subject to Section 2(f), if at any time a Selling Party desires to sell 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 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(s) representing the Offered Securities, duly endorsed for transfer or accompanied by duly executed stock powers 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. The Company, the Founders, the Series B Investors, the Contracting Series C Investors, the Series D Investors 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 of its beneficial interest in Voting Securities to any Person not a party to this 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 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 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), (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, (iii) by the Company to the Series B Investors in accordance with

the preemptive rights set forth in Section 6.7 of the Series B Purchase Agreement, (iv) by the Company to the Contracting Series C Investors or Keystone in accordance with the preemptive rights set forth in Section 6.6 of the Series C Purchase Agreement, (v) by the Company to the Series D Investors in accordance with the preemptive rights set forth in Section 9.6 of the Series D Purchase Agreement or (vi) except for Section 2(e), by a Series B Investor to a Series B Affiliate or by a Contracting Series C Investor to a Series C Affiliate or by a Series D Investor to a Series D Affiliate.

(g) Compliance with the provisions of Section 2 of the November 1992 Stockholders Agreement by any party to this Agreement shall constitute compliance with the provisions of this Section 2.

3. Directors; Observer; Voting.

(a) So long as IBM beneficially owns Voting Securities representing at least 15% of the Actual Voting Power of the Company, IBM shall be entitled to (i) nominate, at any time, one individual to be a voting director of the Company (the "IBM Director") and (ii) have a nonvoting observer who shall be entitled to attend all Board meetings, and the Company agrees to cause the IBM Director to be proposed for election by its stockholders. So long as John Kapoor or any Kapoor Affiliate (collectively, "Kapoor") beneficially owns Voting Securities representing at least 15% of the Actual Voting Power of the Company, Kapoor shall be entitled to (i) nominate, at any time, one individual to be a voting director of the Company (the "Kapoor Director") and (ii) have a nonvoting observer who shall be entitled to attend all Board meetings, and the Company agrees to cause the Kapoor Director to be proposed for election by its stockholders The IBM Director and the Kapoor Director shall be the two directors to be elected by the holders of the Series D Preferred Stock in accordance with Article 4, Section 4(e) of the Company's Restated Certificate of Incorporation. The Company acknowledges and agrees that such directors and/or observers will be under an obligation to IBM or Kapoor, as the case may be, not to disclose to any person outside of IBM or Kapoor, as the case may be, or use in other than the business of IBM or Kapoor, as the case may be, any confidential information or material relating to the business of IBM or its subsidiaries or Kapoor, as the case may be; 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 Series D Investors who may become a party to this Agreement agrees to vote its Voting Securities so as to elect the individuals nominated by IBM and Kapoor to be a director. The Company agrees to vote the 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 the individuals nominated by IBM and Kapoor. 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 or Kapoor, each of the Series D Investors who may become a party to this Agreement shall vote such Person's Voting Securities so as to elect an individual nominated by IBM or Kapoor, as the case may be, 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 10 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. For so long as Kapoor has the right to nominate a director, Kapoor shall have the right to receive reasonable prior notice of (with such notice to be sent to the address provided in Section 10 below if Kapoor 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 Kapoor copies of all minutes and other records of action by, and all written information furnished to, the Board or such committee.

(d) If IBM or Kapoor gives notice to any Series D Investor that IBM or Kapoor, as the case may be, desires to remove a director nominated by IBM or Kapoor, as the case may be, each of the Series D Investors agrees to vote its Voting Securities so as to remove 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, Series B Investors, Contracting Series C Investors, Series D Investors and other Significant Stockholders who may become party to this Agreement agrees to vote its Voting Securities in such a manner as to cause the Company to comply with such Section. Section 8.05 of the Loan and Warrant Agreement is set forth in its entirety as follows:

> 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 in a series of transactions) all or any substantial part of the assets of any other Person.

(f) If any Founder, Series B Investor, Contracting Series C Investor, Series D Investor or other Significant Stockholder fails or refuses to vote its Voting Securities as required by this Section 3, IBM and Kapoor 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, Series B Investor, Contracting Series C Investor, Series D Investor and other Significant Stockholder hereby grants to IBM and Kapoor 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 Restated Certificate of Incorporation of the Company by reason of being the holder of Series D Preferred Stock.

(h) Without the consent of the holders of a majority of the outstanding shares of Series D Preferred Stock, the Founders and any other Significant Stockholders that may become a party to this agreement shall not, subject to the following sentence, vote to elect any director that would result in the Company's Board of Directors having a majority of non-independent directors within the meaning of Schedule D, Part III, section (6), paragraph (c) to the By-Laws of the National Association of Securities Dealers, Inc. The voting restriction set forth in this Section 3(h) shall not apply to the election of the directors nominated by IBM and Kapoor pursuant to Section 3(a) hereof or pursuant to the Company's Restated Certificate of Incorporation.

(i) IBM hereby waives its right to compliance by any of the Contracting Series C Investors with the provisions of Sections 4(b) and 4(d) of the November 1992 Stockholders Agreement.

4. Preemptive Rights; Antidilution Rights. Each of IBM, the Founders, Series B Investors and Contracting Series C Investors hereby waives, with respect to the transactions contemplated by this Agreement, the Loan and Warrant Agreement, the Series B Purchase Agreement, the Series C Purchase Agreement and the Series D Purchase Agreement, including the issuance of the Series C Investor Common Warrants, any preemptive, antidilution or other rights held by such Founder, Series B Investor or Contracting Series C Investor granting the holder of any securities the right to acquire any additional shares or other securities upon the issuance of securities by the Company. IBM hereby waives, with respect to the transactions contemplated by this Agreement, the Loan and Warrant Agreement, the Series B Purchase Agreement, the Series C Purchase Agreement and the Series D Purchase Agreement, its preemptive rights under Section 7.15 of the Loan and Warrant Agreement, its first offer rights under Section 2 of the November 1992 Stockholders Agreement and Section 2 of this Agreement, any antidilution rights under Paragraph 1(b) of the Loan Note and Paragraph 4 of the Common Warrant, and its notice rights under Paragraph 8 of the Common Warrant.

The preemptive rights set forth in Section 6.7 of the Series B Purchase Agreement and in Section 6.6 of the Series C Purchase Agreement shall remain in effect following the date hereof. For purposes of such rights, (i) the term "Investor" as used in such sections shall include Sutter Health Venture Partners I, L.P. (without regard to the limitation in Section 6.6(d) of the Series C Purchase Agreement) and (ii) the term "Voting Securities" shall include the Series C Investor Common Warrants.

5. Restriction on Transfer of Founders Shares.

(a) In addition to the restrictions set forth in Section 2, 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 F-2 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, if not purchased by IBM in accordance with the provisions of Section 2, are offered to the Series B Investors, Contracting Series C Investors and Keystone substantially in accordance with the same procedure as set forth in Section 2 (as required by the November 1992 Stockholders Agreement or otherwise), or (ii) if IBM, the Series B Investors, the Contracting Series C Investors and Keystone have rejected the offer to purchase such shares, such shares are offered to the Series D Investors substantially in accordance with the same procedure as set forth in Section 2, or (iii) if IBM, the Series B Investors, the Contracting Series C Investors, Keystone and the Series D Investors have rejected the offer to purchase such shares, such shares are transferred to the Company or to a third party with IBM's prior written approval, or (iv) 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 $7,500,000 aggregate gross proceeds to the Company (a "Qualified Initial Public Offering"), or (v) 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 (vi) the proposed transfer of Founders Shares shall occur on or after February 6, 1998. The restriction on transfer set forth above shall be in addition to any other applicable restrictions that may be contained in other agreements between the Founders and the Company.

(b) If any Founder dies, or becomes disabled, or ceases to be employed by the Company for any reason (or, in the case of Dr. William Bargar, if the consulting agreement between Dr. William Bargar and the Company is terminated for any reason), 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 stockholders vote their shares of stock. 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.

6. Co-Sale Rights.

(a) If a holder or holders (the "Selling Holders") of Voting Securities propose to sell, in one or more related transactions, Voting Securities representing a majority of the Voting Securities of the Company, then such Selling Holders shall notify Sutter Health, a California nonprofit public benefit corporation ("Sutter Health"), and Sutter Health Venture Partners I, L.P. ("SHVP") of the proposed sale at least 45 days prior to the closing of the sale.

(b) Each of Sutter Health and SHVP shall have the right, exercisable upon written notice to the Selling Holders within 15 days after receipt of the Selling Holder's notice pursuant to Section 6(a), to request that shares of Common Stock (including any shares of Common Stock

issuable upon exercise of the Series C Investor Common Warrants) held by Sutter Health and SHVP be included in the Selling Holder's proposed sale of Voting Securities pursuant to the specified terms and conditions of such proposed sale.

(c) The Selling Holders shall make reasonable efforts to include in the proposed sale the shares referenced in Section 6(b) held by Sutter Health and SHVP which Sutter Health and SHVP have requested to be included in the sale.

7. Legend on Certificates for Voting Securities. Each certificate representing Voting Securities beneficially owned by any Founder, Series B Investor, Contracting Series C Investor, Series D Investor, IBM 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 AN AMENDED AND RESTATED STOCKHOLDERS AGREEMENT DATED AS OF NOVEMBER 13, 1992, AND OF AN INVESTORS AGREEMENT DATED AS OF DECEMBER 21, 1995, EACH 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 AGREEMENTS ARE ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE COMPANY, AND THE COMPANY WILL FURNISH A COPY OF SUCH AGREEMENTS 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.

8. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of each of the Founders, Series B Investors, Contracting Series C Investors, Series D Investors, 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, 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 8, IBM may assign all or any part of its rights and obligations hereunder to an Affiliate of IBM. 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 that are so assigned. Each Series B Investor, Contracting Series C Investor and Series D Investor may assign all or any part of its rights and obligations hereunder to its Series B Affiliate, Series C Affiliate or Series D Affiliate, respectively, who shall become a party to this Agreement entitled to all the rights and benefits hereunder that are so assigned.

9. Amendments. No amendment to this Agreement shall be effective unless it shall be in writing and signed by the Company and the holders of a majority of the Voting Securities held by IBM, the Founders, the Series B Investors, the Contracting Series C Investors and the Series D Investors. Furthermore, if such amendment would adversely affect the rights of Sutter Health but would not so affect the rights of the other holders of Voting Securities, then no amendment to this Agreement shall be effective unless it shall be both approved as provided in the preceding sentence and approved in writing and signed by Sutter Health. Sutter Health's signature on this Agreement shall not be deemed a waiver by Sutter Health of any right which Sutter Health may have under applicable law in the event of and with respect to any breach by any other holder of Voting Securities of any fiduciary duty owed by such other holder or holders to Sutter Health.

10. 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
IBM Research Division
T.J. Watson Research Center
Yorktown Heights, New York 10598
Attention: Daniel P. McCurdy

(ii) if to the Company,
Integrated Surgical Systems, Inc.
829 West Stadium Lane
Sacramento, California 95834
Attention: Ramesh Trivedi

with a copy to:

Wilson, Sonsini, Goodrich & Rosati
650 Page Mill Road
Palo Alto, California 94304-1050
Attention: J. Casey McGlynn

(iii) if to the Series B Investors, Contracting Series C Investors, or Series D Investors,

Sutter Health, a California nonprofit public benefit corporation
One Capitol Mall
Sacramento, California 95814
Attention: David Cox

Sutter Health Venture Partners I, L.P.
c/o Sutter Ventures, Ltd., as general partner
One Capitol Mall
Sacramento, California 95814
Attention: David Cox

EJ Financial Investments V, L.P.
John N. Kapoor Trust
c/o EJ Financial Enterprises, Inc.
225 East Deerpath Road, Suite 250
Lake Forest, Illinois 60045
Attention: Robert May

(iv) if to any Founder or Significant Stockholder, to his address as provided in the books of the Company.

11. 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.

12. 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.

13. Entire Agreement. If compliance with any provision of this Agreement by any of the parties hereto would preclude compliance with any provision of the November 1992 Stockholders Agreement, the parties hereto agree that such conflict between this Agreement and the November 1992 Stockholders Agreement shall be resolved in favor of compliance with the relevant provision of the November 1992 Stockholder Agreement. Except as otherwise provided herein with respect to the November 1992 Stockholders Agreement, this Agreement contains the entire agreement and understanding between the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, written or oral, among the parties with respect to the subject matter hereof.

14. 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.

15. 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.

16. Kapoor Trust Transfer. Notwithstanding anything to the contrary set forth herein, John N. Kapoor Trust dated 9/20/89 shall be entitled to assign any of its rights and benefits hereunder to a person or persons or entity or entities related to or affiliated with John Kapoor or John N. Kapoor Trust dated 9/20/89 or EJ Financial Investments V, L.P. (the "Transferees") in connection with any transfer of shares of the Company's capital stock to the Transferees, and upon any such transfer, each Transferee shall be considered a Kapoor Affiliate and shall be entitled to and shall have all of the rights and benefits hereunder, and shall be subject to all obligations hereunder, with respect to the shares transferred to it, as if it were an original Series B Investor or Series D Investor hereunder.

IN WITNESS WHEREOF, the parties have caused this Investors Agreement to be duly executed as of the date first written above.

INTEGRATED SURGICAL SYSTEMS, INC.

By: _____

Title: _____

INTERNATIONAL BUSINESS MACHINES CORPORATION

By: _____

Title: _____

JOHN N. KAPOOR TRUST DATED 9/20/89
(or the entity or entities set forth below which is affiliated with John N. Kapoor Trust dated 9/20/89)

Name: _____

By: _____

Title: _____

SUTTER HEALTH, A CALIFORNIA
NONPROFIT PUBLIC BENEFIT
CORPORATION

By: _____

Title: _____

SUTTER HEALTH VENTURE PARTNERS I,
L.P., A CALIFORNIA LIMITED
PARTNERSHIP

By: Sutter Ventures, Ltd., as general partner

By: _____

Title: _____

Wendy Shelton-Paul

William Bargar

Brent Mittelstadt

Peter Kazanzides

EJ FINANCIAL INVESTMENTS V, L.P.

By: _____

Title: _____

_____
Kamala Vati Mehra

_____
Jagdish Lal Mehra

_____
Banarsi Das Mehra

_____
Rani Devi Aneja

_____
Gopal Mehra

SCHEDULE F-1

Founders
Wendy Shelton-Paul Trust
William Bargar
Brent Mittelstadt
Peter Kazanzides

Series B Investors
John N. Kapoor Trust dated 9/20/89 (or affiliate(s))
Sutter Health, a California nonprofit public benefit corporation

Contracting Series C Investors
Sutter Health, a California nonprofit public benefit corporation Sutter Health
Venture Partners I, L.P., a California limited partnership

Series D Investors
International Business Machines Corporation
EJ Financial Investments V, L.P.

SCHEDULE F-2

HOLDERS OF FOUNDERS SHARES
(as of December 21, 1995)

Name	No. of Shares*
Wendy Shelton-Paul Trust	57,525
William Bargar	30,975
Brent Mittelstadt	8,050
Peter Kazanzides	3,450

* Numbers exclude options and give effect to the one-for-five reverse stock split effected December 20, 1995.

EXHIBIT G

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (the "Agreement") is entered into as of December 21, 1995, by and among Integrated Surgical Systems, Inc. a Delaware corporation (the "Company") and the entities listed on the signature pages hereto (the "Holders"). The holders of Registration Rights and the amount of Registrable Securities held by each such individual or entity as of the date of this Agreement are listed on Schedule G-1 attached hereto.

This Agreement amends and restates (i) the Registration Rights Agreement dated November 13, 1992 (the "November 1992 Agreement") and (ii) the provisions of Article X of the Loan and Warrant Purchase Agreement dated as of February 6, 1991, between the Company and IBM (the Loan Agreement") (together, the "Old Agreements"). Such amendment and restatement of the Old Agreements is effective upon the execution of this Agreement by the Company, IBM and holders of more than fifty percent (50%) of the Registrable Securities, as such term is defined under the November 1992 Agreement. As of the date of this Agreement, the registration rights provided in this Agreement are the only registration rights outstanding with respect to the Company's outstanding securities.

Pursuant to the terms of the Series D Preferred Stock and Warrant Purchase Agreement of even date herewith (the "Series D Agreement"), the Series D Investors may, and upon the occurrence of certain events, must purchase an additional 512,820 shares of Series D Preferred Stock and an additional 1,025,640 Series D Warrants for an aggregate purchase price of $999,999.00 (the "Second Closing Shares and Warrants"). Pursuant to the terms of the Warrants to Purchase Common Stock of even date herewith issued to Sutter Health, a California nonprofit public benefit corporation, to Sutter Health Venture Partners I, L.P., and to Keystone Financial Corporation, a Pennsylvania Not-For-Profit Corporation, the Company must issue to the holders of such warrants additional warrants to purchase an aggregate of approximately 205,469 shares of Common Stock (the "Second Closing Common Warrants"). Upon the sale of the Second Closing Shares and Warrants and the issuance of the Second Closing Common Warrants and the closing of the Rights Offering (as defined and described in the Agreement), the Company shall amend Schedule G-1 to reflect the additional Registrable Securities.

1. Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

"Commission" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, or any similar federal statute with the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Holders" shall mean the entities set forth on Schedule G-1 who hold Registrable Securities or securities convertible into Registrable Securities and any person holding such securities to whom the rights under this Agreement have been transferred pursuant to Section 13 hereof.

"Initiating Holders" shall mean any Holder or Holders who in the aggregate hold at least thirty-five percent (35%) of the aggregate of the Registrable Securities and securities convertible into Registrable Securities.

"NASD" shall mean the National Association of Securities Dealers, Inc.

"NASDAQ" shall mean the National Association of Securities Dealers Automated Quotation System.

"Registrable Securities" shall mean (a) any shares of Common Stock issued upon exercise of the Warrant for the Purchase of Common Stock dated February 6, 1991, as amended on December 21, 1995, issued to International Business Machines Corporation ("IBM"), (b) any shares of Common Stock issued upon exercise of the Warrant for the Purchase of Common Stock, of even date herewith, issued to IBM, (c) any shares of Common Stock issued upon exercise of the Warrant to Purchase Common Stock, of even date herewith, issued to Sutter Health, a California nonprofit public benefit corporation, (d) any shares of Common Stock issued upon exercise of the Warrant to Purchase Common Stock, of even date herewith, issued to Sutter Health Venture Partners I, L.P., (e) any shares of Common Stock issued upon exercise of the Warrant to Purchase Common Stock, of even date herewith, issued to Keystone Financial Corporation, a Pennsylvania Non-Profit Corporation, (f) any shares of Common Stock issued pursuant to the Recapitalization effected by the Restated Certificate of Incorporation filed with the Secretary of State of the State of Delaware on December 20, 1995, to the former holders of shares of Series B Preferred Stock which were issued pursuant to the Series B Preferred Stock Purchase Agreement dated as of April 10, 1992, (g) any shares of Common Stock issued issued pursuant to the Recapitalization effected by the Restated Certificate of Incorporation filed with the Secretary of State of the State of Delaware on December 20, 1995, to the former holders of shares of Series C Preferred Stock which were issued pursuant to the Series C Preferred Stock Purchase Agreement dated as of November 13, 1992, (h) any shares of Common Stock issued in exchange for the cancellation and forgiveness of all accumulated dividends on the Series B Preferred Stock and the Series C Preferred Stock, (i) any shares of Common Stock issued upon conversion of the shares of Series D Preferred Stock issued pursuant to the Series D Preferred Stock and Warrant Purchase Agreement dated as of December 21, 1995 (the "Series D Purchase Agreement"), (j) any shares of Common Stock issued upon conversion of the shares of Series D Preferred Stock issued upon exercise of the Warrant for the Purchase of Series D Preferred Stock dated December 21, 1995, issued pursuant to the Series D Purchase Agreement, and (k) 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.

"Securities Act" shall mean the Securities Act of 1933, as amended, or any similar federal statute with the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

2. Demand Registration.

2.1 Registration upon Demand by Initiating Holders. An Initiating Holder or Initiating Holders may make a written request that the Company effect a registration with respect to shares of Registrable Securities at any time after the earlier of (i) December 31, 1996 or (ii) six (6) months after the effective date of the first registration statement for a public offering of securities of the Company (other 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). Within ten (10) days of the receipt of notice from the Initiating Holder or Initiating Holders, the Company will give written notice of such request to all other Holders and shall use its best efforts to effect a registration under the Securities Act and to include therein the Registrable Securities specified in the initial request from the Initiating Holder or Initiating Holders and the Registrable Securities of the Holders specified in written requests received by the Company within twenty (20) days after the date of written notice from the Company; provided, however, that (a) the Company shall be obligated to effect a total of no more than three registration under this Section 2.1; (b) a registration hereunder shall not count as such (i) until it has become effective, except that if, after it has become effective, the offering of Registrable Securities pursuant to such registration is interfered with by any stop order, injunction or other order or requirement of the Commission or any other governmental authority, such registration shall be deemed not to have been effected unless such stop order, injunction or other order or requirement shall subsequently have been vacated or otherwise removed; (c) the Company shall not be obligated to effect a registration of a number of shares representing less than thirty-five percent (35%) of the total number of shares of the Registrable Securities including securities convertible into Registrable Securities (or a lesser percentage if the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed $7,500,000); and (d) the Company shall not be required to effect a registration if counsel for the Company shall deliver an opinion reasonably acceptable to counsel for the Holders that, pursuant to Rule 144 under the Securities Act or otherwise, the Holders can sell the Registrable Securities without registration under the Securities Act and without any limitation with respect to offerees or the size of the transaction.

2.2 Inclusion of Other Shares.

(a) If a registration is initiated by Initiating Holder or Initiating Holders, and the Company (or any other stockholder of the Company with registration rights other than a Holder) 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 the Holders in writing that in their opinion (a) the number of securities requested to be included in the registration does not exceed the number which can be sold in the offering and (b) the price for Registrable Securities will not be adversely affected.

