

United States  
Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-QSB

(MARK ONE)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Period Ended March 31, 1997.
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-12471

INTEGRATED SURGICAL SYSTEMS, INC.  
(Exact Name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

68-0232575  
(I.R.S. Employer  
Identification No.)

829 West Stadium Lane  
Sacramento, CA  
(Address of principal executive offices)

95834  
(Zip Code)

916-646-3487  
(Registrant's telephone number, including area code)

Not applicable  
(Former name, former address and former fiscal year, if changed  
since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Applicable Only to Issuers Involved in Bankruptcy  
Proceedings During the Preceding Five Years

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court. Yes  No

Applicable Only to Corporate Issuers

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock \$.01 Par Value - 3,366,028 shares as of May 1, 1997.

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PART I. FINANCIAL INFORMATION  
 ITEM 1. FINANCIAL STATEMENTS

INTEGRATED SURGICAL SYSTEMS, INC.  
 CONSOLIDATED BALANCE SHEET  
 (UNAUDITED)

ASSETS	March 31, 1997
Current assets:	(unaudited)
	-----
Cash and cash equivalents	\$ 5,318,491
Accounts receivable	18,124
Inventory	1,372,592
Other current assets	173,048
	-----
Total current assets	6,882,255
Net property and equipment	252,015
Other assets	17,423
	-----
	\$ 7,151,693
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	\$ 602,587
Value added taxes payable	272,139
Accrued payroll and related expenses	100,975
Customer deposits	250,000
Accrued product retrofit costs	135,348
Payable to subcontractor	--
Other current liabilities	203,732
	-----
Total current liabilities	1,564,781
Commitments	
Stockholders' equity:	
Preferred stock, \$0.01 par value 1,000,000 shares authorized; no shares issued and outstanding	--
Common stock, \$0.01 par value, 15,000,000 shares authorized; 3,366,028 shares issued and outstanding	33,660
Additional paid-in capital	25,823,422
Deferred stock compensation	(381,417)
Accumulated translation adjustment	14,472
Accumulated deficit	(19,903,225)
	-----
Total stockholder's equity	5,586,912
	-----
	\$ 7,151,693
	=====

See notes to consolidated financial statements.

INTEGRATED SURGICAL SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	----- 1997 -----	----- 1996 -----
Net Sales	\$ 641,989	\$ 411,841
Cost of Sales	215,458	192,154
	-----	-----
	426,531	219,687
Operating expenses:		
Selling, general and administrative	624,664	448,875
Research and development	645,354	532,607
Stock compensation	45,000	225,000
	-----	-----
	1,315,018	1,206,482
Other income (expense):		
Interest income	71,342	18,819
Other	23,731	(25,199)
	-----	-----
Loss before provision for income taxes	(793,414)	(993,175)
Provision for income taxes	9,000	2,000
	-----	-----
Net loss	\$ (802,414)	\$ (995,175)
	=====	=====
Net loss applicable to common stockholders	\$ (802,414)	\$ (995,175)
Net loss per share	\$ (0.24)	\$ (0.23)
Shares used in per share calculations	3,362,513	4,315,260

See notes to consolidated financial statements

INTEGRATED SURGICAL SYSTEMS, INC.  
 Consolidated Statements of Cash Flows  
 Increase (Decrease) in Cash and Cash Equivalents  
 (Unaudited)

	THREE MONTHS ENDED MARCH 31	
	1997	1996
<b>CASH FLOWS FROM OPERATING EXPENSES</b>		
Net loss	\$ (802,414)	\$ (995,175)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	40,868	48,147
Stock compensation	45,000	225,000
Changes in operating assets and liabilities		
Accounts receivable	582,444	50,656
Inventory	(342,330)	53,199
Other current assets	(43,985)	65,334
Note payable	--	(201,513)
Accounts payable	(73,614)	(90,505)
Value added taxes payable	(457)	--
Accrued payroll and related expenses	(94,767)	(9,600)
Customer deposits	125,000	116,447
Accrued product retrofit costs	--	(24,652)
Payable to subcontractor	(110,176)	--
Other current liabilities	11,668	(56,257)
Translation adjustment	5,815	5,781
	(656,948)	(813,138)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(41,847)	32,679
Decrease (increase) in other assets	--	108
	(41,847)	32,787
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from sale of convertible preferred stock	--	1,000,000
Proceeds from exercise of stock options	16,207	--
	16,207	1,000,000
Net increase (decrease) in cash and cash equivalents	(682,588)	219,649
Cash and cash equivalents at beginning of period	6,001,079	2,339,823
	\$ 5,318,491	\$ 2,559,472
	\$ 5,318,491	\$ 2,559,472

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements (unaudited)

March 31, 1997

## NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 1997 are not necessarily indicative of the results that may be expected for the year ended December 31, 1997. For further information, refer to the consolidated financial statements and footnotes thereto included in Integrated Surgical Systems, Inc.'s annual report on Form 10-KSB for the year ended December 31, 1996.