(b) If a registration is initiated by a Holder or Holders of Registrable Securities and the managing underwriters of a proposed underwritten offering advise the Company in writing that in their opinion, the number of securities requested to be included in the registration by the Holders exceeds the number which can be sold in the offering, then no securities may be offered by the Company or any other stockholder who is not a Holder, and the Holders shall all be entitled to have their securities included in the registration statement in proportion to the aggregate number of the Company's securities having registration rights under this Agreement that each such person holds or is entitled to receive by conversion or exercise of securities of the Company held by such person (such proportion being such person's "Relative Participation");

(c) Upon receipt of the written demand of the Holders, the Company shall expeditiously effect the registration under the Securities Act of the Registrable Securities and use its best efforts to have such registration become and remain effective as provided in Section 10. The Holders shall have the right to select the underwriters for a registration under this Section 2, subject to the approval of such selection by the Company (which approval by the Company shall not be unreasonably withheld).

3. Piggyback Registrations.

3.1 Notice. 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 each Holder notice of such proposed registration at least 30 days prior to the filing of a registration statement. At the written request of each Holder delivered to the Company within 25 days after the receipt of the notice from the Company, which request shall state the number of Registrable Securities that each Holder 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 Registrable Securities, and to cause such registration (a "Piggyback Registration") to become and remain effective as provided in Section 10.

3.2 Primary Registration. 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 Registrable Securities that each Holder proposes to sell representing an aggregate of twenty-five percent (25%) of such offering (or in the case of an initial public offering, an aggregate of fifteen percent (15%) of such offering);

(ii) second, the securities the Company proposes to sell; and

(iii) third, the remaining Registrable Securities the Registrable Securities each Holder 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).

3.3 Secondary Registration. 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 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 Registrable Securities that each Holder proposes to sell representing an aggregate of twenty-five percent (25%) of such offering (or in the case of an initial public offering, an aggregate of fifteen percent (15%) of such offering);

(ii) second, the securities of the holders of the Company's securities who have exercised their demand registration rights;

(iii) third, the securities that the Company proposes to sell, if the Company subsequently elects to participate in the offering; and

(iv) fourth, the remaining Registrable Securities of Registrable Securities each Holder 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 (iv).

4. Indemnification by the Company. In the event of any registration of any Registrable Securities under the Securities Act, the Company shall, and hereby does, indemnify and hold harmless each Holder and its directors and officers, if any, each other entity which participates as an underwriter in the offering or sale of such Registrable Securities and each other person or entity, if any, which controls each Holder 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 each Holder or any such director or officer or underwriter or controlling person or entity 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 Registrable Securities 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 each Holder and each such director, officer, underwriter and controlling person or entity 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 each Holder as a stockholder of the Company furnished to the Company through an instrument duly executed by or on behalf of each Holder 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 or entity which participates as an underwriter in the offering or sale of Registrable Securities or any other person or entity, 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 entity's failure to send or give a copy of the final prospectus, as the same may be then supplemented or amended, to the entity asserting an untrue statement or alleged untrue statement or omission or alleged omission at or prior to the written confirmation of the sale of Registrable Securities to such person or entity 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 each Holder or any such director, officer or controlling person or entity and shall survive the transfer of the Registrable Securities by each Holder.

5. Indemnification by the Holders. The Company may require, as a condition to including any Registrable Securities in any registration statement filed pursuant to Section 2 or 3, that the Company shall have received an undertaking satisfactory to it from each Holder to indemnify and hold harmless (in the same manner and to the same extent as set forth in Section 4) 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 each Holder as a stockholder of the Company furnished to the Company through an instrument duly executed by each Holder 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.

6. 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 4 or 5, 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 4 or 5, 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.

7. Other Indemnification. Indemnification similar to that specified in this Agreement (with appropriate modifications) shall be given by the Company and each Holder with respect to any required registration or other qualification of Registrable Securities under any Federal or state law or regulation of any governmental authority other than the Securities Act.

8. Indemnification Payments. The indemnification required by this Agreement 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.

9. Adjustments Affecting Registrable Securities. 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 the Holder to include its Registrable Securities, or which would reduce the number of Registrable Securities each Holder would otherwise be entitled to include pursuant to this Agreement, in any registration of securities of the Company contemplated by this Agreement or (b) which would materially adversely affect the marketability of such Registrable Securities under any such registration.

10. Registration Covenants of the Company. In the event that any Registrable Securities of the Holders are to be registered pursuant to Section 2 or 3, the Company covenants and agrees that it shall use its best efforts to effect the registration and cooperate in the sale of the Registrable Securities to be registered and shall as expeditiously as possible:

(a) (i) prepare and file with the Commission a registration statement with respect to the Registrable Securities (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(a), furnish to the Holders copies of drafts 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 the Holders (but not approval of such counsel except with respect to any statement in the Registration Statement which relates to the Holders);

(c) notify the Holders 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 the Holders promptly of any request by the Commission for the amending or supplementing of the Registration Statement or prospectus or for additional information;

(e) (i) advise the Holders after the Company shall receive notice or otherwise obtain knowledge of the issuance of any order by the Commission 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 Commission 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 the Holders to dispose of all of their Registrable Securities 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 Registrable Securities covered by the Registration Statement during such period in accordance with the intended methods of disposition by the Holders set forth in the Registration Statement;

(g) furnish to the Holders 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 the Holders may reasonably request in order to facilitate the disposition of the Registrable Securities owned by the Holders;

(h) use its best efforts to register or qualify such Registrable Securities under such other securities or blue sky laws of such jurisdictions as determined by the underwriters after consultation with the Company and the Holders and do any and all other acts and things which may be reasonably necessary or advisable to enable the Holders to consummate the disposition in such jurisdictions of the Registrable Securities (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(h), (ii) subject itself to taxation in any such jurisdiction or (iii) consent to general service of process in any such jurisdiction);

(i) notify the Holders, 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, 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 Registrable Securities 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 the Holders or the underwriters shall reasonably request in order to expedite or facilitate the disposition of the Registrable Securities;

(m) (i) make available for inspection by the Holders, any underwriter participating in any disposition pursuant to the Registration Statement and any attorney, accountant or other agent retained by the Holders 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 the Holders or any such underwriter, attorney, accountant or agent in connection with the Registration Statement;

(n) use its best efforts to cause the Registrable Securities covered by the Registration Statement to be registered with or approved by such other Governmental Authorities as may be necessary to enable the Holders to consummate the disposition of such Registrable Securities; 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 the Holders may reasonably request.

11. Expenses.

(a) The Company shall pay, on behalf of the Holders of Registrable Securities, all of the expenses in connection with three (3) Demand Registrations and any Piggyback Registration pursuant to Section 2 or 3 hereof, 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 one counsel retained by the Holders of Registrable Securities exercising their Registration Rights, 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.

(b) In any registration, the Holders shall pay for their own underwriting discounts and commissions and transfer taxes (pro rata if several entities exercise their Registration Rights simultaneously).

(c) If any expenses are to be paid by the Holders, each selling Holder shall bear its proportionate share, based on the number of securities sold.

12. Form S-3 Registration. In case the Company shall receive from any Holder of Registrable Securities a written request or requests that the Company effect a registration on Form S-3 (or any successor form of abbreviated registration statement) and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder, the Company will:

(a) promptly give written notice of the proposed registration, and any related qualification or compliance, to all other Holders of Registrable Securities; and

(b) as soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder joining in such request as are specified in a written request given within 15 days after receipt of such written notice from the Company; provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance, pursuant to this Section 12: (i) if the Company has already effected two registrations on Form S-3 pursuant to this Section 12 or one in the preceding 12-month period; (ii) if Form S-3 is not available for such offering by the Holders requesting registration pursuant to this Section 12; (iii) if the Holders requesting registration pursuant to this Section 12, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public (net of any underwriters' discounts or commissions) of less than $1,000,000; (iv) if the Company shall furnish to

the Holders requesting registration pursuant to this Section 12 a certificate signed by the President of the Company stating that in the good faith judgement of the Board of Directors of the Company, it would be seriously detrimental to the Company and its stockholders for such Form S-3 registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 Registration Statement for a period of not more than 90 days after receipt of the request of the Holder(s) under this Section 12; provided, however, that the Company shall not utilize this right more than once in any twelve (12) month period; or (v) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

(c) Subject to the foregoing, the Company shall file a registration statement covering the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the request or requests of the Holders requesting registration pursuant to this Section 12. All expenses incurred in connection with a registration requested pursuant to this Section 12, including (without limitation) all registration, filing, qualification, printer's and accounting fees, reasonable fees and disbursements of counsel for the Holder(s) and counsel for the Company and any underwriters' discounts or commissions associated with Registrable Securities shall be borne pro rata by the Holder(s) participating in the Form S-3 Registration. Registrations effected pursuant to this Section 12 shall not be counted as demands for registration or registrations effected pursuant to Sections 2 or 3, respectively.

13. Assignment of Registration Rights. The Registration Rights under this Agreement may be assigned by a Holder of Registrable Securities to anyone who acquires at least 500,000 shares of the Registrable Securities (other than pursuant to Rule 144 or a Demand Registration or a Piggyback Registration or a Form S-3 Registration effected pursuant to this Agreement); provided, however, that no assignment shall increase the Company's obligations to effect registrations or pay expenses thereof.

14. No Preferential Registration Rights. Notwithstanding any other provision of this Agreement, if the Company grants registration rights to any other person or entity on terms which are preferential to the terms in this Agreement, then the Holders shall be entitled to registration rights with such preferential terms.

15. 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 the Holders to sell the Registrable Securities 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 Commission, including filing on a timely basis all reports required to be filed by the Exchange Act. Upon the request of a Holder, the Company shall deliver to such Holder a written statement as to whether it has complied with such requirements.

16. Miscellaneous Provisions.

16.1 Notices. All notices and other communications required or permitted hereunder shall be in writing and, except as otherwise noted herein, shall be deemed effectively given upon personal delivery, delivery by nationally recognized courier or upon deposit with the United States Post Office, (by first class mail, postage prepaid) addressed: (a) if to the Company, at 829 West Stadium Lane, Sacramento, CA 95834 (or at such other address as the Company shall have furnished to the Holders in writing) attention of President and (b) if to a Holder, at the latest address of such person shown on the Company's records.

16.2 Descriptive Headings. The descriptive headings herein have been inserted for convenience only and shall not be deemed to limit or otherwise affect the construction of any provisions hereof.

16.3 Governing Law. This Agreement shall be governed by and interpreted under the laws of the State of California as applied to agreements among California residents, made and to be performed entirely within the State of California.

16.4 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original and all of which shall constitute the same instrument, but only one of which need be produced.

16.5 Expenses. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

16.6 Successors and Assigns. Except as otherwise expressly provided in this Agreement, this Agreement shall benefit and bind the successors, assigns, heirs, executors and administrators of the parties to this Agreement.

16.7 Entire Agreement. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subject matter of this Agreement.

16.8 Separability; Severability. Unless expressly provided in this Agreement, the rights of each Holder under this Agreement are several rights, not rights jointly held with any other Holder. Any invalidity, illegality or limitation on the enforceability of this Agreement with respect to any Holder shall not affect the validity, legality or enforceability of this Agreement with respect to the other Holders. If any provision of this Agreement is judicially determined to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not be affected or impaired.

16.9 Stock Splits. All references to numbers of shares in this Agreement shall be appropriately adjusted to reflect any stock dividend, split, combination or other recapitalization of shares by the Company occurring after the date of this Agreement.

16.10 Termination. The rights granted under this Agreement shall terminate on the seventh anniversary of the closing date of the initial underwritten public offering of the Company's securities pursuant to a registration statement declared effective under the Securities Act.

16.11 Waivers and Amendments. With the written consent of IBM and the recordholders of more than fifty percent (50%) of the Registrable Securities held by Holders other than IBM (determined assuming conversion or exercise of all instruments convertible into or exercisable for Registrable Securities), the obligations of the Company and the rights of the Holders under this Agreement may be waived (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time or indefinitely), and with the same consent the Company, when authorized by resolution of its Board of Directors may enter into a supplementary agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Agreement. With the written consent of IBM and the recordholders of more than fifty percent (50%) of the Registrable Securities subject to this Agreement held by Holders other than IBM (determined assuming conversion or exercise of all instruments convertible into or exercisable for such Registrable Securities), the obligations of the Company and the rights of the Holders under this Agreement may be waived and this Agreement may be amended; provided that no such waiver or amendment shall (i) reduce such percentage or (ii) increase any obligations of the Holders under this Agreement without the consent of all Holders. This Agreement may be amended and its provisions waived only by a signed statement in writing.

Furthermore, if such amendment or waiver would adversely affect the rights of Sutter Health, a California nonprofit public benefit corporation ("Sutter Health"), but would not so affect the rights of Holders of Registrable Securities held by Holders other than Sutter Health, then no such amendment or waiver of this Agreement shall be effective unless such amendment or waiver shall be both approved as provided in the preceding paragraph and approved in writing and signed by Sutter Health. Sutter Health's signature on this Agreement shall not be deemed a waiver by Sutter Health of any right which Sutter Health may have under applicable law in the event of and with respect to any breach by any other Holder of Registrable Securities of any fiduciary duty owed by such other Holder or Holders to Sutter Health.

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first above written.

INTEGRATED SURGICAL SYSTEMS, INC.

By:_____

Title:_____

EJ FINANCIAL INVESTMENTS V, L.P.

By:_____

Title:_____

JOHN N. KAPOOR TRUST DATED 9/20/89
(or the entity or entities set forth below which is
affiliated with John N. Kapoor Trust dated 9/20/89)

Name:_____

By:_____

Title:_____

SUTTER HEALTH, A CALIFORNIA NONPROFIT
PUBLIC BENEFIT CORPORATION

By:_____

Title:_____

SUTTER HEALTH VENTURE PARTNERS I, L.P.

By: Sutter Ventures, Ltd., as general partner

By:_____

Title:_____

KEYSTONE FINANCIAL CORPORATION, A
PENNSYLVANIA NOT-FOR-PROFIT CORPORATION

By:_____

Title:_____

INTERNATIONAL BUSINESS
MACHINES CORPORATION

By:_____

Title:_____

SCHEDULE G-1

HOLDERS OF REGISTRABLE SECURITIES OR
SECURITIES CONVERTIBLE INTO OR
EXERCISABLE FOR REGISTRABLE SECURITIES

	Common Shares	Common Warrants	Series D Shares(1)	Series D Warrants(1)
International Business Machines Corporation	--	287,752	--	2,051,282
John N. Kapoor Trust (or affiliate(s))	58,347	--	--	--
EJ Financial Investments V, L.P.	--	--	1,025,641	--
Keystone Financial Corporation, a Pennsylvania Not-For-Profit Corporation	23,628	64,065	--	--
Sutter Health, a California nonprofit public benefit corporation	213,303	578,353	--	--
Sutter Health Venture Partners I, L.P.	6,493	17,605	--	--

- ----------

(1) Does not include the additional 512,820 shares of Series D Preferred Stock or warrants to purchase 1,025,640 shares of Series D Preferred Stock which the Series D Investors may, and upon the occurrence of certain events, must purchase pursuant to the terms of the Series D Preferred Stock and Warrant Purchase Agreement of even date herewith. Does not include the additional warrants to purchase an aggregate of approximately 205,469 shares of Common Stock, which warrants are issuable to the Keystone Financial Corporation, Sutter Health and Sutter Health Venture Partners I upon the occurrence of certain events. See page 1 of the Registration Rights Agreement to which this Schedule is attached. See also each of the three Warrant Agreements attached as Exhibits K, L and M to the Series D Preferred Stock and Warrant Purchase Agreement dated December 21, 1995.

SCHEDULE G-1

HOLDERS OF REGISTRABLE SECURITIES OR
SECURITIES CONVERTIBLE INTO OR
EXERCISABLE FOR REGISTRABLE SECURITIES

(as amended March 7, 1996)

	Common Shares	Common Warrants	Series D Shares	Series D Warrants
International Business Machines Corporation	--	287,752	--	3,076,922
John N. Kapoor Trust (or affiliate(s))	58,347	--	--	--
EJ Financial Investments V, L.P.	--	--	1,538,461	--
Keystone Financial Corporation, a Pennsylvania Not-For-Profit Corporation	23,628	84,010	--	--
Sutter Health, a California nonprofit public benefit corporation	213,303	758,397	--	--
Sutter Health Venture Partners I, L.P.	6,493	23,086	--	--

EXHIBIT H

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN COMPLIANCE WITH THAT ACT. THIS WARRANT IS SUBJECT TO THE PROVISIONS OF A SERIES D PREFERRED STOCK AND WARRANT PURCHASE AGREEMENT DATED AS OF DECEMBER 21, 1995, BETWEEN INTEGRATED SURGICAL SYSTEMS, INC., INTERNATIONAL BUSINESS MACHINES CORPORATION AND CERTAIN OF THE STOCKHOLDERS OF THE COMPANY, COPIES OF WHICH ARE ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE COMPANY.

WARRANT

FOR THE PURCHASE OF SERIES D PREFERRED STOCK
PAR VALUE $0.01 PER SHARE

OF

INTEGRATED SURGICAL SYSTEMS, INC.

VOID AFTER DECEMBER 31, 2005

THIS CERTIFIES THAT, for $1,333,333.30 received by the Company, INTERNATIONAL BUSINESS MACHINES CORPORATION ("IBM") or assigns (the "Holder") is entitled to purchase from INTEGRATED SURGICAL SYSTEMS, INC., a Delaware corporation (the "Company"), at the price of $0.01 per share (such price as from time to time adjusted as hereinafter provided, the "Warrant Price"), and in accordance with the terms and conditions set forth hereinafter and in the Series D Preferred Stock and Warrant Purchase Agreement dated December 21, 1995, between the Company, and the Investors listed therein (the "Series D Agreement"), at any time on or before December 31, 2005, up to 2,051,282 shares (subject to adjustment as hereinafter provided) of Series D Preferred Stock, par value $0.01 per share, of Company, and to receive a certificate or certificates for the shares of Series D Preferred Stock so purchased, upon presentation and surrender of this Warrant, at the office of the Company, which is at 829 West Stadium Lane, Sacramento, California 95834 as of the date hereof, together with the Warrant Price of the shares so purchased.

1. Reservation of Shares. The Company shall reserve and keep available out of its authorized but unissued Series D Preferred Stock for issuance upon the exercise of this Warrant, free from preemptive rights, such number of shares of Series D Preferred Stock for which this Warrant shall from time to time be exercisable. All shares which may be issued upon the exercise of this Warrant will, upon issuance, be fully paid and nonassessable and be free from all taxes, liens and charges in respect of the issuance thereof. The Company further covenants and agrees that if any shares of Series D Preferred Stock to be reserved for the purpose of the issuance of shares upon the exercise of this Warrant require registration with or approval of any governmental authority under any Federal or State law before such shares may be validly issued or delivered upon exercise of this Warrant, then the Company will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be, and the right to exercise this Warrant shall be extended until 10 Business Days (as defined below) after the completion of any such registration or approval. "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.

2. Term. The purchase rights represented by this Warrant are exercisable at the option of the Holder in whole at any time, or in part from time to time (but not as to a fractional share of Series D Preferred Stock), on or before December 31, 2005. In case of the purchase upon exercise of this Warrant of a number of shares of Series D Preferred Stock less than the total number of shares of Series D Preferred Stock then issuable upon exercise of this Warrant, the Company shall cancel this Warrant upon surrender hereof and shall execute and deliver a new Warrant of like tenor and date for the balance of the shares issuable upon the exercise hereof (except any remaining fractional share).

3. Conversion Price Adjustments. The rate at which the Series D Preferred Stock is convertible into shares of Common Stock of the Company (initially one-for-one) is subject to adjustment as set forth in Article 4, Section 5 of the Company's Restated Certificate of Incorporation. Any adjustment to the conversion rate of the Series D Preferred Stock of the Company effected prior to any exercise or conversion of this Warrant shall apply to any shares of Series D Preferred Stock thereafter issued pursuant to the terms hereof.

4. Merger, Consolidation or Sale of Assets. If any consolidation or merger of the Company with another corporation, or any statutory exchange of securities with another person, or the sale of all or substantially all of its assets to another corporation, shall be effected, then, as a condition of such consolidation, merger, exchange or sale, lawful and adequate provision shall be made whereby the Holder shall thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in this Warrant and in lieu of the shares of the Series D Preferred Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Series D Preferred Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby had such consolidation, merger, exchange or sale not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of the Holder to the end that the provisions hereof (including without limitation

provisions for adjustment for the Warrant Price and of the number of shares purchasable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company shall not effect any such consolidation, merger, exchange or sale, unless prior to or simultaneously with the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation, merger or exchange or the corporation purchasing such assets shall assume by written instrument executed and delivered to the Holder at the address of the holder appearing in the books of the Company, the obligation to deliver to the Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, the Holder may be entitled to purchase.

5. Notice of Certain Events. In case at any time:

(a) the Company shall declare or pay any dividend or make any distribution to the holders of its Series D Preferred Stock;

(b) the Company shall offer for subscription pro rata to the holders of its Series D Preferred Stock any additional shares of stock of any class or other rights;

(c) there shall be any capital reorganization or reclassification of the capital stock of the Company or consolidation or merger of the Company with, or any statutory exchange of the Company's securities with the securities of, or sale of all or substantially all of its assets to, another corporation; or

(d) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then, in any one or more of said cases, the Company shall give written notice, by first class mail, postage prepaid, addressed to the Holder at the address of the Holder as shown on the books of the Company, of the date on which (i) the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights, or (ii) such reorganization, reclassification, consolidation, merger, exchange, 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 Series D Preferred Stock of record shall participate in said dividend, distribution or subscription rights, or shall be entitled to exchange their Series D Preferred Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, exchange, sale, dissolution, liquidation or winding up, as the case may be. Such written notice shall be given not less than 20 days prior to the record date or the date on which the transfer books of the Company are closed in respect thereto in the case of an action specified in clause (i) and at least 20 days prior to the action in question in the case of an action specified in clause (ii).

6. No Impairment. The Company shall not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company but will at

all times in good faith assist in the carrying out of all the provisions of Sections 3 through 5 and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder.

7. No Voting Rights. This Warrant shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company whatsoever, except the rights expressed herein or in the Series D Agreement, and no dividend or interest shall be payable or accrue in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until and unless, and except to the extent that, this Warrant shall be exercised.

8. Warrant Unregistered. Neither this Warrant nor any of the shares to be issued upon the exercise hereof have been registered under the Securities Act of 1933, and nothing herein contained shall be deemed to require the Company so to register this Warrant. This Warrant is issued subject to the conditions, and the Holder agrees with the Company,

(a) that this Warrant has been acquired for the purpose of investment and not with a view to or for sale in connection with any distribution thereof, subject to the disposition of the Holder's property being at all times within its control; and

(b) that the Company has the right to demand and receive from the Holder, prior to the purchase of any shares pursuant hereto, assurances satisfactory to it that such shares are being purchased for the purpose of investment and not with a view to or for sale in connection with any distribution thereof, subject to the disposition of the Holder's property being at all times within its control.

9. Exchangeability. This Warrant is exchangeable, upon the surrender hereof by the Holder at said office of the Company, for new Warrants of like tenor and date representing in the aggregate the right to purchase the number of shares of Series D Preferred Stock which may be purchased hereunder, each of such new Warrants to represent the right to purchase such number of shares as shall be designated by the Holder at the time of such surrender.

10. Transferability. This Warrant shall be transferable in whole or in part to one or more transferees.

11. Payment of Purchase Price. The Warrant Price for the shares of Series D Preferred Stock issuable upon the exercise hereof shall be paid be certified check.

12. Stock Certificates. The issuance of stock certificates upon the exercise of this Warrant shall be made without charge to the Holder for any tax (other than taxes attributable to any difference between the fair market value and the exercise price of this Warrant on the date of the exercise of this Warrant) in respect of the issue thereof. The Holder shall for all purposes be deemed to have become the holder of record of the shares issued upon the exercise of this Warrant on the date on which the Warrant was surrendered and payment of the Warrant Price was made, irrespective of the date of delivery of the certificate for such shares, except that, if the date of such surrender and

payment is a date when the stock transfer books of the Company are closed, the Holder shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open (provided that if such books shall remain closed for five days, the close of business on such fifth day shall be the time the Holder shall be deemed to have become the holder of such shares.)

13. Lost, Stolen, Mutilated or Destroyed Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, mutilation or destruction of this Warrant and, in case of loss, theft or destruction, upon the agreement of the Holder to indemnify the Company or, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall issue a new Warrant of like denomination and tenor as the Warrant so lost, stolen, mutilated or destroyed. Any such new Warrant shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone.

14. Applicable Law. This Warrant 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.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its proper officers thereunto duly authorized and the Company's corporate seal to be hereunto affixed this 21st day of December, 1995.

INTEGRATED SURGICAL SYSTEMS, INC.

by

_____
Name:
Title:

EXHIBIT I

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN COMPLIANCE WITH THAT ACT. THIS WARRANT IS SUBJECT TO THE PROVISIONS OF A SERIES D PREFERRED STOCK AND WARRANT PURCHASE AGREEMENT DATED AS OF DECEMBER 21, 1995, BETWEEN INTEGRATED SURGICAL SYSTEMS, INC., AND INTERNATIONAL BUSINESS MACHINES CORPORATION, COPIES OF WHICH ARE ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE COMPANY.

WARRANT

FOR THE PURCHASE OF COMMON STOCK
PAR VALUE $0.01 PER SHARE

OF

INTEGRATED SURGICAL SYSTEMS, INC.

VOID AFTER DECEMBER 31, 2005

THIS CERTIFIES THAT, for value received, INTERNATIONAL BUSINESS MACHINES CORPORATION ("IBM") or assigns (the "Holder") is entitled to purchase from INTEGRATED SURGICAL SYSTEMS, INC., a Delaware corporation (the "Company"), at the price of $0.01 per share (such price as from time to time adjusted as hereinafter provided, the "Warrant Price"), and in accordance with the terms and conditions hereinafter set forth, at any time on or before December 31, 2005, up to 187,752 shares (subject to adjustment as hereinafter provided) of Common Stock, par value $0.01 per share, of Company, and to receive a certificate or certificates for the shares of Common Stock so purchased, upon presentation and surrender of this Warrant, at the office of the Company, which is a 829 West Stadium Lane, Sacramento, California 95834 as of the date hereof, together with the Warrant Price of the shares so purchased.

1. Reservation of Shares. The Company shall reserve and keep available out of its authorized but unissued Common Stock for issuance upon the exercise of this Warrant, free from

preemptive rights, such number of shares of Common Stock for which this Warrant shall from time to time be exercisable. All shares which may be issued upon the exercise of this Warrant will, upon issuance, be fully paid and nonassessable and be free from all taxes, liens and charges in respect of the issuance thereof. The Company further covenants and agrees that if any shares of Common Stock to be reserved for the purpose of the issuance of shares upon the exercise of this Warrant require registration with or approval of any governmental authority under any Federal or State law before such shares may be validly issued or delivered upon exercise of this Warrant, then the Company will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be, and the right to exercise this Warrant shall be extended until 10 Business Days (as defined below) after the completion of any such registration or approval. If and so long as any Common Stock issuable upon the exercise of this Warrant is listed on any national securities exchange, the Company will, if permitted by the rules of such exchange, list and keep listed on such exchange, upon official notice of issuance, all shares of Common Stock issuable upon exercise of this Warrant. "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, and, if the Common Stock is then so listed, on which such national securities exchange is open for trading.

2. Term. The purchase rights represented by this Warrant are exercisable at the option of the Holder in whole at any time, or in part from time to time (but not as to a fractional share of Common Stock), on or before December 31, 2005. In case of the purchase upon exercise of this Warrant of a number of shares of Common stock less than the total number of shares of Common Stock then issuable upon exercise of this Warrant, the Company shall cancel this Warrant upon surrender hereof and shall execute and deliver a new Warrant of like tenor and date for the balance of the shares issuable upon the exercise hereof (except any remaining fractional share).

3. Adjustment of Number of Shares. Upon each adjustment of the Warrant Price, as provided in Section 4, the Holder shall thereafter be entitled to purchase, at the Warrant Price resulting form such adjustment, the number of shares (calculated to the nearest tenth of a share) obtained by multiplying the Warrant Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment and dividing the product thereof by the Warrant Price resulting form such adjustment.

4. Adjustment of Warrant Price upon Stock Dividends, Stock Splits and Combinations. In case the Company shall at any time make a distribution on the Common Stock or subdivide its outstanding shares of Common Stock into a greater number of shares, the Warrant Price in effect immediately prior to such subdivision shall be proportionally reduced and, conversely, in case the outstanding shares of Common Stock of the Company shall be combined into a smaller number of share, the Warrant Price in effect immediately prior to such combination shall be proportionately increased.

5. Merger, Consolidation or Sale of Assets. If any consolidation or merger of the Company with another corporation, or any statutory exchange of securities with another person, or the sale of all or substantially all of its assets to another corporation, shall be effected, then, as a

condition of such consolidation, merger, exchange or sale, lawful and adequate provision shall be made whereby the Holder shall thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in this Warrant and in lieu of the shares of the Common Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby had such consolidation, merger, exchange or sale not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of the Holder to the end that the provisions hereof (including without limitation provisions for adjustment for the Warrant Price and of the number of shares purchasable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company shall not effect any such consolidation, merger, exchange or sale, unless prior to or simultaneously with the consummation thereof the successor corporation (if other than the Company) resulting form such consolidation, merger or exchange or the corporation purchasing such assets shall assume by written instrument executed and delivered to the Holder at the address of the holder appearing in the books of the Company, the obligation to deliver to the Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, the Holder may be entitled to purchase.

6. Notice of Adjustment of Warrant Price. Upon any adjustment of the Warrant Price, then and in each such case the Company shall give written notice thereof, by first class mail, postage prepaid, addressed to the Holder at the address of the Holder as shown on the books of the Company, which notice shall state the Warrant Price resulting form such adjustment an the increase or decrease, if any, int he number of shares purchasable at the Warrant Price upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation is based.

7. Computation of Adjustments. Anything herein to the contrary notwithstanding, upon each computation of an adjustment in the Warrant Price or the number of shares which may be subscribed for and purchased upon exercise of this Warrant, the Warrant Price shall be compute to the nearest one-tenth of a cent (i.e., fractions of less than one twentieth of a cent shall be disregarded and fractions of one twentieth of a cent, or more, shall be treated as being one-tenth of a one cent) and the number of shares which may be subscribed for and purchased upon exercise of this Warrant, shall be calculated to the nearest share (i.e., fractions of less than half of a share shall be disregarded and fractions of half of a share, or more, shall be treated as being one share).

8. Notice of Certain Events. In case at any time:

(a) the Company shall declare or pay any dividend or make any distribution to the holders of its Common Stock;

(b) the Company shall offer for subscription pro rata to the holders of its Common Stock any additional shares of stock of any class or other rights;

(c) there shall be any capital reorganization or reclassification of the capital stock of the Company or consolidation or merger of the Company with, or any statutory exchange of the Company's securities with the securities of, or sale of all or substantially all of its assets to, another corporation; or

(d) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then, in any one or more of said cases, the Company shall give written notice, by first class mail, postage prepaid, addressed to the Holder at the address of the Holder as shown on the books of the Company, of the date on which (i) the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights, or (ii) such reorganization, reclassification, consolidation, merger, exchange, 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 records shall participate in said 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, exchange, sale, dissolution, liquidation or winding up, as the case may be. Such written notice shall be given not less than 20 days prior to the record date or the date on which the transfer books of the Company are closed in respect thereto in the case of an action specified in clause (i) and at least 20 days prior to the action in question in the case of an action specified in clause (ii).

9. Definition of Common Stock. As used herein, "Common Stock" shall mean the Common Stock, par value $0.01 per share, of the Company as authorized on the date hereof, and also any capital stock of any class of the Company hereafter authorized which shall not be limited to a fixed sum or percentage in respect of the rights of the holders thereof to participate in dividends or in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Company; provided, however, that the shares purchasable pursuant to this Warrant shall be the shares designated as Common Stock, par value $0.01 per share, of the Company on the date hereof, or shares of any class or classes resulting from the reclassification or reclassifications of the Common Stock which are not limited to any such fixed sum or percentage and are not subject to redemption by the Company and in case at any time there shall be more than one such resulting class, the shares of each such class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

10. No Impairment. The Company will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company but will at all times in good faith assist in the carrying out of all the provisions of Sections 3 through 9 and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder.

11. No Voting Rights. This Warrant shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company whatsoever, except the rights expressed herein or in the Loan and Warrant Purchase Agreement dated as of February 6, 1991 (the "Loan and Warrant Agreement"), between the Company and IBM, and no dividend or interest shall be payable or accrue in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until and unless, and except to the extent that, this Warrant shall be exercised.

12. Warrant Unregistered. Neither this Warrant nor any of the shares to be issued upon the exercise hereof have been registered under the Securities Act of 1933, and nothing herein contained shall be deemed to require the Company so to register this Warrant. This Warrant is issued subject to the conditions, and the Holder agrees with the Company,

(a) that this Warrant has been acquired for the purpose of investment and not with a view to or for sale in connection with any distribution thereof, subject to the disposition of the Holder's property being at all times within its control; and

(b) that the Company has the right to demand and receive from the Holder, prior to the purchase of any shares pursuant hereto, assurances satisfactory to it that such shares are being purchased for the purpose of investment and not with a view to or for sale in connection with any distribution thereof, subject to the disposition of the Holder's property being at all times within its control.

13. Exchangeability. This Warrant is exchangeable, upon the surrender hereof by the Holder at said office of the Company, for new Warrants of like tenor and date representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new Warrants to represent the right to purchase such number of shares as shall be designated by the Holder at the time of such surrender.

14. Transferability. This Warrant shall be transferable in whole or in part to one or more transferees.

15. Payment of Purchase Price. The Warrant Price for the shares of Common Stock issuable upon the exercise hereof shall be paid be certified check.

16. Stock Certificates. The issue of stock certificates upon the exercise of this Warrant shall be made without charge to the Holder for any tax (other than taxes attributable to any difference between the fair market value and the exercise price of this Warrant on the date of the exercise of this Warrant) in respect of the issue thereof. The Holder shall for all purposes be deemed to have become the holder of record of the shares issued upon the exercise of this Warrant on the date on which the Warrant was surrendered and payment of the Warrant Price was made, irrespective of the date of delivery of the certificate for such shares, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, the Holder shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open (provided that if such books shall remain closed for five

days, the close of business on such fifth day shall be the time the Holder shall be deemed to have become the holder of such shares.)

17. Lost, Stolen, Mutilated or Destroyed Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, mutilation or destruction of this Warrant and, in case of loss, theft or destruction, upon the agreement of the Holder to indemnify the Company or, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall issue a new Warrant of like denomination and tenor as the Warrant so lost, stolen, mutilated or destroyed. Any such new Warrant shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone.

18. Applicable Law. This Warrant 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.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its proper officers thereunto duly authorized and the Company's corporate seal to be hereunto affixed this 21st day of December, 1995.

INTEGRATED SURGICAL SYSTEMS, INC.,

by

_____
Name:
Title:

EXHIBIT J

IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN COMPLIANCE WITH THAT ACT. THIS WARRANT IS SUBJECT TO THE PROVISIONS OF A LOAN AND WARRANT PURCHASE AGREEMENT DATED AS OF FEBRUARY 6, 1991, BETWEEN INTEGRATED SURGICAL SYSTEMS, INC., AND INTERNATIONAL BUSINESS MACHINES CORPORATION, COPIES OF WHICH ARE ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE COMPANY.

AMENDED WARRANT

FOR THE PURCHASE OF COMMON STOCK
PAR VALUE $0.01 PER SHARE

OF

INTEGRATED SURGICAL SYSTEMS, INC.

VOID AFTER DECEMBER 31, 2000

THIS CERTIFIES THAT, for value received, INTERNATIONAL BUSINESS MACHINES CORPORATION ("IBM") or assigns (the "Holder") is entitled to purchase from INTEGRATED SURGICAL SYSTEMS, INC., a Delaware corporation (the "Company"), at the price of $0.05 per share (such price as from time to time adjusted as hereinafter provided, the "Warrant Price"), and in accordance with the terms and conditions hereinafter set forth, at any time on or before December 31, 2000, up to 100,000 shares (subject to adjustment as hereinafter provided) of Common Stock, par value $0.01 per share, of Company, and to receive a certificate or certificates for the shares of Common Stock so purchased, upon presentation and surrender of this Warrant, at the office of the Company, which is a 829 West Stadium Lane, Sacramento, California 95834 as of the date hereof, together with the Warrant Price of the shares so purchased.

This Warrant amends and restates in its entirety the Warrant for the Purchase of 500,000 shares of Common Stock dated February 6, 1991, which was issued by the Company to IBM.

1. Reservation of Shares. The Company shall reserve and keep available out of its authorized but unissued Common Stock for issuance upon the exercise of this Warrant, free from preemptive rights, such number of shares of Common Stock for which this Warrant shall from time to time be exercisable. All shares which may be issued upon the exercise of this Warrant will, upon issuance, be fully paid and nonassessable and be free from all taxes, liens and charges in respect of the issuance thereof. The Company further covenants and agrees that if any shares of Common Stock to be reserved for the purpose of the issuance of shares upon the exercise of this Warrant require registration with or approval of any governmental authority under any Federal or State law before such shares may be validly issued or delivered upon exercise of this Warrant, then the Company will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be, and the right to exercise this Warrant shall be extended until 10 Business Days (as defined below) after the completion of any such registration or approval. If and so long as any Common Stock issuable upon the exercise of this Warrant is listed on any national securities exchange, the Company will, if permitted by the rules of such exchange, list and keep listed on such exchange, upon official notice of issuance, all shares of Common Stock issuable upon exercise of this Warrant. "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, and, if the Common Stock is then so listed, on which such national securities exchange is open for trading.

2. Term. The purchase rights represented by this Warrant are exercisable at the option of the Holder in whole at any time, or in part from time to time (but not as to a fractional share of Common Stock), on or before December 31, 2000. In case of the purchase upon exercise of this Warrant of a number of shares of Common stock less than the total number of shares of Common Stock then issuable upon exercise of this Warrant, the Company shall cancel this Warrant upon surrender hereof and shall execute and deliver a new Warrant of like tenor and date for the balance of the shares issuable upon the exercise hereof (except any remaining fractional share).

3. Adjustment of Number of Shares. Upon each adjustment of the Warrant Price, as provided in Section 4, the Holder shall thereafter be entitled to purchase, at the Warrant Price resulting form such adjustment, the number of shares (calculated to the nearest tenth of a share) obtained by multiplying the Warrant Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment and dividing the product thereof by the Warrant Price resulting form such adjustment.

4. Adjustment of Warrant Price upon Stock Dividends, Stock Splits and Combinations. In case the Company shall at any time make a distribution on the Common Stock or subdivide its outstanding shares of Common Stock into a greater number of shares, the Warrant Price in effect immediately prior to such subdivision shall be proportionally reduced and, conversely, in case the outstanding shares of Common Stock of the Company shall be combined into a smaller number of share, the Warrant Price in effect immediately prior to such combination shall be proportionately increased.

5. Merger, Consolidation or Sale of Assets. If any consolidation or merger of the Company with another corporation, or any statutory exchange of securities with another person, or the sale of all or substantially all of its assets to another corporation, shall be effected, then, as a condition of such consolidation, merger, exchange or sale, lawful and adequate provision shall be made whereby the Holder shall thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in this Warrant and in lieu of the shares of the Common Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby had such consolidation, merger, exchange or sale not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of the Holder to the end that the provisions hereof (including without limitation provisions for adjustment for the Warrant Price and of the number of shares purchasable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company shall not effect any such consolidation, merger, exchange or sale, unless prior to or simultaneously with the consummation thereof the successor corporation (if other than the Company) resulting form such consolidation, merger or exchange or the corporation purchasing such assets shall assume by written instrument executed and delivered to the Holder at the address of the holder appearing in the books of the Company, the obligation to deliver to the Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, the Holder may be entitled to purchase.

6. Notice of Adjustment of Warrant Price. Upon any adjustment of the Warrant Price, then and in each such case the Company shall give written notice thereof, by first class mail, postage prepaid, addressed to the Holder at the address of the Holder as shown on the books of the Company, which notice shall state the Warrant Price resulting form such adjustment an the increase or decrease, if any, int he number of shares purchasable at the Warrant Price upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation is based.

7. Computation of Adjustments. Anything herein to the contrary notwithstanding, upon each computation of an adjustment in the Warrant Price or the number of shares which may be subscribed for and purchased upon exercise of this Warrant, the Warrant Price shall be compute to the nearest one-tenth of a cent (i.e., fractions of less than one twentieth of a cent shall be disregarded and fractions of one twentieth of a cent, or more, shall be treated as being one-tenth of a one cent) and the number of shares which may be subscribed for and purchased upon exercise of this Warrant, shall be calculated to the nearest share (i.e., fractions of less than half of a share shall be disregarded and fractions of half of a share, or more, shall be treated as being one share).

8. Notice of Certain Events. In case at any time:

(a) the Company shall declare or pay any dividend or make any distribution to the holders of its Common Stock;

(b) the Company shall offer for subscription pro rata to the holders of its Common Stock any additional shares of stock of any class or other rights;

(c) there shall be any capital reorganization or reclassification of the capital stock of the Company or consolidation or merger of the Company with, or any statutory exchange of the Company's securities with the securities of, or sale of all or substantially all of its assets to, another corporation; or

(d) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then, in any one or more of said cases, the Company shall give written notice, by first class mail, postage prepaid, addressed to the Holder at the address of the Holder as shown on the books of the Company, of the date on which (i) the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights, or (ii) such reorganization, reclassification, consolidation, merger, exchange, 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 records shall participate in said 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, exchange, sale, dissolution, liquidation or winding up, as the case may be. Such written notice shall be given not less than 20 days prior to the record date or the date on which the transfer books of the Company are closed in respect thereto in the case of an action specified in clause (i) and at least 20 days prior to the action in question in the case of an action specified in clause (ii).

9. Definition of Common Stock. As used herein, "Common Stock" shall mean the Common Stock, par value $0.01 per share, of the Company as authorized on the date hereof, and also any capital stock of any class of the Company hereafter authorized which shall not be limited to a fixed sum or percentage in respect of the rights of the holders thereof to participate in dividends or in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Company; provided, however, that the shares purchasable pursuant to this Warrant shall be the shares designated as Common Stock, par value $0.01 per share, of the Company on the date hereof, or shares of any class or classes resulting from the reclassification or reclassifications of the Common Stock which are not limited to any such fixed sum or percentage and are not subject to redemption by the Company and in case at any time there shall be more than one such resulting class, the shares of each such class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

10. No Impairment. The Company will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company but will at all times in good faith assist in the carrying out of all the provisions of Sections 3 through 9 and in the

taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder.

11. No Voting Rights. This Warrant shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company whatsoever, except the rights expressed herein or in the Loan and Warrant Purchase Agreement dated as of February 6, 1991 (the "Loan and Warrant Agreement"), between the Company and IBM, and no dividend or interest shall be payable or accrue in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until and unless, and except to the extent that, this Warrant shall be exercised.