## NOTE B - INVENTORIES

The components of inventory consist of the following:

	March 31, 1997
	-----
Raw Materials	\$ 620,796
Work in process	434,474
Finished goods	317,322
	-----
	\$1,372,592
	=====

## NOTE C - EARNINGS PER SHARE

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per share, which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact of Statement 128 on the calculation of earnings per share is not expected to be material.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

## Results of Operations

Three Months Ended March 31, 1997 Compared to Three Months Ended March 31, 1996

**Net Sales.** The Company reported net sales of \$642,000 in the first quarter of 1997, approximately \$230,000 higher than the same period in 1996. The increase is attributable to sales at a higher selling price in the first quarter of 1997. Sales in the first quarter of 1996 were discounted.

**Cost of Sales.** Cost of sales were \$215,000, approximately \$23,000 higher than the same period in 1996 due to increased manufacturing staffing in 1997.

**Selling, General and Administrative.** Selling, general and administrative expenses were \$625,000 in the first quarter of 1997, approximately \$176,000 higher than the same period in 1996 due primarily to increased sales and marketing activity. A European based sales manager, trainer, and service technician were added during the period. General and administrative costs also increased to support the increased growth and investor relations cost.

**Research, and Development.** Research and Development expenses were \$645,000 in the first quarter of 1997, approximately \$112,000 higher than the same period in 1996 primarily due to additional engineering staff required to support new product development projects.

**Stock Compensation.** Stock compensation expense during the first quarter of 1997 was \$45,000, approximately \$180,000 lower than the first quarter of 1996. This decrease is due to the immediate vesting of a portion of a large grant of stock options in the first quarter 1996. The Company charged to operations in 1996 deferred stock compensation relating to stock options granted during 1996 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. Deferred compensation for the non-vested portion is being amortized into expense over the vesting period of the stock options, which generally range from three to five years. Stock compensation expense in the first quarter of 1997 represents the additional vesting which occurred in the first quarter of 1997.

**Interest Income.** Interest income for the first quarter of 1997 was \$71,000, approximately \$53,000 higher than the first quarter of 1996 due to higher than average cash balances resulting from the issuance of Common Stock in the Company's initial public offering in the fourth quarter of 1996.

**Other Income and Expense.** Other income for the first quarter was \$24,000 compared to an expense of \$25,000 in the first quarter of 1996. The primary reason for the difference is the strengthening of the Dutch Guilder against the U.S. Dollar during 1996, as compared to a weakening of the Dutch Guilder against the dollar in the first quarter of 1997. 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 B.V.

**Liquidity and Capital Resources.** The Company used \$657,000 in cash from the operating activities in the first quarter of 1997 compared to \$813,000 usage in the first quarter of 1996. Net cash used for operations in each of these periods resulted primarily from the net loss.

The Company used \$42,000 in cash in the first quarter of 1997 for the purchase of equipment to support the increase in the number of employees.

The Company received \$16,207 in the first quarter of 1997 on the exercise of common stock options (4,867 shares).

The Company expects to incur additional operating losses 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 in the United States, the progress of the Company's product development projects and market acceptance of the Company's products. The Company expects that its cash and cash equivalents as of March 31, 1997, will be sufficient to finance its operations through 1997.

## PART II. OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

27.1 Financial Data Schedule

#### (b) Reports

The Company did not file any reports on Form 8-K during the quarter ended March 31, 1997.



Signatures

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTEGRATED SURGICAL SYSTEMS, INC.

Date: May 13, 1997

by: /s/ Michael J. Tomczak

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Michael J. Tomczak, Vice President and CFO

YEAR		
	DEC-31-1996	
	MAR-31-1997	
		5,318,491
		0
		18,124
		0
		1,372,592
	6,882,255	
		1,298,087
		1,046,072
		7,151,693
	1,564,781	
		0
	0	
		0
		33,660
		5,553,252
7,151,693		
		641,989
	641,989	
		215,458
		1,315,018
	(95,073)	
		0
		0
	(793,414)	
		9,000
	(802,414)	
		0
		0
		0
		0
		0
	(802,414)	
	(0.24)	
	(0.24)	