12. Warrant Unregistered. Neither this Warrant nor any of the shares to be issued upon the exercise hereof have been registered under the Securities Act of 1933, and nothing herein contained shall be deemed to require the Company so to register this Warrant. This Warrant is issued subject to the conditions, and the Holder agrees with the Company,

(a) that this Warrant has been acquired for the purpose of investment and not with a view to or for sale in connection with any distribution thereof, subject to the disposition of the Holder's property being at all times within its control; and

(b) that the Company has the right to demand and receive from the Holder, prior to the purchase of any shares pursuant hereto, assurances satisfactory to it that such shares are being purchased for the purpose of investment and not with a view to or for sale in connection with any distribution thereof, subject to the disposition of the Holder's property being at all times within its control.

13. Exchangeability. This Warrant is exchangeable, upon the surrender hereof by the Holder at said office of the Company, for new Warrants of like tenor and date representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new Warrants to represent the right to purchase such number of shares as shall be designated by the Holder at the time of such surrender.

14. Transferability. This Warrant shall be transferable in whole or in part to one or more transferees.

15. Payment of Purchase Price. The Warrant Price for the shares of Common Stock issuable upon the exercise hereof shall be paid be certified check.

16. Stock Certificates. The issue of stock certificates upon the exercise of this Warrant shall be made without charge to the Holder for any tax (other than taxes attributable to any difference between the fair market value and the exercise price of this Warrant on the date of the exercise of this Warrant) in respect of the issue thereof. The Holder shall for all purposes be deemed to have become the holder of record of the shares issued upon the exercise of this Warrant on the date on which the Warrant was surrendered and payment of the Warrant Price was made, irrespective of the date of delivery of the certificate for such shares, except that, if the date of such surrender and

payment is a date when the stock transfer books of the Company are closed, the Holder shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open (provided that if such books shall remain closed for five days, the close of business on such fifth day shall be the time the Holder shall be deemed to have become the holder of such shares.)

17. Lost, Stolen, Mutilated or Destroyed Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, mutilation or destruction of this Warrant and, in case of loss, theft or destruction, upon the agreement of the Holder to indemnify the Company or, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall issue a new Warrant of like denomination and tenor as the Warrant so lost, stolen, mutilated or destroyed. Any such new Warrant shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone.

18. Applicable Law. This Warrant 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.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its proper officers thereunto duly authorized and the Company's corporate seal to be hereunto affixed this 21st day of December, 1995.

INTEGRATED SURGICAL SYSTEMS, INC.,

by

_____
Name:
Title:

EXHIBIT K

THE SECURITIES REPRESENTED BY THIS WARRANT HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSFER IS IN ACCORDANCE WITH RULE 144 OR SIMILAR RULE OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT STATING THAT SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT.

WARRANT AGREEMENT

To Purchase Shares of Common Stock of

INTEGRATED SURGICAL SYSTEMS, INC.

Dated as of December 21, 1995 (the "Effective Date")

WHEREAS, Integrated Surgical Systems, Inc., a Delaware corporation (the "Company") proposes to effect a series of transactions resulting in the recapitalization of the Company (the "Recapitalization"); and

WHEREAS, in connection with the Recapitalization, the Company wishes to grant to Sutter Health, a California nonprofit public benefit corporation (the "Warrantholder"), the right to purchase shares of the Company's Common Stock (the "Warrants");

NOW, THEREFORE, in consideration of the Warrantholder giving its consent to the Recapitalization and in consideration of the mutual covenants and agreements contained herein, the Company and the Warrantholder agree as follows:

1. Grant of the Right to Purchase Common Stock. The Company hereby grants to the Warrantholder, and the Warrantholder is entitled, upon the terms and subject to the conditions hereinafter set forth, prior to December 31, 2005, to subscribe for and purchase from the Company, 578,353 shares of the Company's Common Stock (the "Shares"). The Company represents and warrants to the Warrantholder that the Shares constitute 9.70% of the Company's fully-diluted shares of Common Stock (or Common Stock equivalents) after giving effect to the Recapitalization (as defined in the Integrated Surgical Systems Series D Preferred Stock and Warrant Purchase Agreement dated December 21, 1995). The purchase price (the "Exercise Price") of one share of Common Stock under the Warrants shall be $0.50. Simultaneously with the date that is the later of the Second Closing and the closing of the Rights Offering (as those terms are defined in the Series D Preferred Stock and Warrant Purchase Agreement of even date herewith by and between the Company and certain Investors), the Company and the Warrantholder shall enter into a second Warrant Agreement containing substantially the same terms and conditions as this Warrant

Agreement, pursuant to which the Company shall grant to the Warrantholder the right and the Warrantholder shall be entitled to subscribe for and purchase from the Company, that number of shares of the Company's Common Stock (the "Additional Warrants") which, when added to the number of Shares covered by this Warrant Agreement, shall equal 9.70% of the number of fully-diluted shares of the Company's Common Stock (or Common Stock equivalents), calculated as of the later of the Second Closing and the closing of the Rights Offering. The purchase price per share of the shares covered by the Additional Warrants shall be $0.50. The Warrants and the Additional Warrants shall be referred to collectively herein as the "Warrants"; the Shares and the shares of Common Stock covered by the Additional Warrants shall be referred to collectively herein as the "Shares."

2. Title to Warrant. Prior to the expiration hereof and subject to compliance with applicable laws, this Warrant Agreement and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company, by the Warrantholder in person or by duly authorized attorney, upon surrender of this Warrant Agreement together with the Assignment Form annexed hereto properly endorsed.

3. Exercise of Warrants. The purchase rights represented by the Warrants are exercisable by the Warrantholder, in whole or in part, upon the occurrence of one of the events described in this Section 2 at any time before the close of business on December 31, 2005, by the surrender of this Warrant Agreement and the Notice of Exercise form annexed hereto duly executed at the office of the Company in Sacramento, California (or such other office or agency of the Company as it may designate by notice in writing to the registered holder hereof at the address of such holder appearing on the books of the Company), and upon payment of the purchase price of the shares thereby purchased (by cash or by check or bank draft payable to the order of the Company); whereupon the Warrantholder shall be entitled to receive a certificate for the number of shares of Common Stock so purchased.

The Warrants shall become exercisable simultaneously with and for a period of thirty days after the notice of the proposed occurrence of one of the following events:

A. The closing of a registered public offering of the Company's Common Stock in which, based on the public offering price, net of underwriting discounts and commissions, the Company would have a pre-money market valuation of at least $10 million ("IPO").

B. The closing of a sale of shares or warrants by a stockholder or stockholders and/or warrantholder or warrantholders (other than Sutter Health, a California nonprofit public benefit corporation or Sutter Health Venture Partners I, L.P.) of the Company in a single transaction in which both (i) the value of the aggregate consideration received by such selling stockholder or stockholders and/or warrantholder or warrantholders is at least equal to $1 million and (ii) the sale price per share (whether an actual share or a share subject to a

warrant) multiplied by the Company's outstanding equity securities results in a market valuation of the Company of at least $10 million ("Share Sale").

C. The closing of a sale by the Company of all or some of the assets of the Company in which the value of the consideration received by the Company is at least equal to $10 million ("Asset Sale").

D. The submission of an appraisal of the Company, undertaken only under the circumstances described in the paragraph below, at a value of at least $10 million ("Appraisal").

The Warrantholder shall be entitled, upon receipt of notice of a Share Sale or Asset Sale that would result in a market valuation of less than $10 million but greater than $5 million, to have an appraisal of the Company conducted, at the Warrantholder's expense, by an appraiser reasonably acceptable to the Company. If such appraisal results in a valuation of the Company of at least $10 million, the Warrantholder shall be entitled to exercise the Warrant pursuant to the terms of this Section 2. Other than as set forth in this Section 3.D., the Warrantholder shall not have any right to exercise the Warrants based on an appraisal.

This Warrant shall expire, if not previously exercised, upon an IPO, Share Sale, Asset Sale or 30 days after an Appraisal. If no IPO, Share Sale, Asset Sale or Appraisal has occurred before January 1, 2005, then the Warrant shall become exercisable on January 1, 2005 and shall remain exercisable until the earlier to occur of (a) an IPO, Share Sale, Asset Sale or Appraisal and (b) December 31, 2005.

The Company shall notify the Warrantholder in writing at least thirty days in advance of the scheduled closing of an IPO, Share Sale or Asset Sale which would result in a market valuation of at least $5 million, and if the Company fails to deliver such written notice, then notwithstanding anything to the contrary contained in this Warrant Agreement, the Warrants shall not expire until the Company complies with such notice provisions and the Warrantholder has a reasonable opportunity thereafter to exercise the Warrants. If such closing does not take place, the Company shall promptly notify the Warrantholder that such proposed IPO, Share Sale or Asset Sale has been terminated, and the Warrantholder shall rescind any exercise of its Warrants promptly after such notice of termination of the proposed IPO, Share Sale or Asset Sale if the exercise of the Warrants occurred after the Company notified the Warrantholder that the IPO, Share Sale or Asset Sale was proposed or if the exercise was otherwise precipitated by such proposed IPO, Share Sale or Asset Sale. In the event of such rescission, the Warrants shall continue to be exercisable on the same terms and conditions contained herein and the Company shall return the purchase price to the Warrantholder.

4. Issuance of Shares; No Fractional Shares or Scrip. The Company covenants that all Shares issued upon the exercise of the Warrants shall, upon exercise of the Warrants, be fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue). The Company further covenants and agrees that if any shares of Common Stock to be reserved for the purpose of the issuance of Shares upon the exercise of the Warrants require registration with or approval of any governmental authority under any Federal or State law before such Shares may be validly issued or delivered upon exercise of the Warrants, then the Company will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be, and the right to exercise the Warrants shall be extended until 10 days after the completion of any such registration or approval. If and so long as any Common Stock issuable upon the exercise of the Warrants is listed on any national securities exchange (or automated dealer system), the Company will, if permitted by the rules of such exchange (or system), list and keep listed on such exchange, upon official notice of issuance, all shares of Common Stock issuable upon exercise of the Warrants. The Company agrees that, if at the time of the surrender of this Warrant Agreement and exercise of the Warrants, the Warrantholder shall be entitled to exercise such Warrants, the Shares so issued shall be deemed to be issued to the Warrantholder as the record owner of such Shares as of the close of business on the date on which the Warrants shall have been exercised. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of the Warrants. With respect to any fraction of a share called for upon the exercise of the Warrants, an amount equal to such fraction multiplied by the then current Exercise Price shall be paid in cash to the Warrantholder.

5. Charges, Taxes and Expenses. Issuance of certificates for Shares upon the exercise of the Warrants shall be made without charge to the Warrantholder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Warrantholder or in such name or names as may be directed by the Warrantholder; provided, however, that in the event certificates for Shares are to be issued in a name other than the name of the Warrantholder, this Warrant Agreement when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Warrantholder; and provided further, that upon any transfer involved in the issuance or delivery of any certificates for Shares, the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

6. No Rights as Stockholders. This Warrant Agreement does not entitle the Warrantholder to any additional voting rights or other rights as a stockholder of the Company prior to the exercise of the Warrants.

7. Exchange and Registry of Warrant. This Warrant Agreement is exchangeable, upon the surrender hereof by the registered holder at the above-mentioned office or agency of the Company, for a new Warrant Agreement of like tenor and dated as of such exchange.

The Company shall maintain at the above-mentioned office or agency a registry showing the name and address of the registered holder of this Warrant Agreement. This Warrant Agreement may be surrendered for exchange, transfer or exercise, in accordance with its terms, at such office or agency of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

8. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant Agreement, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant Agreement, if mutilated, the Company will make and deliver a new Warrant Agreement of like tenor and dated as of such cancellation, in lieu of this Warrant Agreement.

9. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a legal holiday.

10. Adjustment Rights.

(a) Reclassification, etc. If the Company at any time shall, by subdivision, combination or reclassification of securities or otherwise, change any of the securities to which purchase rights under this Warrant Agreement exist into the same or a different number of securities of any class or classes, this Warrant Agreement shall thereafter be to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities which were subject to the purchase rights under this Warrant Agreement immediately prior to such subdivision, combination, reclassification or other change. If shares of the Company's Common Stock are subdivided or combined into a greater or smaller number of shares of Common Stock, the Exercise Price under this Warrant Agreement shall be proportionately reduced in case of subdivision of shares or proportionately increased in the case of combination of shares, in both cases by the ratio which the total number of shares of Common Stock to be outstanding immediately after such event bears to the total number of shares of Common Stock outstanding immediately prior to such event.

(b) Cash Distributions. No adjustment on account of cash dividends will be made to the Exercise Price under this Warrant Agreement.

(c) Authorized Shares. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of Common Stock upon the exercise of any purchase rights under this Warrant Agreement. The Company further covenants that its issuance of this Warrant Agreement shall constitute full authority to its officers who are charged with the duty of

executing stock certificates to execute and issue the necessary certificates for shares of the Company's Common Stock upon the exercise of the purchase rights under this Warrant Agreement.

(d) Exercise Price Adjustments. The Exercise Price of the Warrants is subject to adjustment on the same terms and conditions as those set forth in Article 4, Section 5(d) of the Company's Restated Certificate of Incorporation as accepted by the Delaware Secretary of State on December 20, 1995, a copy of which is attached hereto as Exhibit A (the "Current Certificate of Incorporation") with respect to the conversion of the Company's Preferred Stock into Common Stock. For purposes of applying the provisions of such Article 4, Section 5(d) to the adjustment of the Exercise Price of the Warrants, any reference in such Article 4, Section 5(d) to the conversion or the Conversion Price of any series of the Company's Preferred Stock shall refer to the exercise and the Exercise Price, respectively, of the Warrants, and all Conversion Price adjustment provisions of such Article 4, Section 5(d) shall be applied to the initial Exercise Price of the Warrants of $0.50. If the Company's Current Certificate of Incorporation is later amended to reduce or eliminate the right of holders of Preferred Stock to adjustment upon the events set forth in Article 4, Section 5 of the Current Certificate of Incorporation, the exercise price of the Warrants shall remain subject to adjustment as provided in the Current Certificate of Incorporation. If the Company's Current Certificate of Incorporation is later amended to increase the right of the holders of Preferred Stock to adjustment upon any event, the exercise price of the Warrants shall be entitled to adjustment on such better terms. At no time shall the exercise price of the Warrants be subject to adjustment on terms less favorable than those set forth in the Current Certificate of Incorporation.

11. Restrictions on Transferability of Securities.

(a) Restrictions on Transferability. This Warrant Agreement and the Shares issuable upon exercise of the Warrants (collectively the "Securities") shall not be sold, assigned, transferred or pledged except upon the conditions specified in this Section 11, which conditions are intended to ensure compliance with the provisions of the Securities Act of 1933, as amended (the "Securities Act"). Each holder of any of the Securities will cause any proposed purchaser, assignee, transferee, or pledgee of the Securities held by such holder to agree to take and hold such Securities subject to the provisions and upon the conditions specified in this Section 11.

(b) Restrictive Legend. Each certificate representing the Securities and any other securities issued in respect of the Securities pursuant to Section 10 shall (unless otherwise permitted by the provisions of Section 11(c) below) be stamped or otherwise imprinted with a legend in the following form (in addition to any legend required under applicable state securities laws):

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSFER IS IN ACCORDANCE WITH RULE 144 OR SIMILAR RULE OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT

STATING THAT SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT.

Each holder of Securities and each subsequent transferee (hereinafter collectively referred to as a "Holder") consents to the Company making a notation on its records and giving instructions to any transfer agent of the Securities in order to implement the restrictions on transfer established in this Section 11.

(c) Notice of Proposed Transfers. Each Holder of a certificate representing the Securities, by acceptance thereof, agrees to comply in all respects with the provisions of this Section 11(c). Prior to any proposed sale, assignment, transfer or pledge of any Securities (other than (i) a transfer not involving a change in beneficial ownership, (ii) in transactions involving the distribution without consideration of Securities by a Holder to any of its partners, or retired partners, or to the estate of any of its partners or retired partners, (iii) a transfer to an affiliated fund, partner ship or company, which is not a competitor of the Company, subject to compliance with applicable securities laws or (iv) transfers in compliance with Rule 144, so long as the Company is furnished with satisfactory evidence of compliance with such Rule), unless there is in effect a registration statement under the Securities Act covering the proposed transfer, the Holder thereof shall give written notice to the Company of such Holder's intention to effect such transfer, sale, assignment or pledge. Each such notice shall describe the manner and circumstances of the proposed transfer, sale, assignment or pledge in sufficient detail, and shall be accompanied, at such Holder's expense, by either (i) an opinion of counsel (who shall, and whose opinion shall be, addressed to the Company and reasonably satisfactory to the Company) to the effect that the proposed transfer of the Securities may be effected without registration under the Securities Act or (ii) a "no action" letter from the Securities and Exchange Commission (the "Commission") to the effect that the transfer of such securities without registration will not result in a recommendation by the staff of the Commission that action be taken with respect thereto, whereupon the Holder of such Securities shall be entitled to transfer such Securities in accordance with the terms of the notice delivered by such Holder to the Company. Each certificate evidencing the Securities transferred as above provided shall bear, except if such transfer is made pursuant to Rule 144, the appropriate restrictive legend set forth in Section 11(b) above, except that such certificate shall not bear such restrictive legend if in the opinion of counsel for such Holder and in the opinion of counsel for the Company such legend is not required in order to establish compliance with any provision of the Securities Act.

(d) Removal of Restrictions on Transfer of Securities. Any legend referred to in Section 11(b) hereof stamped on a certificate evidencing the Securities and the stock transfer instructions and record notations with respect to the Securities shall be removed and the Company shall issue a certificate without such legend to the Holder of the Securities if the Securities are registered under the Securities Act, or if such Holder provides the Company with an opinion of counsel (which may be counsel for the Company) reasonably satisfactory to the Company to the effect that a public sale or transfer of such security may be made without registration under the Securities Act or such Holder provides the Company with reasonable assurances, which may, at the option of the Company, include an opinion of counsel (which may be counsel for the Company)

reasonably satisfactory to the Company, that such security can be sold pursuant to paragraph (k) of Rule 144 (or any successor provision) under the Securities Act.

12. Investment Representations of the Warrantholder. With respect to the acquisition of any of the Securities, the Warrantholder hereby represents and warrants to the Company as follows:

(a) Experience. The Warrantholder 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 Securities. If other than an individual, the Warrantholder also represents it has not been organized for the purpose of acquiring the Securities.

(b) Investment. The Warrantholder is acquiring the Securities for investment for its own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that the Warrantholder has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, each Warrantholder further represents that the Warrantholder 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. The Warrantholder understands that the Securities have not been, and will not be, registered under the Securities Act by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Warrantholder's representations as expressed herein.

(c) Rule 144. The Warrantholder understands that the Securities 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, the Warrantholder represents that it is familiar with Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Act.

(d) No Public Market. The Warrantholder understands that no public market now exists for any of the securities issued by the Company and that the Company has made no assurances that a public market will ever exist for the Securities.

(e) Access to Data. The Warrantholder has had an opportunity to discuss the Company's business, management and financial affairs with the Company's management and has also had an opportunity to ask questions of the Company's officers, which questions were answered to its satisfaction.

13. Notice of Record Date. If at any time prior to the exercise of the Warrants in full the Company takes a record of the holders of Common Stock for the purpose of determining the holders

thereof who are entitled to receive any dividend or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, the Company will give to the Warrantholder at least thirty (15) days prior to the date specified therein, written notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

14. Opinion of Counsel. Counsel to the Company shall deliver to the Warrantholder as of the date hereof an opinion, satisfactory to counsel to the Warrantholder, to the effect that (i) the Warrant Agreement and the Warrants have been authorized by all necessary corporate action, (ii) the Warrant Agreement and the Warrants have been duly executed and delivered and constitute legally binding agreements of the Company, enforceable in accordance with their terms, subject to customary exceptions, (iii) the Company has reserved out of its authorized and unissued shares of Common Stock a number of shares sufficient to provide for the exercise of the rights of purchase represented by the Warrants, and (iv) the shares when issued upon exercise of the Warrants in accordance with the terms of the Warrant Agreement, and against payment of the consideration set forth herein, will be validly issued, fully paid and non-assessable.

15. Miscellaneous.

(a) Issue Date. The provisions of this Warrant Agreement shall be construed and shall be given effect in all respect as if it had been issued and delivered by the Company on the date hereof. This Warrant Agreement shall be binding upon any successors or assigns of the Company. This Warrant Agreement shall constitute a contract under the laws of the State of California and for all purposes shall be construed in accordance with and governed by the laws of said state.

(b) Waivers and Amendments. With the written consent of the Company and the Warrantholder, the obligations of the Company and the right of the Warrantholder may be waived (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time of indefinitely), and with the same consent the Company and the Warrantholder may enter into a supplementary agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Warrant Agreement.

(c) Notices. All notices and other communications required or permitted to be given under this Warrant Agreement shall be in writing and shall be deemed effectively given upon personal delivery, delivery by nationally recognized courier or upon deposit with the United States Post Office (by first class mail, postage prepaid) addressed as follows: (i) if to the Company, Integrated Surgical Systems, Inc., 829 West Stadium Lane, Sacramento, California 95834, and (ii) if to the Warrantholder, the address as provided in the books of the Company.

(d) Survival and Assumption. The provisions of Section 11 hereof shall survive the exercise of the Warrants and shall remain in effect until such time as the Warrantholder no longer holds Securities. Subject to the provisions of Section 3 hereof, in the event of a merger of the

Company with or into another corporation, or the sale of substantially all of the assets of the Company, or the sale or exchange of substantially all of the shares of the Company for shares of another corporation, the Warrants shall survive such merger or sale or exchange and shall be expressly assumed by the successor corporation or, at the option of the Warrantholder, by the parent or subsidiary of such successor corporation; provided, however, that if the Warrants are not to be so assumed by such proposed successor or parent or subsidiary, then the Company shall not effect such merger or sale or exchange.

IN WITNESS WHEREOF, the parties hereto have caused this Warrant Agreement to be executed by their officers thereunto duly authorized as of the Effective Date.

INTEGRATED SURGICAL SYSTEMS, INC.
A DELAWARE CORPORATION

By: _____

Title: _____

SUTTER HEALTH, A CALIFORNIA
NONPROFIT PUBLIC BENEFIT CORPORATION

By: _____

Title: _____

NOTICE OF EXERCISE

To: INTEGRATED SURGICAL SYSTEMS, INC.

(1) The undersigned hereby elects to purchase _____ shares of Common Stock of Integrated Surgical Systems, Inc. pursuant to the terms of the attached Warrant Agreement, and tenders herewith payment of the purchase price in full, together with all applicable transfer taxes, if any.

(2) Please issue a certificate of certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

_____
(Name)

_____
(Address)

(3) The undersigned represents that the aforesaid shares of Common Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares.

_____ _____
(Date) (Signature)

ASSIGNMENT FORM

(To assign the foregoing Warrant Agreement, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant Agreement and all rights evidenced thereby are hereby assigned to

_____

(Please Print)

whose address is

_____

(Please Print)

_____

Dated: _____, ____.

Holder's Signature: _____

Holder's Address: _____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant Agreement, without alteration or enlargement or any change whatever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant Agreement.

THE SECURITIES REPRESENTED BY THIS WARRANT HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSFER IS IN ACCORDANCE WITH RULE 144 OR SIMILAR RULE OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT STATING THAT SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT.

WARRANT AGREEMENT

To Purchase Shares of Common Stock of

INTEGRATED SURGICAL SYSTEMS, INC.

Dated as of March 7, 1996 (the "Effective Date")

WHEREAS, Integrated Surgical Systems, Inc., a Delaware corporation (the "Company") and Sutter Health, a California nonprofit public benefit corporation (the "Warrantholder"), have entered into that certain Warrant Agreement dated as of December 21, 1995 (the "December 21 Warrant Agreement"), pursuant to which the Company has agreed to grant to the Warrantholder, upon the date that is the later of the Second Closing and the closing of the Rights Offering (as those terms are defined in the Series D Preferred Stock and Warrant Purchase Agreement of even date herewith by and between the Company and certain Investors), warrants to purchase shares of the Company's Common Stock (the "Additional Warrants"), in addition to those warrants (the "Warrants") to purchase shares of the Company's Common Stock (the "Shares") which were granted to the Warrantholder on December 21, 1995, pursuant to the December 21 Warrant Agreement; and

WHEREAS, the date of the Second Closing was February 29, 1996, and the date of the closing of the Rights Offering is the date hereof;

NOW, THEREFORE, in consideration of the Warrantholder giving its consent to the Recapitalization (as that term is defined in the December 21 Warrant Agreement) and in consideration of the mutual covenants and agreements contained herein, the Company and the Warrantholder agree as follows:

1. Grant of the Right to Purchase Common Stock. The Company hereby grants to the Warrantholder, and the Warrantholder is entitled, upon the terms and subject to the conditions hereinafter set forth, prior to December 31, 2005, to subscribe for and purchase from the Company, 180,044 shares of the Company's Common Stock (the "Additional Shares"). The Company represents and warrants to the Warrantholder that the Shares and the Additional Shares together constitute 9.70% of the number of fully-diluted shares of the Company's Common Stock (or Common

Stock equivalents), calculated as of the later of the Second Closing and the closing of the Rights Offering. The purchase price (the "Exercise Price") of one share of Common Stock under the Additional Warrants shall be $0.50. The Warrants and the Additional Warrants shall be referred to collectively herein as the "Warrants"; the Shares and the Additional Shares shall be referred to collectively herein as the "Shares."

2. Title to Warrant. Prior to the expiration hereof and subject to compliance with applicable laws, this Warrant Agreement and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company, by the Warrantholder in person or by duly authorized attorney, upon surrender of this Warrant Agreement together with the Assignment Form annexed hereto properly endorsed.

3. Exercise of Warrants. The purchase rights represented by the Warrants are exercisable by the Warrantholder, in whole or in part, upon the occurrence of one of the events described in this Section 2 at any time before the close of business on December 31, 2005, by the surrender of this Warrant Agreement and the Notice of Exercise form annexed hereto duly executed at the office of the Company in Sacramento, California (or such other office or agency of the Company as it may designate by notice in writing to the registered holder hereof at the address of such holder appearing on the books of the Company), and upon payment of the purchase price of the shares thereby purchased (by cash or by check or bank draft payable to the order of the Company); whereupon the Warrantholder shall be entitled to receive a certificate for the number of shares of Common Stock so purchased.

The Warrants shall become exercisable simultaneously with and for a period of thirty days after the notice of the proposed occurrence of one of the following events:

A. The closing of a registered public offering of the Company's Common Stock in which, based on the public offering price, net of underwriting discounts and commissions, the Company would have a pre-money market valuation of at least $10 million ("IPO").

B. The closing of a sale of shares or warrants by a stockholder or stockholders and/or warrantholder or warrantholders (other than Sutter Health, a California nonprofit public benefit corporation or Sutter Health Venture Partners I, L.P.) of the Company in a single transaction in which both (i) the value of the aggregate consideration received by such selling stockholder or stockholders and/or warrantholder or warrantholders is at least equal to $1 million and (ii) the sale price per share (whether an actual share or a share subject to a warrant) multiplied by the Company's outstanding equity securities results in a market valuation of the Company of at least $10 million ("Share Sale").

C. The closing of a sale by the Company of all or some of the assets of the Company in which the value of the consideration received by the Company is at least equal to $10 million ("Asset Sale").

D. The submission of an appraisal of the Company, undertaken only under the circumstances described in the paragraph below, at a value of at least $10 million ("Appraisal").

The Warrantholder shall be entitled, upon receipt of notice of a Share Sale or Asset Sale that would result in a market valuation of less than $10 million but greater than $5 million, to have an appraisal of the Company conducted, at the Warrantholder's expense, by an appraiser reasonably acceptable to the Company. If such appraisal results in a valuation of the Company of at least $10 million, the Warrantholder shall be entitled to exercise the Warrant pursuant to the terms of this Section 2. Other than as set forth in this Section 3.D., the Warrantholder shall not have any right to exercise the Warrants based on an appraisal.

This Warrant shall expire, if not previously exercised, upon an IPO, Share Sale, Asset Sale or 30 days after an Appraisal. If no IPO, Share Sale, Asset Sale or Appraisal has occurred before January 1, 2005, then the Warrant shall become exercisable on January 1, 2005 and shall remain exercisable until the earlier to occur of (a) an IPO, Share Sale, Asset Sale or Appraisal and (b) December 31, 2005.

The Company shall notify the Warrantholder in writing at least thirty days in advance of the scheduled closing of an IPO, Share Sale or Asset Sale which would result in a market valuation of at least $5 million, and if the Company fails to deliver such written notice, then notwithstanding anything to the contrary contained in this Warrant Agreement, the Warrants shall not expire until the Company complies with such notice provisions and the Warrantholder has a reasonable opportunity thereafter to exercise the Warrants. If such closing does not take place, the Company shall promptly notify the Warrantholder that such proposed IPO, Share Sale or Asset Sale has been terminated, and the Warrantholder shall rescind any exercise of its Warrants promptly after such notice of termination of the proposed IPO, Share Sale or Asset Sale if the exercise of the Warrants occurred after the Company notified the Warrantholder that the IPO, Share Sale or Asset Sale was proposed or if the exercise was otherwise precipitated by such proposed IPO, Share Sale or Asset Sale. In the event of such rescission, the Warrants shall continue to be exercisable on the same terms and conditions contained herein and the Company shall return the purchase price to the Warrantholder.

4. Issuance of Shares; No Fractional Shares or Scrip. The Company covenants that all Shares issued upon the exercise of the Warrants shall, upon exercise of the Warrants, be fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue). The Company further

covenants and agrees that if any shares of Common Stock to be reserved for the purpose of the issuance of Shares upon the exercise of the Warrants require registration with or approval of any governmental authority under any Federal or State law before such Shares may be validly issued or delivered upon exercise of the Warrants, then the Company will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be, and the right to exercise the Warrants shall be extended until 10 days after the completion of any such registration or approval. If and so long as any Common Stock issuable upon the exercise of the Warrants is listed on any national securities exchange (or automated dealer system), the Company will, if permitted by the rules of such exchange (or system), list and keep listed on such exchange, upon official notice of issuance, all shares of Common Stock issuable upon exercise of the Warrants. The Company agrees that, if at the time of the surrender of this Warrant Agreement and exercise of the Warrants, the Warrantholder shall be entitled to exercise such Warrants, the Shares so issued shall be deemed to be issued to the Warrantholder as the record owner of such Shares as of the close of business on the date on which the Warrants shall have been exercised. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of the Warrants. With respect to any fraction of a share called for upon the exercise of the Warrants, an amount equal to such fraction multiplied by the then current Exercise Price shall be paid in cash to the Warrantholder.

5. Charges, Taxes and Expenses. Issuance of certificates for Shares upon the exercise of the Warrants shall be made without charge to the Warrantholder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Warrantholder or in such name or names as may be directed by the Warrantholder; provided, however, that in the event certificates for Shares are to be issued in a name other than the name of the Warrantholder, this Warrant Agreement when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Warrantholder; and provided further, that upon any transfer involved in the issuance or delivery of any certificates for Shares, the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

6. No Rights as Stockholders. This Warrant Agreement does not entitle the Warrantholder to any additional voting rights or other rights as a stockholder of the Company prior to the exercise of the Warrants.

7. Exchange and Registry of Warrant. This Warrant Agreement is exchangeable, upon the surrender hereof by the registered holder at the above-mentioned office or agency of the Company, for a new Warrant Agreement of like tenor and dated as of such exchange.

The Company shall maintain at the above-mentioned office or agency a registry showing the name and address of the registered holder of this Warrant Agreement. This Warrant Agreement may be surrendered for exchange, transfer or exercise, in accordance with its terms, at such office or agency of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

8. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant Agreement, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant Agreement, if mutilated, the Company will make and deliver a new Warrant Agreement of like tenor and dated as of such cancellation, in lieu of this Warrant Agreement.

9. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a legal holiday.

10. Adjustment Rights.

(a) Reclassification, etc. If the Company at any time shall, by subdivision, combination or reclassification of securities or otherwise, change any of the securities to which purchase rights under this Warrant Agreement exist into the same or a different number of securities of any class or classes, this Warrant Agreement shall thereafter be to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities which were subject to the purchase rights under this Warrant Agreement immediately prior to such subdivision, combination, reclassification or other change. If shares of the Company's Common Stock are subdivided or combined into a greater or smaller number of shares of Common Stock, the Exercise Price under this Warrant Agreement shall be proportionately reduced in case of subdivision of shares or proportionately increased in the case of combination of shares, in both cases by the ratio which the total number of shares of Common Stock to be outstanding immediately after such event bears to the total number of shares of Common Stock outstanding immediately prior to such event.

(b) Cash Distributions. No adjustment on account of cash dividends will be made to the Exercise Price under this Warrant Agreement.

(c) Authorized Shares. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of Common Stock upon the exercise of any purchase rights under this Warrant Agreement. The Company further covenants that its issuance of this Warrant Agreement shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of the Company's Common Stock upon the exercise of the purchase rights under this Warrant Agreement.

(d) Exercise Price Adjustments. The Exercise Price of the Warrants is subject to adjustment on the same terms and conditions as those set forth in Article 4, Section 5(d) of the Company's Restated Certificate of Incorporation as accepted by the Delaware Secretary of State on December 20, 1995, a copy of which is attached as Exhibit A to the December 21 Warrant

Agreement (the "Current Certificate of Incorporation") with respect to the conversion of the Company's Preferred Stock into Common Stock. For purposes of applying the provisions of such Article 4, Section 5(d) to the adjustment of the Exercise Price of the Warrants, any reference in such Article 4, Section 5(d) to the conversion or the Conversion Price of any series of the Company's Preferred Stock shall refer to the exercise and the Exercise Price, respectively, of the Warrants, and all Conversion Price adjustment provisions of such Article 4, Section 5(d) shall be applied to the initial Exercise Price of the Warrants of $0.50. If the Company's Current Certificate of Incorporation is later amended to reduce or eliminate the right of holders of Preferred Stock to adjustment upon the events set forth in Article 4, Section 5 of the Current Certificate of Incorporation, the exercise price of the Warrants shall remain subject to adjustment as provided in the Current Certificate of Incorporation. If the Company's Current Certificate of Incorporation is later amended to increase the right of the holders of Preferred Stock to adjustment upon any event, the exercise price of the Warrants shall be entitled to adjustment on such better terms. At no time shall the exercise price of the Warrants be subject to adjustment on terms less favorable than those set forth in the Current Certificate of Incorporation.

11. Restrictions on Transferability of Securities.

(a) Restrictions on Transferability. This Warrant Agreement and the Shares issuable upon exercise of the Warrants (collectively the "Securities") shall not be sold, assigned, transferred or pledged except upon the conditions specified in this Section 11, which conditions are intended to ensure compliance with the provisions of the Securities Act of 1933, as amended (the "Securities Act"). Each holder of any of the Securities will cause any proposed purchaser, assignee, transferee, or pledgee of the Securities held by such holder to agree to take and hold such Securities subject to the provisions and upon the conditions specified in this Section 11.

(b) Restrictive Legend. Each certificate representing the Securities and any other securities issued in respect of the Securities pursuant to Section 10 shall (unless otherwise permitted by the provisions of Section 11(c) below) be stamped or otherwise imprinted with a legend in the following form (in addition to any legend required under applicable state securities laws):

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSFER IS IN ACCORDANCE WITH RULE 144 OR SIMILAR RULE OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT STATING THAT SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT.

Each holder of Securities and each subsequent transferee (hereinafter collectively referred to as a "Holder") consents to the Company making a notation on its records and giving

instructions to any transfer agent of the Securities in order to implement the restrictions on transfer established in this Section 11.

(c) Notice of Proposed Transfers. Each Holder of a certificate representing the Securities, by acceptance thereof, agrees to comply in all respects with the provisions of this Section 11(c). Prior to any proposed sale, assignment, transfer or pledge of any Securities (other than (i) a transfer not involving a change in beneficial ownership, (ii) in transactions involving the distribution without consideration of Securities by a Holder to any of its partners, or retired partners, or to the estate of any of its partners or retired partners, (iii) a transfer to an affiliated fund, partner ship or company, which is not a competitor of the Company, subject to compliance with applicable securities laws or (iv) transfers in compliance with Rule 144, so long as the Company is furnished with satisfactory evidence of compliance with such Rule), unless there is in effect a registration statement under the Securities Act covering the proposed transfer, the Holder thereof shall give written notice to the Company of such Holder's intention to effect such transfer, sale, assignment or pledge. Each such notice shall describe the manner and circumstances of the proposed transfer, sale, assignment or pledge in sufficient detail, and shall be accompanied, at such Holder's expense, by either (i) an opinion of counsel (who shall, and whose opinion shall be, addressed to the Company and reasonably satisfactory to the Company) to the effect that the proposed transfer of the Securities may be effected without registration under the Securities Act or (ii) a "no action" letter from the Securities and Exchange Commission (the "Commission") to the effect that the transfer of such securities without registration will not result in a recommendation by the staff of the Commission that action be taken with respect thereto, whereupon the Holder of such Securities shall be entitled to transfer such Securities in accordance with the terms of the notice delivered by such Holder to the Company. Each certificate evidencing the Securities transferred as above provided shall bear, except if such transfer is made pursuant to Rule 144, the appropriate restrictive legend set forth in Section 11(b) above, except that such certificate shall not bear such restrictive legend if in the opinion of counsel for such Holder and in the opinion of counsel for the Company such legend is not required in order to establish compliance with any provision of the Securities Act.

(d) Removal of Restrictions on Transfer of Securities. Any legend referred to in Section 11(b) hereof stamped on a certificate evidencing the Securities and the stock transfer instructions and record notations with respect to the Securities shall be removed and the Company shall issue a certificate without such legend to the Holder of the Securities if the Securities are registered under the Securities Act, or if such Holder provides the Company with an opinion of counsel (which may be counsel for the Company) reasonably satisfactory to the Company to the effect that a public sale or transfer of such security may be made without registration under the Securities Act or such Holder provides the Company with reasonable assurances, which may, at the option of the Company, include an opinion of counsel (which may be counsel for the Company) reasonably satisfactory to the Company, that such security can be sold pursuant to paragraph (k) of Rule 144 (or any successor provision) under the Securities Act.

12. Investment Representations of the Warrantholder. With respect to the acquisition of any of the Securities, the Warrantholder hereby represents and warrants to the Company as follows:

(a) Experience. The Warrantholder 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 Securities. If other than an individual, the Warrantholder also represents it has not been organized for the purpose of acquiring the Securities.

(b) Investment. The Warrantholder is acquiring the Securities for investment for its own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that the Warrantholder has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, each Warrantholder further represents that the Warrantholder 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. The Warrantholder understands that the Securities have not been, and will not be, registered under the Securities Act by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Warrantholder's representations as expressed herein.

(c) Rule 144. The Warrantholder understands that the Securities 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, the Warrantholder represents that it is familiar with Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Act.

(d) No Public Market. The Warrantholder understands that no public market now exists for any of the securities issued by the Company and that the Company has made no assurances that a public market will ever exist for the Securities.

(e) Access to Data. The Warrantholder has had an opportunity to discuss the Company's business, management and financial affairs with the Company's management and has also had an opportunity to ask questions of the Company's officers, which questions were answered to its satisfaction.

13. Notice of Record Date. If at any time prior to the exercise of the Warrants in full the Company takes a record of the holders of Common Stock for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, the Company will give to the Warrantholder at least thirty (15) days prior to the date specified therein, written notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

14. Miscellaneous.

(a) Issue Date. The provisions of this Warrant Agreement shall be construed and shall be given effect in all respect as if it had been issued and delivered by the Company on the date hereof. This Warrant Agreement shall be binding upon any successors or assigns of the Company. This Warrant Agreement shall constitute a contract under the laws of the State of California and for all purposes shall be construed in accordance with and governed by the laws of said state.

(b) Waivers and Amendments. With the written consent of the Company and the Warrantholder, the obligations of the Company and the right of the Warrantholder may be waived (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time of indefinitely), and with the same consent the Company and the Warrantholder may enter into a supplementary agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Warrant Agreement.

(c) Notices. All notices and other communications required or permitted to be given under this Warrant Agreement shall be in writing and shall be deemed effectively given upon personal delivery, delivery by nationally recognized courier or upon deposit with the United States Post Office (by first class mail, postage prepaid) addressed as follows: (i) if to the Company, Integrated Surgical Systems, Inc., 829 West Stadium Lane, Sacramento, California 95834, and (ii) if to the Warrantholder, the address as provided in the books of the Company.

(d) Survival and Assumption. The provisions of Section 11 hereof shall survive the exercise of the Warrants and shall remain in effect until such time as the Warrantholder no longer holds Securities. Subject to the provisions of Section 3 hereof, in the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, or the sale or exchange of substantially all of the shares of the Company for shares of another corporation, the Warrants shall survive such merger or sale or exchange and shall be expressly assumed by the successor corporation or, at the option of the Warrantholder, by the parent or subsidiary of such successor corporation; provided, however, that if the Warrants are not to be so assumed by such proposed successor or parent or subsidiary, then the Company shall not effect such merger or sale or exchange.

IN WITNESS WHEREOF, the parties hereto have caused this Warrant Agreement to be executed by their officers thereunto duly authorized as of the Effective Date.

INTEGRATED SURGICAL SYSTEMS, INC.
A DELAWARE CORPORATION

By: _____

Title: _____

SUTTER HEALTH, A CALIFORNIA
NONPROFIT PUBLIC BENEFIT CORPORATION

By: _____

Title: _____

NOTICE OF EXERCISE

To: INTEGRATED SURGICAL SYSTEMS, INC.

(1) The undersigned hereby elects to purchase _____ shares of Common Stock of Integrated Surgical Systems, Inc. pursuant to the terms of the attached Warrant Agreement, and tenders herewith payment of the purchase price in full, together with all applicable transfer taxes, if any.

(2) Please issue a certificate of certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

_____
(Name)

_____
(Address)

(3) The undersigned represents that the aforesaid shares of Common Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares.

_____ _____
(Date) (Signature)

ASSIGNMENT FORM

(To assign the foregoing Warrant Agreement, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant Agreement and all rights evidenced thereby are hereby assigned to

_____

(Please Print)

whose address is

_____

(Please Print)

_____

Dated: _____, ____.

Holder's Signature: _____

Holder's Address: _____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant Agreement, without alteration or enlargement or any change whatever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant Agreement.

EXHIBIT L

THE SECURITIES REPRESENTED BY THIS WARRANT HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSFER IS IN ACCORDANCE WITH RULE 144 OR SIMILAR RULE OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT STATING THAT SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT.

WARRANT AGREEMENT

To Purchase Shares of Common Stock of

INTEGRATED SURGICAL SYSTEMS, INC.

Dated as of December 21, 1995 (the "Effective Date")

WHEREAS, Integrated Surgical Systems, Inc., a Delaware corporation (the "Company") proposes to effect a series of transactions resulting in the recapitalization of the Company (the "Recapitalization"); and

WHEREAS, in connection with the Recapitalization, the Company wishes to grant to Sutter Health Venture Partners I, L.P. (the "Warrantholder"), the right to purchase shares of the Company's Common Stock (the "Warrants").

NOW, THEREFORE, in consideration of the Warrantholder giving its consent to the Recapitalization and in consideration of the mutual covenants and agreements contained herein, the Company and the Warrantholder agree as follows:

1. Grant of the Right to Purchase Common Stock. The Company hereby grants to the Warrantholder, and the Warrantholder is entitled, upon the terms and subject to the conditions hereinafter set forth, prior to December 31, 2005, to subscribe for and purchase from the Company, 17,605 shares of the Company's Common Stock (the "Shares"). The Company represents and warrants to the Warrantholder that the Shares constitute 0.30% of the Company's fully-diluted shares of Common Stock (or Common Stock equivalents) after giving effect to the Recapitalization (as defined in the Integrated Surgical Systems Series D Preferred Stock and Warrant Purchase Agreement dated December 21, 1995). The purchase price (the "Exercise Price") of one share of Common Stock under the Warrants shall be $0.50. Simultaneously with the date that is the later of the Second Closing and the closing of the Rights Offering (as those terms are defined in the Series D Preferred Stock and Warrant Purchase Agreement of even date herewith by and between the Company and certain Investors), the Company and the Warrantholder shall enter into a second Warrant Agreement containing substantially the same terms and conditions as this Warrant

Agreement, pursuant to which the Company shall grant to the Warrantholder the right and the Warrantholder shall be entitled to subscribe for and purchase from the Company, that number of shares of the Company's Common Stock (the "Additional Warrants") which, when added to the number of Shares covered by this Warrant Agreement, shall equal 0.30% of the number of fully-diluted shares of the Company's Common Stock (or Common Stock equivalents), calculated as of the later of the Second Closing and the closing of the Rights Offering. The purchase price per share of the shares covered by the Additional Warrants shall be $0.50. The Warrants and the Additional Warrants shall be referred to collectively herein as the "Warrants"; the Shares and the shares of Common Stock covered by the Additional Warrants shall be referred to collectively herein as the "Shares."

2. Title to Warrant. Prior to the expiration hereof and subject to compliance with applicable laws, this Warrant Agreement and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company, by the Warrantholder in person or by duly authorized attorney, upon surrender of this Warrant Agreement together with the Assignment Form annexed hereto properly endorsed.

3. Exercise of Warrants. The purchase rights represented by the Warrants are exercisable by the Warrantholder, in whole or in part, upon the occurrence of one of the events described in this Section 2 at any time before the close of business on December 31, 2005, by the surrender of this Warrant Agreement and the Notice of Exercise from annexed hereto duly executed at the office of the Company in Sacramento, California (or such other office or agency of the Company as it may designate by notice in writing to the registered holder hereof at the address of such holder appearing on the books of the Company), and upon payment of the purchase price of the shares thereby purchased (by cash or by check or bank draft payable to the order of the Company); whereupon the Warrantholder shall be entitled to receive a certificate for the number of shares of Common Stock so purchased.

The Warrants shall become exercisable simultaneously with and for a period of thirty days after the notice of the proposed occurrence of one of the following events:

A. The closing of a registered public offering of the Company's Common Stock in which, based on the public offering price, net of underwriting discounts and commissions, the Company would have a pre-money market valuation of at least $10 million ("IPO").

B. The closing of a sale of shares or warrants by a stockholder or stockholders and/or warrantholder or warrantholders (other than Sutter Health, a California nonprofit public benefit corporation or Sutter Health Venture Partners I, L.P.) of the Company in a single transaction in which both (i) the value of the aggregate consideration received by such selling stockholder or stockholders and/or warrantholder or warrantholders is at least equal to $1 million and (ii) the sale price per share (whether an actual share or a share subject to a

warrant) multiplied by the Company's outstanding equity securities results in a market valuation of the Company of at least $10 million ("Share Sale").

C. The closing of a sale by the Company of all or some of the assets of the Company in which the value of the consideration received by the Company is at least equal to $10 million ("Asset Sale").

D. The submission of an appraisal of the Company, undertaken only under the circumstances described in the paragraph below, at a value of at least $10 million ("Appraisal").

The Warrantholder shall be entitled, upon receipt of notice of a Share Sale or Asset Sale that would result in a market valuation of less than $10 million but greater than $5 million, to have an appraisal of the Company conducted at the Warrantholder's expense, by an appraiser reasonably acceptable to the Company. If such appraisal results in a valuation of the Company of at least $10 million, the Warrantholder shall be entitled to exercise the Warrant pursuant to the terms of this Section 2. Other than as set forth in this Section 3.D, the Warrantholder shall not have any right to exercise the Warrants based on an appraisal.

This Warrant shall expire, if not previously exercised, upon an IPO, Share Sale, Asset Sale or 30 days after an Appraisal. If no IPO, Share Sale, Asset Sale or Appraisal has occurred before January 1, 2005, then the Warrant shall become exercisable on January 1, 2005 and shall remain exercisable until the earlier to occur of (a) an IPO, Share Sale, Asset Sale or Appraisal and (b) December 31, 2005.

The Company shall notify the Warrantholder in writing at least thirty days in advance of the scheduled closing of an IPO, Share Sale or Asset Sale which would result in a market valuation of at least $5 million, and if the Company fails to deliver such written notice, then notwithstanding anything to the contrary contained in this Warrant Agreement, the Warrants shall not expire until the Company complies with such notice provisions and the Warrantholder has a reasonable opportunity thereafter to exercise the Warrants. If such closing does not take place, the Company shall promptly notify the Warrantholder that such proposed IPO, Share Sale or Asset Sale has been terminated, and the Warrantholder shall rescind any exercise of its Warrants promptly after such notice of termination of the proposed IPO, Share Sale or Asset Sale if the exercise of the Warrants occurred after the Company notified the Warrantholder that the IPO, Share Sale or Asset Sale was proposed or if the exercise was otherwise precipitated by such proposed IPO, Share Sale or Asset Sale. In the event of such rescission, the Warrants shall continue to be exercisable on the same terms and conditions contained herein and the Company shall return the purchase price to the Warrantholder.

4. Issuance of Shares; No Fractional Shares or Scrip. The Company covenants that all Shares issued upon the exercise of the Warrants shall, upon exercise of the Warrants, be fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue). The Company further covenants and agrees that if any shares of Common Stock to be reserved for the purpose of the issuance of Shares upon the exercise of the Warrants require registration with or approval of any governmental authority under any Federal or State law before such Shares may be validly issued or delivered upon exercise of the Warrants, then the Company will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be, and the right to exercise the Warrants shall be extended until 10 days after the completion of any such registration or approval. If and so long as any Common Stock issuable upon the exercise of the Warrants is listed on any national securities exchange (or automated dealer system), the Company will, if permitted by the rules of such exchange, list and keep listed on such exchange (or system), upon official notice of issuance, all shares of Common Stock issuable upon exercise of the Warrants. The Company agrees that, if at the time of the surrender of this Warrant Agreement and exercise of the Warrants, the Warrantholder shall be entitled to exercise such Warrants, the Share so issued shall be deemed to be issued to the Warrantholder as the record owner of such Shares as of the close of business on the date on which the Warrants shall have been exercised. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of the Warrants. With respect to any fraction of a share called for upon the exercise of the Warrants, an amount equal to such fraction multiplied by the then current Exercise Price shall be paid in cash to the Warrantholder.

5. Charges, Taxes and Expenses. Issuance of certificates for Shares upon the exercise of the Warrants shall be made without charge to the Warrantholder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Warrantholder or in such name or names as may be directed by the Warrantholder, provided, however, that in the event certificates for Shares are to be issued in a name other than the name of the Warrantholder, this Warrant Agreement when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Warrantholder; and provided further, that upon any transfer involved in the issuance or delivery of any certificates for Shares, the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

6. No Rights as Stockholders. This Warrant Agreement does not entitle the Warrantholder to any additional voting rights or other rights as a stockholder of the Company prior to the exercise of the Warrants.

7. Exchange and Registry of Warrant. This Warrant Agreement is exchangeable, upon the surrender hereof by the registered holder at the above-mentioned office or agency of the Company, for a new Warrant Agreement of like tenor and dated as of such exchange

The Company shall maintain at the above-mentioned office or agency a registry showing the name and address of the registered holder of this Warrant Agreement. This Warrant Agreement may be surrendered for exchange, transfer or exercise, in accordance with its terms, at such office or agency of the Company, and the Company shall be entitled to rely in all respects prior to written notice to the contrary, upon such registry.

8. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant Agreement, and in case of loss, theft or destruction, of indemnity or security reasonably satsifactory to it and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant Agreement, if mutilated the Company will make and deliver a New Warrant Agreement of like tenor, dated as of such cancellation, in lieu of this Warrant Agreement.

9. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any aciton or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a legal holiday.

10. Adjustments Rights

(a) Reclassification, etc. If the Company at any time shall, by subdivision, combination or reclassification of securities or otherwise, change any of the securities to which purchase rights under this Warrant Agreement exist into the same or a different number of securities of any class or classes, this Warrant Agreement shall thereafter be to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities which were subject to the purchase rights under this Warrant Agreement immediately prior to such subdivision, combination, reclassification or other change. If shares of the Company's Common Stock are subdivided or combined into a greater or smaller number of shares of Common Stock, the Exercise Price under this Warrant Agreement shall be proportionately reduced in case of subdivision of shares or proportionately increased in the case of combination of shares, in both cases by the ratio which the total number of shares of Common Stock to be outstanding immediately after such event bears to the total number of shares of Common Stock outstanding immediately prior to such event.

(b) Cash Distributions. No adjustment on account of cash dividends will be made to the Exercise Price under this Warrant Agreement.

(c) Authorized Shares. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of Common Stock upon the exercise of any purchase rights under this Warrant Agreement. The Company further covenants that its issuance of this Warrant Agreement shall constitute full authority to its officers who are charged with the duty of

executing stock certificates to execute and issue the necessary certificates for shares of the Company's Common Stock upon the exercise of the purchase rights under this Warrant Agreement.

(d) Exercise Price Adjustments. The Exercise Price of the Warrants is subject to adjustment on the same terms and conditions as set forth in Article 4, Section 5(d) of the Company's Restated Certificate of Incorporation as accepted by the Delaware Secretary of State on December 20, 1995, a copy of which is attached hereto as Exhibit A (the "Current Certificate of Incorporation") with respect to the conversion of the Company's Preferred Stock into Common Stock. For purposes of applying the provisions of such Article 4, Section 5(d) to the adjustment of the Exercise Price of the Warrants, any reference in such Article 4, Section 5(d) to the conversion or the Conversion Price of any series of the Company's Preferred Stock shall refer to the exercise and the Exercise Price, respectively, of the Warrants, and all Conversion Price adjustment provisions of such Article 4, Section 5(d) shall be applied to the initial Exercise Price of the Warrants of $0.50. If the Company's Current Certificate of Incorporation is later amended to reduce or eliminate the right of holders of Preferred Stock to adjustment upon the events set forth in Article 4, Section 5 of the Current Certificate of Incorporation, the exercise price of the Warrants shall remain subject to adjustment as provided in the Current Certificate of Incorporation. If the Company's Current Certificate of Incorporation is later amended to increase the right of the holders of Preferred Stock to adjustment upon any event, the exercise price of the Warrants shall be entitled to adjustment on such better terms. At no time shall the exercise price of the Warrants be subject to adjustment on terms less favorable than those set forth in the Current Certificate of Incorporation.

11. Restrictions on Transferability of Securities

(a) Restrictions on Transferability. This Warrant Agreement and the Shares issuable upon exercise of the Warrants (collectively the "Securities") shall not be sold, assigned, transferred or pledged except upon the conditions specified in this Section 11, which conditions are intended to ensure compliance with the provisions of the Securities Act of 1933, as amended (the "Securities Act"). Each holder of any of the Securities will cause any proposed purchaser, assignee, transferee, or pledgee of the Securities held by such holder to agree to take and hold such Securities subject to the provisions and upon the conditions specified in this Section 11.

(b) Restrictive Legend. Each certificate representing the Securities and any other securities issued in respect of the Securities pursuant to Section 10 shall (unless otherwise permitted by the provisions of Section 11(c) below) be stamped or otherwise imprinted with a legend in the following form (in addition to any legend required under applicable state securities laws).

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSFER IS IN ACCORDANCE WITH RULE 144 OR SIMILAR RULE OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT

STATING THAT SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT

Each holder of Securities and each subsequent transferee (hereinafter collectively referred to as a "Holder") consents to the Company making a notation on its records and giving instructions to any transfer agent of the Securities in order to implement the restrictions on transfer established in this Section 11.

(c) Notice of Proposed Transfers. Each Holder of a certificate representing the Securities, by acceptance thereof, agrees to comply in all respects with the provisions of this Section 11(c). Prior to any proposed sale, assignment, transfer or pledge of any Securities (other than (i) a transfer not involving a change in beneficial ownership, (ii) in transactions involving the distribution without consideration of Securities by a Holder to any of its partners, or retired partners, or to the estate of any of its partners or retired partners, (iii) a transfer to an affiliated fund, partnership or company, which is not a competitor of the Company, subject to compliance with applicable securities laws or (iv) transfers in compliance with Rule 144, so long as the Company is furnished with satisfactory evidence of compliance with such Rule), unless there is in effect a registration statement under the Securities Act covering the proposed transfer, the Holder thereof shall give written notice to the Company of such Holder's intention to effect such transfer, sale, assignment or pledge. Each such notice shall describe the manner and circumstances of the proposed transfer, sale, assignment or pledge in sufficient detail, and shall be accompanied, at such Holder's expense, by either (i) an opinion of counsel (who shall, and whose opinion shall be, addressed to the Company and reasonably satisfactory to the Company) to the effect that the proposed transfer of the Securities may be effected without registration under the Securities Act or (ii) a "no action" letter from the Securities and Exchange Commission (the "Commission") to the effect that the transfer of such securities without registration will not result in a recommendation by the staff of the Commission that action be taken with respect thereto, whereupon the Holder of such Securities shall be entitled to transfer such Securities in accordance with the terms of the notice delivered by such Holder to the Company. Each certificate evidencing the Securities transferred as above provided shall bear, except if such transfer is made pursuant to Rule 144, the appropriate restrictive legend set forth in Section 11(b) above, except that such certificate shall not bear such restrictive legend if in the opinion of counsel for such Holder and in the opinion of counsel for the Company such legend is not required in order to establish compliance with any provision of the Securities Act.

(d) Removal of Restrictions on Transfer of Securities. Any legend referred to in Section 11(b) hereof stamped on a certificate evidencing the Securities and the stock transfer instructions and record notations with respect to the Securities shall be removed and the Company shall issue a certificate without such legend to the Holder of the Securities if the Securities are registered under the Securities Act, or if such Holder provides the Company with an opinion of counsel (which may be counsel for the Company) reasonably satisfactory to the Company to the effect that a public sale or transfer of such security may be made without registration under the Securities Act or such Holder provides the Company with reasonable assurances, which may, at the option of the Company, include an opinion of counsel (which may be counsel for the Company)

reasonably satisfactory to the Company, that such security can be sold pursuant to paragraph (k) of Rule 144 (or any successor provision) under the Securities Act.

12. Investment Representations of the Warrantholder. With respect to the acquisition of any of the Securities, the Warrantholder hereby represents and warrants to the Company as follows:

(a) Experience. The Warrantholder 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 Securities. If other than an individual, the Warrantholder also represents it has not been organized for the purpose of acquiring the Securities.

(b) Investment. The Warrantholder is acquiring the Securities for investment for its own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that the Warrantholder has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, each Warrantholder further represents that the Warrantholder 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. The Warrantholder understands that the Securities have not been, and will not be, registered under the Securities Act by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Warrantholder's representations as expressed herein.

(c) Rule 144. The Warrantholder understands that the Securities 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, the Warrantholder represents that it is familiar with Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Act.

(d) No Public Market. The Warrantholder understands that no public market now exists for any of the securities issued by the Company and that the Company has made no assurances that a public market will ever exist for the Securities.

(e) Access to Data. The Warrantholder has had an opportunity to discuss the Company's business, management and financial affairs with the Company's management and has also has an opportunity to ask questions of the Company's officers, which questions were answered to its satisfaction.

13. Notice of Record Date. If at any time prior to the exercise of the Warrants in full the Company takes a record of the holders of Common Stock for the purpose of determining the holders

thereof who are entitled to receive any dividend or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, the Company will give to the Warrantholder at least thirty (15) days prior to the date specified therein, written notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

14. Opinion of Counsel. Counsel to the Company shall deliver to the Warrantholder as of the date hereof an opinion, satisfactory to counsel to the Warrantholder, to the effect that (i) the Warrant Agreement and the Warrants have been authorized by all necessary corporate action, (ii) the Warrant Agreement and the Warrants have been duly executed and delivered and constitute legally binding agreements of the Company, enforceable in accordance with their terms, subject to customary exceptions, (iii) the Company has reserved out of its authorized and unissued shares of Common Stock a number of shares sufficient to provide for the exercise of the rights of purchase represented by the Warrants, and (iv) the shares when issued upon exercise of the Warrants in accordance with the terms of the Warrant Agreement, and against payment of the consideration set forth herein, will be validly issued, fully paid and non-assessable.

15. Miscellaneous

(a) Issue Date. The provisions of this Warrant Agreement shall be construed and shall be given effect in all respect as if it had been issued and delivered by the Company on the date hereof. This Warrant Agreement shall be binding upon any successors or assigns of the Company. This Warrant Agreement shall constitute a contract under the laws of the State of California and for all purposes shall be construed in accordance with and governed by the laws of said state.

(b) Waivers and Amendments. With the written consent of the Company and the Warrantholder, the obligations of the Company and the right of the Warrantholder may be waived (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time of indefinitely), and with the same consent the Company and the Warrantholder may enter into a supplementary agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Warrant Agreement.

(c) Notices. All notices and other communications required or permitted to be given under this Warrant Agreement shall be in writing and shall be deemed effectively given upon personal delivery, delivery by nationally recognized courier or upon deposit with the United States Post Office (by first class mail, postage prepaid) addressed as follows: (i) if to the Company, Integrated Surgical Systems, Inc., 829 West Stadium Lane, Sacramento, California 95834, and (ii) if to the Warrantholder, the address as provided in the books of the Company.

(d) Survival and Assumption. The provisions of Section 11 hereof shall survive the exercise of the Warrants and shall remain in effect until such time as the Warrantholder no longer holds Securities. Subject to the provisions of Section 3 hereof, in the event of a merger of the

Company with or into another corporation, or the sale of substantially all of the assets of the Company, or the sale or exchange of substantially all of the shares of the Company for shares of another corporation, the Warrants shall survive such merger or sale or exchange and shall be expressly assumed by the successor corporation or, at the option of the Warrantholder, by the parent or subsidiary of such successor corporation; provided, however, that if the Warrants are not to be so assumed by such proposed successor or parent or subsidiary, then the Company shall not effect such merger or sale or exchange.

IN WITNESS WHEREOF, the parties hereto have caused this Warrant Agreement to be executed by their officers thereunto duly authorized as of the Effective Date.

INTEGRATED SURGICAL SYSTEMS, INC.
A DELAWARE CORPORATION

By:

Title:

SUTTER HEALTH VENTURE PARTNERS I, L.P.

By:

Title:

NOTICE OF EXERCISE

To: INTEGRATED SURGICAL SYSTEMS, INC.

(1) The undersigned hereby elected to purchase _____ shares of Common Stock of Integrated Surgical Systems, Inc. pursuant to the terms of the attached Warrant Agreement, and tenders herewith payment of the purchase price in full, together with all applicable transfer taxes, if any.

(2) Please issue a certificate of certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below.

(Name)

(Address)

(3) The undersigned represents that the aforesaid shares of Common Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares.

- ---------- ----------
(Date) (Signature)

ASSIGNMENT FORM

(To assign the foregoing Warrant Agreement, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant Agreement and all rights evidenced thereby are hereby assigned to

---

(Please Print)

whose address is

(Please Print)

Dated: ----------

Holder's Signature: ----------

Holder's Address: ----------

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant Agreement, without alteration or enlargement or any change whatever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant Agreement.

EXHIBIT M

THE SECURITIES REPRESENTED BY THIS WARRANT HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSFER IS IN ACCORDANCE WITH RULE 144 OR SIMILAR RULE OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT STATING THAT SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT.

WARRANT AGREEMENT

To Purchase Shares of Common Stock of

INTEGRATED SURGICAL SYSTEMS, INC.

Dated as of December 21, 1995 (the "Effective Date")

WHEREAS, Integrated Surgical Systems, Inc., a Delaware corporation (the "Company") proposes to effect a series of transactions resulting in the recapitalization of the Company (the "Recapitalization"); and

WHEREAS, in connection with the Recapitalization, the Company wishes to grant to Keystone Financial Corporation, a Pennsylvania Not-For-Profit Corporation (the "Warrantholder"), the right to purchase shares of the Company's Common Stock (the "Warrants").

NOW, THEREFORE, in consideration of the Warrantholder giving its consent to the Recapitalization and in consideration of the mutual covenants and agreements contained herein, the Company and the Warrantholder agree as follows:

1. Grant of the Right to Purchase Common Stock. The Company hereby grants to the Warrantholder, and the Warrantholder is entitled, upon the terms and subject to the conditions hereinafter set forth, prior to December 31, 2005, to subscribe for and purchase from the Company, 64,065 shares of the Company's Common Stock (the "Shares"). The Company represents and warrants to the Warrantholder that the Shares constitute 1.08% of the Company's fully-diluted shares of Common Stock (or Common Stock equivalents) after giving effect to the Recapitalization (as defined in the Integrated Surgical Systems Series D Preferred Stock and Warrant Purchase Agreement dated December 21, 1995). The purchase price (the "Exercise Price") of one share of Common Stock under the Warrants shall be $0.50. Simultaneously with the date that is the later of the Second Closing and the closing of the Rights Offering (as those terms are defined in the Series D Preferred Stock and Warrant Purchase Agreement of even date herewith by and between the Company and certain Investors), the Company and the Warrantholder shall enter into a second Warrant Agreement containing substantially the same terms and conditions as this Warrant.

Agreement, pursuant to which the Company shall grant to the Warrantholder the right and the Warrantholder shall be entitled to subscribe for and purchase from the Company, that number of shares of the Company's Common Stock (the "Additional Warrants") which, when added to the number of Shares covered by this Warrant Agreement, shall equal 1.08% of the number of fully-diluted shares of the Company's Common Stock (or Common Stock equivalents), calculated as of the later of the Second Closing and the closing of the Rights Offering. The purchase price per share of the shares covered by the Additional Warrants shall be $0.50. The Warrants and the Additional Warrants shall be referred to collectively herein as the "Warrants"; the Shares and the shares of Common Stock covered by the Additional Warrants shall be referred to collectively herein as the "Shares."

2. Title to Warrant. Prior the expiration of hereof and subject to compliance with applicable laws, this Warrant Agreement and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company, by the Warrantholder in person or by duly authorized attorney, upon surrender of this Warrant Agreement together with the Assignment Form annexed hereto properly endorsed.

3. Exercise of Warrants. The purchase rights represented by the Warrants are exercisable by the Warrantholder, in whole or in part, upon the occurrence of one of the vents described in this Section 2 at any time before the close of business on December 31, 2005, by the surrender of this Warrant Agreement and the Notice of Exercise form annexed hereto duly executed at the office of the Company in Sacramento, California (or such other office or agency of the Company as it may designate by notice in writing to the registered holder hereof at the address of such holder appearing on the books of the Company), and upon payment of the purchase price of the shares thereby purchased (by cash or by check or bank draft payable to the order of the Company); whereupon the Warrantholder shall be entitled to receive a certificate for the number of shares of Common Stock so purchased.

The Warrants shall become exercisable simultaneously with and for a period of thirty days after the notice of the proposed occurrence of one of the following events:

A. The closing of a registered public offering of the Company's Common Stock in which, based on the public offering price, net of underwriting discounts and commissions, the Company would have a pre-money market valuation of at least $10 million ("IPO").

B. The closing of a sale of shares or warrants by a stockholder or stockholders and/or warrantholder or warrantholders (other than Sutter Health, a California non-profit public benefit corporation or Sutter Health Venture Partners I, L.P.) of the Company in a single transaction in which both (i) the value of the aggregate consideration received by such selling stockholder or stockholders and/or warrantholder or warrantholders is at least equal to $1 million and (ii) the sale price per share (whether an actual share or a share subject to a

warrant) multiplied by the Company's outstanding equity securities results in a market valuation of the Company of least $10 million ("Share Sale").

C. The closing of a sale by the Company of all or some of the assets of the Company in which the value of the consideration received by the Company is at least equal to $10 million ("Asset Sale").

D. The submission of an appraisal of the Company, undertaken only under the circumstances described in the paragraph below, at a value of at least $10 million ("Appraisal").

The Warrantholder shall be entitled, upon receipt of notice of a Share Sale or Asset Sale that would result in a market valuation of less than $10 million but greater than $5 million, to have an appraisal of the Company conducted, at the Warrantholder's expense, by an appraiser reasonably acceptable to the Company. If such appraisal results in a valuation of the Company of at least $10 million, the Warrantholder shall be entitled to exercise the Warrant pursuant to the terms of this Section 2. Other than as set forth in this Section 3.D., the Warrantholder shall not have any right to exercise the Warrants based on an appraisal.

This Warrant shall expire, if not previously exercised, upon an IPO, Share Sale, Asset Sale or 30 days after an Appraisal. If no IPO, Share Sale, Asset Sale or Appraisal has occurred before January 1, 2005, then the Warrant shall become exercisable on January 1, 2005 and shall remain exercisable until the earlier to occur of (a) an IPO, Share Sale, Asset Sale or Appraisal and (b) December 31, 2005.

The Company shall notify the Warrantholder in writing at least thirty days in advance of the scheduled closing of an IPO, Share Sale or Asset Sale which would result in a market valuation of at least $5 million, and if the Company fails to deliver such written notice, then notwithstanding anything to the contrary contained in this Warrant Agreement, the Warrants shall not expire until the Company complies with such notice provisions and the Warrantholder has a reasonable opportunity thereafter to exercise the Warrants. If such closing does not take place, the Company shall promptly notify the Warrantholder that such proposed IPO, Share Sale or Asset Sale has been terminated, and the Warrantholder shall rescind any exercise of its Warrants promptly after such notice of termination of the proposed IPO, Share Sale or Asset Sale if the exercise of the Warrants occurred after the Company notified the Warrantholder that the IPO, Share Sale or Asset Sale was proposed or if the exercise was otherwise precipitated by such proposed IPO, Share Sale or Asset Sale. In the event of such rescission, the Warrants shall continue to be exercisable on the same terms and conditions contained herein and the Company shall return the purchase price to the Warrantholder.

4. Issuance of Shares; No Fractional Shares or Scrip. The Company covenants that all Shares issued upon the exercise of the Warrants shall, upon exercise of the Warrants, be fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue). The Company further covenants and agrees that if any shares of Common Stock to be reserved for the purpose of the issuance of Shares upon the exercise of the Warrants require registration with or approval of any governmental authority under any Federal or State law before such Shares may be validly issued or delivered upon exercise of the Warrants, then the Company will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be, and the right to exercise the Warrants shall be extended until 10 days after the completion of any such registration or approval. If and so long as any Common Stock issuable upon the exercise of the Warrants is listed on any national securities exchange (or automated dealer system), the Company will, if permitted by the rules of such exchange, list and keep listed on such exchange (or system), upon official notice of issuance, all shares of Common Stock issuable upon exercise of the Warrants. The Company agrees that, if at the time of the surrender of this Warrant Agreement and exercise of the Warrants, the Warrantholder shall be entitled to exercise such Warrants, the Shares so issued shall be deemed to be issued to the Warrantholder as the record owner of such Shares as of the close of business on the date on which the Warrants shall have been exercised. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of the Warrants. With respect to any fraction of a share called for upon the exercise of the Warrants, an amount equal to such fraction multiplied by the then current Exercise Price shall be paid in cash to the Warrantholder.

5. Charges, Taxes and Expenses. Issuance of certificates for Shares upon the exercise of the Warrants shall be made without charge to the Warrantholder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Warrantholder or in such name or names as may be directed by the Warrantholder, provided, however, that in the event certificates for Shares are to be issued in a name other than the name of the Warrantholder, this Warrant Agreement when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Warrantholder; and provided further, that upon any transfer involved in the issuance or delivery of any certificates for Shares, the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

6. No Rights as Stockholders. This Warrant Agreement does not entitle the Warrantholder to any additional voting rights or other rights as a stockholder of the Company prior to the exercise of the Warrants.

7. Exchange and Registry of Warrant. This Warrant Agreement is exchangeable, upon the surrender hereof by the registered holder at the above-mentioned office or agency of the Company, for a new Warrant Agreement of like tenor and dated as of such exchange

The Company shall maintain at the above-mentioned office or agency a registry showing the name and address of the registered holder of this Warrant Agreement. This Warrant Agreement may be surrendered for exhcnage, transfer or exercise, in accordance with its terms, at such office or agency of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

8. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruciton or mutilation of this Warrant Agreement, and in case of loss, theft or destrucition, of indemnity or security reasonably satsifactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant Agreement, if mutilated, the Company will make and deliver a new Warrant Agreement of like tenor and dates as of such cancellation, in lieu of this Warrant Agreement.

9. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any aciton or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a legal holiday.

10. Adjustments Rights

(a) Reclassification, etc. If the Company at any time shall, by subdivision, combination or reclassification of securities or otherwise, change any of the securities to which purchase rights under this Warrant Agreement exist into the same of a different number of securities of any class or classes, this Warrant Agreement shall thereafter be to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities which were subject to the purchase rights under this Warrant Agreement immediately prior to such subdivision, combination, reclassification or other change. If shares of the Company's Common Stock are subdivided or combined into a greater or smaller number of shares of Common Stock, the Exercise Price under this Warrant Agreement shall be proportionately reduced in case of subdivision of shares or proportionately increased in the case of combination of shares, in both cases by the ratio which the total number of shares of Common Stock to be outstanding immediately after such event bears to the total number of shares of Common Stock outstanding immediately prior to such event.

(b) Cash Distributions. No adjustment on account of cash dividends will be made to the Exercise Price under this Warrant Agreement.

(c) Authorized Shares. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of Common Stock upon the exercise of any purchase rights under this Warrant Agreement. The Company further covenants that its issuance of this Warrant Agreement shall constitute full authority to its officers who are charged with the duty of

executing stock certificates to execute and issue the necessary certificates for shares of the Company's Common Stock upon the exercise of the purchase rights under this Warrant Agreement.

(d) Exercise Price Adjustments. The Exercise Price of the Warrants is subject to adjustment on the same terms and conditions as set forth in Article 4, Section 5(d) of the Company's Restated Certificate of Incorporation as accepted by the Delaware Secretary of State on December 20, 1995, a copy of which is attached hereto as Exhibit A (the "Current Certificate of Incorporation") with respect to the conversion of the Company's Preferred Stock into Common Stock. For purposes of applying the provisions of such Article 4, Section 5(d) to the adjustment of the Exercise Price of the Warrants, any reference in such Article 4. Section 5(d) to the conversion or the Conversion Price of any series of the Company's Preferred Stock shall refer to the exercise and the Exercise Price, respectively, of the Warrants, and all Conversion Price adjustment provisions of such Article 4. Section 5(d) shall be applied to the initial Exercise Price of the Warrants of $0.50. If the Company's Current Certificate of Incorporation is later amended to reduce or eliminate the right of holders of Preferred Stock to adjustment upon the events set forth in Article 4. Section 5 of the Current Certificate of Incorporation, the exercise price of the Warrants shall remain subject to adjustment as provided in the Current Certificate of Incorporation. If the Company's Current Certificate of Incorporation is later amended to increase the right of the holders of Preferred Stock to adjustment upon any event, the exercise price of the Warrants shall be entitled to adjustment on such better terms. At no time shall the exercise price of the Warrants be subject to adjustment on terms less favorable than those set forth in the Current Certificate of Incorporation.

11. Restrictions on Transferability of Securities

(a) Restrictions on Transferability. This Warrant Agreement and the Shares issuable upon exercise of the Warrants (collectively the "Securities") shall not be sold, assigned, transferred or pledged except upon the conditions specified in this Section 11, which conditions are intended to ensure compliance with the provisions of the Securities Act of 1933, as amended (the "Securities Act"). Each holder of any of the Securities will cause any proposed purchaser, assignee, transferee, or pledgee of the Securities held by such holder to agree to take and hold such Securities subject to the provisions and upon the conditions specified in this Section 11.

(b) Restrictive Legend. Each certificate representing the Securities and any other securities issued in respect of the Securities pursuant to Section 10 shall (unless otherwise permitted by the provisions of Section 11(c) below) be stamped or otherwise imprinted with a legend in the following form (in addition to any legend required under applicable state securities laws).

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSFER IS IN ACCORDANCE WITH RULE 144 OR SIMILAR RULE OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT

STATING THAT SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT

Each holder of Securities and each subsequent transferee (hereinafter collectively referred to as a "Holder") consents to the Company making a notation on its records and giving instructions to any transfer agent of the Securities in order to implement the restrictions on transfer established in this Section 11.

(c) Notice of Proposed Transfers. Each Holder of a certificate representing the Securities by acceptance thereof, agrees to comply in all respects with the provisions of this Section 11(c). Prior to any proposed sale, assignment, transfer or pledge of any Securities (other than (i) a transfer not involving a change in beneficial ownership, (ii) in transactions involving the distribution without consideration of Securities by a Holder to any of its partners, or retired partners, or to the estate of any of its partners or retired partners, (iii) a transfer to an affiliated fund, partnership or company, which is not a competitor of the Company, subject to compliance with applicable securities laws or (iv) transfers in compliance with Rule 144, so long as the Company is furnished with satisfactory evidence of compliance with such Rule), unless there is in effect a registration statement under the Securities Act covering the proposed transfer, the Holder thereof shall give written notice to the Company of such Holder's intention to effect such transfer, sale, assignment or pledge. Each such notice shall describe the manner and circumstances of the proposed transfer, sale, assignment or pledge in sufficient detail, and shall be accompanied, at such Holder's expense, by either (i) an opinion of counsel (who shall, and whose opinion shall be, addressed to the Company and reasonably satisfactory to the Company) to the effect that the proposed transfer of the Securities may be effected without registration under the Securities Act or (ii) a "no action" letter from the Securities and Exchange Commission (the "Commission") to the effect that the transfer of such securities without registration will not result in a recommendation by the staff of the Commission that action be taken with respect thereto, whereupon the Holder of such Securities shall be entitled to transfer such Securities in accordance with the terms of the notice delivered by such Holder to the Company. Each certificate evidencing the Securities transferred as above provided shall bear, except if such transfer is made pursuant to Rule 144, the appropriate restrictive legend set forth in Section 11(b) above, except that such certificate shall not bear such restrictive legend if in the opinion of counsel for such Holder and in the opinion of counsel for the Company such legend is not required in order to establish compliance with any provision of the Securities Act.

(d) Removal of Restrictions on Transfer of Securities. Any legend referred to in Section 11(b) hereof stamped on a certificate evidencing the Securities and the stock transfer instructions and record notations with respect to the Securities shall be removed and the Company shall issue a certificate without such legend to the Holder of the Securities if the Securities are registered under the Securities Act, or if such Holder provides the Company with an opinion of counsel (which may be counsel for the Company) reasonably satisfactory to the Company to the effect that a public sale or transfer of such security may be made without registration under the Securities Act or such Holder provides the Company with reasonable assurances, which may, at the option of the Company, include an opinion of counsel (which may be counsel for the Company)

reasonably satisfactory to the Company, that such security can be sold pursuant to paragraph (k) of Rule 144 (or any successor provision) under the Securities Act.

12. Investment Representations of the Warrantholder. With respect to the acquisition of any of the Securities, the Warrantholder hereby represents and warrants to the Company as follows:

(a) Experience. The Warrantholder 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 Securities. If other than an individual, the Warrantholder also represents it has not been organized for the purpose of acquiring the Securities.

(b) Investment. The Warrantholder is acquiring the Securities for investment for its own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that the Warrantholder has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, each Warrantholder further represents that the Warrantholder 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. The Warrantholder understands that the Securities have not been, and will not be, registered under the Securities Act by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Warrantholder's representations as expressed herein.

(c) Rule 144. The Warrantholder understands that the Securities 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, the Warrantholder represents that it is familiar with Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Act.

(d) No Public Market. The Warrantholder understands that no public market now exists for any of the securities issued by the Company and that the Company has made no assurances that a public market will ever exist for the Securities.

(e) Access to Data. The Warrantholder has had an opportunity to discuss the Company's business, management and financial affairs with the Company's management and has also had an opportunity to ask questions of the Company's officers, which questions were answered to its satisfaction.

13. Notice of Record Date. If at any time prior to the exercise of the Warrants in full the Company takes a record of the holders of Common Stock for the purpose of determining the holders

thereof who are entitled to receive any dividend or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, the Company will give to the Warrantholder at least thirty (15) days prior to the date specified therein, written notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

14. Opinion of Counsel. Counsel to the Company shall deliver to the Warrantholder as of the date hereof an opinion, satisfactory to counsel to the Warrantholder, to the effect that (i) the Warrant Agreement and the Warrants have been authorized by all necessary corporate action, (ii) the Warrant Agreement and the Warrants have been duly executed and delivered and constitute legally binding agreements of the Company, enforceable in accordance with their terms, subject to customary exceptions, (iii) the Company has reserved out of its authorized and unissued shares of Common Stock a number of shares sufficient to provide for the exercise of the rights of purchase represented by the Warrants, and (iv) the shares when issued upon exercise of the Warrants in accordance with the terms of the Warrant Agreement, and against payment of the consideration set forth herein, will be validly issued, fully paid and non-assessable.

15. Miscellaneous

(a) Issue Date. The provisions of this Warrant Agreement shall be construed and shall be given effect in all respect as if it had been issued and delivered by the Company on the date hereof. This Warrant Agreement shall be binding upon any successors or assigns of the Company. This Warrant Agreement shall constitute a contract under the laws of the State of California and for all purposes shall be construed in accordance with and governed by the laws of said state.

(b) Waivers and Amendments. With the written consent of the Company and the Warrantholder, the obligations of the Company and the right of the Warrantholder may be waived (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time of indefinitely), and with the same consent the Company and the Warrantholder may enter into a supplementary agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Warrant Agreement.

(c) Notices. All notices and other communications required or permitted to be given under this Warrant Agreement shall be in writing and shall be deemed effectively given upon personal delivery, delivery by nationally recognized courier or upon deposit with the United States Post Office (by first class mail, postage prepaid) addressed as follows: (i) if to the Company, Integrated Surgical Systems, Inc., 829 West Stadium Lane, Sacramento, California 95834, and (ii) if to the Warrantholder, the address as provided in the books of the Company.

(d) Survival and Assumption. The provisions of Section 11 hereof shall survive the exercise of the Warrants and shall remain in effect until such time as the Warrantholder no longer holds Securities. Subject to the provisions of Section 3 hereof, in the event of a merger of the

Company with or into another corporation, or the sale of substantially all of the assets of the Company, or the sale or exchange of substantially all of the shares of the Company for shares of another corporation, the Warrants shall survive such merger or sale or exchange and shall be expressly assumed by the successor corporation or, at the option of the Warrantholder, by the parent or subsidiary of such successor corporation; provided, however, that if the Warrants are not to be so assumed by such proposed successor or parent or subsidiary, then the Company shall not effect such merger or sale or exchange.

IN WITNESS WHEREOF, the parties hereto have caused this Warrant Agreement to be executed by their officers thereunto duly authorized as of the Effective Date

INTEGRATED SURGICAL SYSTEMS, INC.
A DELAWARE CORPORATION

By:

Title:

KEYSTONE FINANCIAL CORPORATION,
A PENNSYLVANIA NOT-FOR PROFIT CORPORATION

By:

Title:

NOTICE OF EXERCISE

To: INTEGRATED SURGICAL SYSTEMS, INC.

(1) The undersigned hereby elected to purchase _____ shares of Common Stock of Integrated Surgical Systems, Inc. pursuant to the terms of the attached Warrant Agreement, and tenders herewith payment of the purchase price in full, together with all applicable transfer taxes, if any.

(2) Please issue a certificate representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

(Name)

(Address)

(3) The undersigned represents that the aforesaid shares of Common Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares.

- ---
(Date)

(Signature)

ASSIGNMENT FORM

(To assign the foregoing Warrant Agreement, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant Agreement and all rights evidenced thereby are hereby assigned to

---

(Please Print)

whose address is

(Please Print)

Dated: ----------

Holder's Signature: ----------

Holder's Address: ----------

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant Agreement, without alteration or enlargement or any change whatever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant Agreement.

THE SECURITIES REPRESENTED BY THIS WARRANT HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSFER IS IN ACCORDANCE WITH RULE 144 OR SIMILAR RULE OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT STATING THAT SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT.

WARRANT AGREEMENT

To Purchase Share of Common Stock of

INTEGRATED SURGICAL SYSTEMS, INC.

Dated as of March 7, 1996 (the "Effective Date")

WHEREAS, Integrated Surgical Systems, Inc., a Delaware corporation (the "Company") and Keystone Financial Corporation, a Pennsylvania Not-For-Profit Corporation (the "Warrantholder"), have entered into that certain Warrant Agreement dated as of December 21, 1995 (the "December 21 Warrant Agreement"), pursuant to which the Company has agreed to grant to the Warrantholder, upon the date that is the later of the Second Closing and the closing of the Rights Offering (as those terms are defined in the Series D Preferred Stock and Warrant Purchase Agreement of even date herewith by and between the Company and certain Investors), warrants to purchase shares of the Company's Common Stock (the "Additional Warrants"), in addition to those warrants (the "Warrants") to purchase shares of the Company's Common Stock (the "Shares") which were granted to the Warrantholder on December 21, 1995, pursuant to the December 21 Warrant Agreement; and

WHEREAS, the date of the Second Closing was February 29, 1996, and the date of the closing of the Rights Offering is the date hereof;

NOW, THEREFORE, in consideration of the Warrantholder giving its consent to the Recapitalization (as that term is defined in the December 21 Warrant Agreement) and in consideration of the mutual covenants and agreements contained herein, the Company and the Warrantholder agree as follows:

1. Grant of the Rights to Purchase Common Stock. The Company hereby grants to the Warrantholder, and the Warrantholder is entitled, upon the terms and subject to the conditions hereinafter set forth, prior to December 31, 2005, to subscribe for and purchase from the Company, 19,945 shares of the Company's Common Stock (the "Additional Shares"). The Company represents and warrants to the Warrantholder that the Shares and the Additional Shares together constitute 1.08% of the number of fully-diluted shares of the Company's Common Stock (or Common Stock

equivalents), calculated as of the later of the Second Closing and the closing of the Rights Offering. The purchase price (the "Exercise Price") of one share of Common Stock under the Additional Warrants shall be $0.50. The Warrants and the Additional Warrants shall be referred to collectively herein as the "Warrants", the Shares and the Additional Shares shall be referred to collectively herein as the "Shares."

2. Title to Warrant. Prior to the expiration hereof and subject to compliance with applicable laws, this Warrant Agreement and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company, by the Warrantholders in person or by duly authorized attorney, upon surrender of this Warrant Agreement together with the Assignment Form annexed hereto properly endorsed.

3. Exercise of Warrants. The purchase rights represented by the Warrants are exercisable by the Warrantholder, in whole or in part, upon the occurrence of one of the events described in this Section 2 at any time before the close of business on December 31, 2005, by the surrender of this Warrant Agreement and the Notice of Exercise form annexed hereto duly executed at the office of the Company in Sacramento, California (or such other office or agency of the Company as it may designate by notice in writing to the registered holder hereof at the address of such holder appearing on the books of the Company), and upon payment of the purchase price of the shares thereby purchased (by cash or by check or bank draft payable to the order of the Company); whereupon the Warrantholder shall be entitled to receive a certificate for the number of shares of Common Stock so purchased.

The Warrants shall become exercisable simultaneously with and for a period of thirty days after the notice of the proposed occurrence of one of the following events:

A. The closing of a registered public offering of the Company's Common Stock in which, based on the public offering price, net of underwriting discounts and commissions, the Company would have a pre-money market valuation of at least $10 million ("IPO").

B. The closing of a sale or shares or warrants by a stockholder or stockholders and/or warrantholder or warrantholders (other than Sutter Health, a California nonprofit public benefit corporation or Sutter Health Venture Partners I, L.P.) of the Company in a single transaction in which both (i) the value of the aggregate consideration received by such selling stockholder or stockholders and/or warrantholder or warrantholder is at least equal to $1 million and (ii) the sale price per share (whether an actual share or a share subject to a warrant) multiplied by the Company's outstanding equity securities results in a market valuation of the Company of at least $10 million ("Share Sale").

C. The closing of a sale by the Company of all or some of the assets of the Company in which the value of the consideration received by the Company is at least equal to $10 million ("Asset Sale").

D. The submission of an appraisal of the Company, undertaken only under the circumstances described in the paragraph below, at a value of at least $10 million ("Appraisal").

The Warrantholder shall be entitled, upon receipt of notice of a Share or Asset Sale that would result in a market valuation of less than $10 million but greater than $5 million, to have an appraisal of the Company conducted, at the Warrantholder's expense, by an appraiser reasonably acceptable to the Company. If such appraisal results in a valuation of the Company of at least $10 million, the Warrantholder shall be entitled to exercise the Warrant pursuant to the terms of this Section 2. Other than as set forth in this Section 3.D., the Warrantholder shall not have any right to exercise the Warrants based on an appraisal.

This Warrant shall expire, if not previously exercised, upon an IPO, Share Sale, Asset Sale or 30 days after an Appraisal. If no IPO, Share Sale, Asset Sale or Appraisal has occurred before January 1, 2005, then the Warrant shall become exercisable on January 1, 2005 and shall remain exercisable until the earlier to occur or (a) an IPO, Share Sale, Asset Sale or Appraisal and (b) December 31, 2005.

The Company shall notify the Warrantholder in writing at least thirty days in advance of the scheduled closing of an IPO, Share Sale or Asset Sale which would result in a market valuation of at least $5 million, and if the Company fails to deliver such written notice, then notwithstanding anything to the contrary contained in this Warrant Agreement, the Warrants shall not expire until the Company complies with such notice provisions and the Warrantholder has a reasonable opportunity thereafter to exercise the Warrants. If such closing does not take place, the Company shall promptly notify the Warrantholder that such proposed IPO, Share Sale or Asset Sale has been terminated, and the Warrantholder shall rescind any exercise of its Warrants promptly after such notice of termination of the proposed IPO, Share Sale or Asset Sale if the exercise of the Warrants occurred after the Company notified the Warrantholder that the IPO, Share Sale or Asset Sale was proposed or if the exercise was otherwise precipitated by such proposed IPO, Share Sale or Asset Sale. In the event of such rescission, the Warrants shall continue to be exercisable on the same terms and conditions contained herein and the Company shall return the purchase price to the Warrantholder.

4. ISSUANCE OF SHARES: NO FRACTIONAL SHARES OR SCRIP. The Company covenants that all Shares issued upon the exercise of the Warrants shall, upon exercise of the Warrants, be fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue). The Company further

covenants and agrees that if any shares of Common Stock to be reserved for the purpose of the issuance of Shares upon the exercise of the Warrants require registration with or approval of any governmental authority under any Federal or State law before such Shares may be validly issued or delivered upon exercise of the Warrants, then the Company will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be, and the right to exercise the Warrants shall be extended until 10 days after the completion of any such registration or approval. If and so long as any Common Stock issuable upon the exercise of the Warrants is listed on any national securities exchange (or automated dealer system), the Company will, if permitted by the rules of such exchange, list and keep listed on such exchange (or system), upon official notice of issuance, all shares of Common Stock issuable upon exercise of the Warrants. The company agrees that, if at the time of the surrender of this Warrant Agreement and exercise of the Warrants, the Warrantholder shall be entitled to exercise such Warrants, the Shares so issued shall be deemed to be issued to the Warrantholder as the record owner of such Shares as of the close of business on the date on which the Warrants shall have been exercised. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of the Warrants. With respect to any fraction of a share called for upon exercise of the Warrants, an amount equal to such fraction multiplied by the then current Exercise Price shall be paid in cash to the Warrantholder.

5. Charges, Taxes and Expenses. Issuance of certificates for Shares upon the exercise of the Warrants shall be made without charge to the Warrantholder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Warrantholder or in such name or names as may be directed by the Warrantholder, provided however, that in the event certificates for Shares are to be issued in a name other than the name of the Warrantholder, this Warrant Agreement when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Warrantholder, and provided further, that upon any transfer involved in the issuance or delivery of any certificates for Shares, the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

6. No Rights as Stockholders. This Warrant Agreement does not entitle the Warrantholder to any additional voting rights or other rights as a stockholder of the Company prior to the exercise of the Warrants.

7. Exchange and Registry of Warrant. This Warrant Agreement is exchangeable, upon the surrender hereof by the registered holder at the above-mentioned office or agency of the Company, for a new Warrant Agreement of like tenor and dated as of such exchange.

The Company shall maintain at the above-mentioned office or agency a registry showing the name and address of the registered holder of this Warrant Agreement. This Warrant Agreement may be surrendered for exchange, transfer or exercise, in accordance with its terms, at such office or agency of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

8. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant Agreement, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant Agreement, if mutilated, the Company will make and deliver a new Warrant Agreement of like tenor and dated as of such cancellation, in lieu of this Warrant Agreement.

9. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a legal holiday.

10. Adjustment Rights.

(a) Reclassification, etc. If the Company at any time shall, by subdivision, combination or reclassification of securities or otherwise, change any of the securities to which purchase rights under this Warrant Agreement exist into the same or a different number of securities of any class or classes, this Warrant Agreement shall thereafter be to acquire such number and kind of securities as would have been issuable as the result of such changes with respect to the securities which were subject to the purchase rights under this Warrant Agreement immediately prior to such subdivision, combination, reclassification or other change. If shares of the Company's Common Stock are subdivided or combined into a greater or smaller number of shares of Common Stock, the Exercise Price under this Warrant Agreement shall be proportionately reduced in case of subdivision of shares or proportionately increased in the case of combination of shares, in both cases by the ratio which the total number of shares of Common Stock to be outstanding immediately after such event bears to the total number of shares of Common Stock outstanding immediately prior to such event.

(b) Cash Distributions. No adjustment on account of cash dividends will be made to the Exercise Price under this Warrant Agreement.

(c) Authorized Shares. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of Common Stock upon the exercise of any purchase rights under this Warrant Agreement. The Company further covenants that its issuance of this Warrant Agreement shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of the Company's Common Stock upon the exercise of the purchase rights under this Warrant Agreement.

(d) Exercise Price Adjustments. The Exercise Price of the Warrants is subject to adjustment on the same terms and conditions as set forth in Article 4, Section 5(d) of the Company's Restated Certificate of Incorporation as accepted by the Delaware Secretary of State on December 20, 1995, a copy of which is attached as Exhibit A to the December 21 Warrant Agreement (the

"Current Certificate of Incorporation") with respect to the conversion of the Company's Preferred Stock into Common Stock. For purposes of applying the provisions of such Article 4, Section 5(d) to the adjustment of the Exercise Price of the Warrants, any reference in such Article 4, Section 5(d) to the conversion or the Conversion Price of any series of the Company's Preferred Stock shall refer to the exercise and the Exercise Price, respectively, of the Warrants, and all Conversion Price adjustment provisions of such Article 4, Section 5(d) shall be applied to the initial Exercise Price of the Warrants of $0.50. If the Company's Current Certificate of Incorporation is later amended to reduce or eliminate the right of holders of Preferred Stock to adjustment upon the events set forth in Article 4, Section 5 of the Current Certificate of Incorporation, the exercise price of the Warrants shall remain subject to adjustment as provided in the Current Certificate of Incorporation. If the Company's Current Certificate of Incorporation is later amended to increase the right of the holders of Preferred Stock to adjustment upon any event, the exercise price of the Warrants shall be entitled to adjustment on such better terms. At no time shall the exercise price of the Warrants be subject to adjustment on terms less favorable than those set forth in the Current Certificate of Incorporation.

11. Restrictions on Transferability of Securities.

(a) Restrictions on Transferability. This Warrant Agreement and the Shares issuable upon exercise of the Warrants (collectively the "Securities") shall not be sold, assigned, transferred or pledged except upon the conditions specified in this Section 11, which conditions are intended to ensure compliance with the provisions of the Securities Act of 1933, as amended (the "Securities Act"). Each holder of any of the Securities will cause any proposed purchaser, assignee, transferee, or pledgee of the Securities held by such holder to agree to take and hold such Securities subject to the provisions and upon the conditions specified in this Section 11.

(b) Restrictive Legend. Each certificate representing the Securities and any other securities issued in respect of the Securities pursuant to Section 10 shall (unless otherwise permitted by the provisions of Section 11(c) below) be stamped or otherwise imprinted with a legend in the following form (in addition to any legend required under applicable state securities laws):

> THE SECURITIES REPRESENTED BY THE CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSFER IS IN ACCORDANCE WITH RULE 144 OR SIMILAR RULE OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT STATING THAT SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT.

Each holder of Securities and each subsequent transferee (hereinafter collectively referred to as a "Holder") consents to the Company making a notation on its records and giving instructions to any transfer agent of the Securities in order to implement the restrictions on transfer established in this Section 11.

(c) Notice of Proposed Transfers. Each Holder of a certificate representing the Securities, by acceptance thereof, agrees to comply in all respects with the provisions of this Section 11(c). Prior to any proposed sale, assignment, transfer or pledge of any Securities (other than (i) a transfer not involving a change in beneficial ownership, (ii) in transactions involving the distribution without consideration of Securities by a Holder to any of its partners, or retired partners, or to the estate of any of its partners or retired partners, (iii) a transfer to an affiliated fund, partnership or company, which is not a competitor of the Company, subject to compliance with applicable securities laws or (iv) transfers in compliance with Rule 144, so long as the Company is furnished with satisfactory evidence of compliance with such Rule), unless there is in effect a registration statement under the Securities Act covering the proposed transfer, the Holder thereof shall give written notice to the Company of such Holder's intention to effect such transfer, sale, assignment or pledge. Each such notice shall describe the manner and circumstances of the proposed transfer, sale, assignment or pledge in sufficient detail, and shall be accompanied, at such Holder's expense, by either (i) an opinion of counsel (who shall, and whose opinion shall be, addressed to the Company and reasonably satisfactory to the Company) to the effect that the proposed transfer of the Securities may be effected without registration under the Securities Act or (ii) a "no action" letter from the Securities and Exchange Commission (the "Commission") to the effect that the transfer of such securities without registration will not result in a recommendation by the staff of the Commission that action be taken with respect thereto, whereupon the Holder of such Securities shall be entitled to transfer such Securities in accordance with the terms of the notice delivered by such Holder to the Company. Each certificate evidencing the Securities transferred as above provided shall bear, except if such transfer is made pursuant to Rule 144, the appropriate restrictive legend set forth in Section 11(b) above, except that such certificate shall not bear such restrictive legend if in the opinion of counsel for such Holder and in the opinion of counsel for the Company such legend is not required in order to establish compliance with any provision of the Securities Act.

(d) Removal of Restrictions on Transfer of Securities. Any legend referred to in Section 11(b) hereof stamped on a certificate evidencing the Securities and the stock transfer instructions and record notations with respect to the Securities shall be removed and the Company shall issue a certificate without such legend to the Holder of the Securities if the Securities are registered under the Securities Act, or if such Holder provides the Company with an opinion of counsel (which may be counsel for the Company) reasonably satisfactory to the Company to the effect that a public sale or transfer of such security may be made without registration under the Securities Act or such Holder provides the Company with reasonable assurances, which may, at the option of the Company, include an opinion of counsel (which may be counsel for the Company) reasonably satisfactory to the Company, that such security can be sold pursuant to paragraph (k) of Rule 144 (or any successor provision) under the Securities Act.

12. Investment Representations of the Warrantholder. With respect to the acquisition of any of the Securities, the Warrantholder hereby represents and warrants to the Company as follows:

(a) Experience. The Warrantholder 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 Securities. If other than an individual, the Warrantholder also represents it has not been organized for the purpose of acquiring the Securities.

(b) INVESTMENT. The Warrantholder is acquiring the Securities for investment for its own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that the Warrantholder has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, each Warrantholder further represents that the Warrantholder 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. The Warrantholder understands that the Securities have not been, and will not be, registered under the Securities Act by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Warrantholder's representations as expressed herein.

(c) RULE 144. The Warrantholder understands that the Securities 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, the Warrantholder represents that it is familiar with Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Act.

(d) NO PUBLIC MARKET. The Warrantholder understands that no public market now exists for any of the securities issued by the Company and that the Company has made no assurances that a public market will ever exist for the Securities.

(e) ACCESS TO DATA. The Warrantholder has had an opportunity to discuss the Company's business, management and financial affairs with the Company's management and has also had an opportunity to ask questions of the Company's officers, which questions were answered to its satisfaction.

13. NOTICE OF RECORD DATE. If at any time prior to the exercise of the Warrants in full the Company takes a record of the holders of Common Stock for the purpose of determining the holders purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, the Company will give to the Warrantholder at least thirty (15) days prior to the date specified therein, written notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

14. Miscellaneous.

(a) Issue Date. The provisions of this Warrant Agreement shall be construed and shall be given effect in all respect as if it had been issued and delivered by the Company on the date hereof. This Warrant Agreement shall be binding upon any successors or assigns of the Company. This Warrant Agreement shall constitute a contract under the laws of the State of California and for all purposes shall be construed in accordance with and governed by the laws of said state.

(b) Waivers and Amendments. With the written consent of the Company and the Warrantholder, the obligations of the Company and the right of the Warrantholder may be waived (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time of indefinitely), and with the same consent the Company and the Warrantholder may enter into a supplementary agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Warrant Agreement.

(c) Notices. All notices and other communications required or permitted to be given under this Warrant Agreement shall be in writing and shall be deemed effectively given upon personal delivery, delivery by nationally recognized courier or upon deposit with the United States Post Office (by first class mail, postage prepaid) addressed as follows: (i) if to the Company, Integrated Surgical Systems, Inc., 829 West Stadium Lane, Sacramento, California 95834, and (ii) if to the Warrantholder, the address as provided in the books of the Company.

(d) Survival and Assumption. The provisions of Section 11 hereof shall survive the exercise of the Warrants and shall remain in effect until such time as the Warrantholder no longer holds Securities. Subject to the provisions of Section 3 hereof, in the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, or the sale or exchange of substantially all of the shares of the Company for shares of another corporation, the Warrants shall survive such merger or sale or exchange and shall be expressly assumed by the successor corporation or, at the option of the Warrantholder, by the parent or subsidiary of such successor corporation; provided, however, that if the Warrants are not to be so assumed by such proposed successor or parent or subsidiary, then the Company shall not effect such merger or sale or exchange.

IN WITNESS WHEREOF, the parties hereto have caused this Warrant Agreement to be executed by their officers thereunto duly authorized as of the Effective Date.

INTEGRATED SURGICAL SYSTEMS, INC.
A DELAWARE CORPORATION

By: ----------

Title: ----------

KEYSTONE FINANCIAL CORPORATION,
A PENNSYLVANIA NOT-FOR PROFIT CORPORATION

By: ----------

Title: ----------

NOTICE OF EXERCISE

To: INTEGRATED SURGICAL SYSTEMS, INC.

(1) The undersigned hereby elects to purchase _____ shares of Common Stock of Integrated Surgical Systems, Inc. pursuant to the terms of the attached Warrant Agreement, and tenders herewith payment of the purchase price in full, together with all applicable transfer taxes, if any.

(2) Please issue a certificate of certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

_____
(Name)

_____
(Address)

(3) The undersigned represents that the aforesaid shares of Common Stock are being acquired for the account of the undersigned for investment and not, with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares.

_____ _____
(Date) (Signature)

ASSIGNMENT FORM

(To assign the foregoing Warrant Agreement, execute this form and supply required information. Do not use this to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant Agreement and all rights evidenced thereby are hereby assigned to

---

(Please Print)

whose address is

(Please Print)

Dated: _____

Holder's Signature: _____

Holder's Address: _____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant Agreement, without alteration or enlargement or any change whatever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant Agreement.

EXHIBIT 10.7

December 8, 1995

Dr. Ramesh Trivedi
California Biomedical Consultants
964 Edmonds Way
Sunnyvale, California 94087

Dear Ramesh:

This letter agreement is intended to set forth the terms of your employment with Integrated Surgical Systems, Inc. (the "Company").

You will be the President and Chief Executive Officer (CEO) of the Company beginning effective November 14, 1995. In this capacity you will report directly to the Board of Directors.

Your compensation for this position will include an annual salary of $264,000 (based on a monthly salary of $22,000), paid semi-monthly in accordance with the Company's normal payroll practices. In addition, you will be reimbursed for reasonable out-of -pocket expenses incurred by you.

Following the First Closing (as that term is defined in the Company's Series D Preferred Stock and Warrant Purchase Agreement), you will be granted an option to purchase that number of shares of the Company's Common Stock which is equal to six percent of the fully diluted capitalization of the Company calculated immediately following the Second Closing, as that term is defined in the Company's Series D Preferred Stock and Warrant Purchase Agreement.

The option will be evidenced by an Option Agreement that will state the exercise price, vesting schedule, and other terms of the option, including acceleration of vesting upon a merger. The exercise price of such option will be determined following the commencement of your employment, and will be equal to the then Fair Market Value of such stock as determined by the Board of Directors. The exercise price of such option is expected to be $0.325 per share. One third of the shares subject to the option will vest immediately, with the remaining two-thirds of the shares subject to the option vesting monthly over three years.

The exercise price of the option will be subject to antidilution adjustment provisions similar to the antidilution adjustment provisions applicable to the conversion price of the Series D Preferred Stock, as set forth in the Company's Restated Certificate of Incorporation to be filed prior to the First Closing and as subsequently amended. However, such antidilution adjustment provisions shall not apply to the option with respect to any particular dilutive issuance if the antidilution adjustment provisions applicable to the conversion price of the Series D Preferred Stock are waived with respect to such dilutive issuance.

As an employee of the Company, you will also be eligible for Company benefits such as medical insurance and other programs which are generally made available to other employees of the Company.

I have enclosed the Company's standard Proprietary Information and Noncompetition Agreement (the "Proprietary Information Agreement"). Please return to me a signed copy of such document.

You should be aware that your employment with the Company is for no specified period and constitutes at-will employment. As a result, you are free to resign at any time, for any reason or for no reason. Similarly, the Company is free to conclude its employment relationship with you at any time, with or without cause; however, upon a termination without cause, you will be entitled to receive severance pay in the form of salary continuation for nine months. In addition, you will be entitled to receive payment for approximately three months of consulting services which you will provide to the Company within twelve months following the date of such termination. The number of days of consulting services to be provided by you will be determined by dividing three months' worth of compensation by your then-prevailing daily rate for consulting services. In addition, upon a termination without cause, the vesting of your option will accelerate so that it is exercisable with respect to all the shares subject to the option at the time of such termination. For purposes of this agreement, the term "cause" means the commission of a crime involving moral turpitude, a pattern of unexcused absences from work, or repeated willful violations of lawful policies of the Company's Board of Directors. This letter and the enclosed Confidentiality Agreement constitute the entire agreement between you and the Company regarding your employment, and may be modified only in writing.

Terms of this offer are considered confidential information to the Company and we trust that you will treat it as such between you and the Company's Board of Directors.

By signing this letter, you are representing to us that (i) you are not a party to any employment agreement or other contract arrangement which prohibits your full-time employment with the Company, (ii) you do not know of any conflicts which would restrict your employment with the Company, and (iii) you have not and will not bring with you to your employment with the Company any documents, records or other confidential information belonging to former employers.

Please return to me a signed copy of this letter, together with the Proprietary Information Agreement. You may keep copies of the documents for your file.

Ramesh, we look forward to working together at Integrated Surgical Systems. We think this is a wonderful opportunity for both you and the Company, and we look forward to receiving your acceptance.

Sincerely,

John N. Kapoor

I hereby agree to the foregoing terms and conditions:

_____
Ramesh Trivedi

Date:_____

EXHIBIT 11.1

INTEGRATED SURGICAL SYSTEMS, INC.

STATEMENT OF COMPUTATION OF EARNINGS PER SHARE

	YEARS ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1994	1995	1995	1996
Primary and fully diluted:				
Average common shares outstanding	66,554	73,198	67,382	266,761
Common and common equivalent shares issued during the twelve month period prior to the initial public offering at prices below the assumed public offering price in accordance with Staff Accounting Bulletin No. 83	4,096,022	4,096,022	4,096,022	4,096,022
Shares used in per share calculations	4,162,576	4,169,220	4,163,404	4,362,783
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	$ (1.39)	$ (1.20)	$ (0.59)	$ (0.34)

EXHIBIT 21.1

SUBSIDIARIES

Integrated Surgical Systems BV is a wholly-owned subsidiary of the Company. It was organized under the laws of The Netherlands and does not do business under any other name.

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 the Registration Statement (Form SB-2) 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
July 29, 1996