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

FORM 10-QSB

(MARK ONE)

[x] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Period Ended June 30, 1998.

[ ] 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	68-0232575
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1850 Research Park Drive	
Davis, CA	95616-4884
(Address of principal executive offices)	(Zip Code)

530-792-2600
(Registrant's telephone number, including area code)

829 West Stadium Lane, Sacramento, CA 95834
(former address)

Not applicable
(Former name, 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 x 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 - 5,633,372 shares as of August 1, 1998.

INTEGRATED SURGICAL SYSTEMS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 1998 (unaudited)
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 2,632,182
Accounts receivable	2,843,693
Inventory	3,076,777
Other current assets	595,132
Total current assets	9,147,784
Property and equipment, net	899,748
Leased equipment, net	159,727
Long term net investment in sales type leases	299,642
Intangible assets, net	3,434,498
Other assets	467,137
Total assets	$ 14,408,536
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 1,160,584
Value-added taxes payable	741,973
Accrued payroll and related expenses	483,366
Customer deposits	526,323
Accrued product retrofit costs	135,348
Current portion bank loans	234,388
Other current liabilities	831,901
Total current liabilities	4,113,883
Bank loans, long term	17,185
Note Payable	142,798
Commitments and contingencies	
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; 5,630,950 shares issued and outstanding	56,309
Additional paid-in capital	38,319,287
Deferred stock compensation	(181,510)
Accumulated translation adjustment	50,181
Accumulated deficit	(28,109,597)
Total stockholder's equity	10,134,670
	$ 14,408,536

See notes to consolidated financial statements.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1997	1998	1997
Net Sales	$ 2,027,220	$ 737,707	$ 3,410,580	$ 1,379,696
Cost of Sales	978,110	316,235	1,600,883	531,693
	1,049,110	421,472	1,809,697	848,003
Operating expenses:				
Selling, general and administrative	1,782,831	758,932	3,160,472	1,383,596
Research and development	1,864,869	538,165	3,355,153	1,183,519
Stock compensation	18,000	45,000	36,000	90,000
	3,665,700	1,342,097	6,551,625	2,657,115
Other income (expense):				
Interest income	65,528	53,805	165,636	125,147
Other	80,126	(9,357)	69,806	14,374
Loss before provision for income taxes	(2,470,936)	(876,177)	(4,506,486)	(1,669,591)
Provision for income taxes	15,145	9,000	24,196	18,000
Net loss	($2,486,081)	($ 885,177)	($4,530,682)	($1,687,591)
Basic net loss per share	($0.44)	($0.26)	($0.81)	($0.50)
Shares used in per share calculations	5,608,976	3,366,599	5,568,467	3,364,567

See notes to consolidated financial statements

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

	SIX MONTHS ENDED JUNE 30 1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	($4,530,682)	($1,687,591)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation	197,866	83,678
Amortization of intangible assets	419,520	--
Stock compensation	36,000	90,000
Issuance of stock options to consultants	105,942	--
Changes in operating assets and liabilities		
Accounts Receivable	(1,417,151)	(54,455)
Inventory	(1,181,439)	(760,108)
Other current assets	(121,523)	(116,756)
Accounts payable	(249,631)	370,570
Value added taxes payable	303,291	(2,307)
Accrued payroll and related expenses	66,743	(92,069)
Customer deposits	387,651	132,172
Payable to subcontractors	(38,656)	(110,176)
Other current liabilities	400,580	3,527
Note Payable	(605)	--
Translation adjustment	23,909	(38,651)
Net cash used in operating activities	(5,598,185)	(2,182,166)
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal payments received on sales type leases	50,717	--
Purchases of property and equipment	(431,552)	(102,300)
(Increase) decrease in other assets	(453,746)	668
Net cash used in investing activities	(834,581)	(101,632)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bank loans	(43,644)	--
Proceeds from sale of warrants	6,930	--
Proceeds from exercise of stock options	9,874	16,272
Expenses from initial public offering	--	(47,822)
Net cash provided by (used in) financing activities	(26,840)	31,550
Net decrease in cash and cash equivalents	(6,459,606)	(2,315,348)
Cash and cash equivalents at beginning of period	9,091,788	6,001,079
Cash and cash equivalents at end of period	$2,632,182	$3,685,731

See notes to consolidated financial statements.

INTEGRATED SURGICAL SYSTEMS, INC.

Notes to Consolidated Financial Statements (unaudited)

June 30, 1998

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 adjustments) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 1998 are not necessarily indicative of the results that may be expected for the year ended December 31, 1998. 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, 1997.

NOTE B - INVENTORIES

The components of inventory consist of the following:

	June 30, 1998
Raw Materials	$ 872,400
Work in process	1,169,931
Finished goods	1,034,446
	$3,076,777

NOTE C - NET LOSS PER SHARE

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

As of June 30, 1998, outstanding options to purchase 1,298,695 shares of common stock (with exercise prices ranging from $0.07 to $8.88) and outstanding warrants to purchase 4,507,816 shares of common stock (with exercise prices ranging from $0.01 to $8.26) could potentially dilute basic earnings per share in the future and have not been included in the computation of diluted net loss per share because to do so would have been antidilutive for the periods presented.

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

On September 5, 1997, the Company acquired all of Innovative Medical Machines International S.A.'s (IMMI) issued and outstanding capital stock, stock warrants and convertible debt in transaction accounted as a purchase. IMMI develops, manufactures and markets image guided ROBOTIC devices for surgical applications. Its principal product is the NeuroMate, a computer controlled surgical robot dedicated to stereotactic neurosurgery. The following discussion and analysis relates to the operations of Integrated Surgical Systems, Inc. and the period of operations of IMMI since the acquisition by the Company on September 5, 1997.

Results of Operations

Six Months Ended June 30, 1998 Compared to Six Months Ended June 30, 1997

Net Sales. Net sales for the six months ended June 30, 1998 (the "1998 Interim Period") were approximately $3,411,000, largely attributable to the sale of five ROBODOC Systems compared to the six months ended June 30, 1997 (the "1997 Interim Period") of approximately $1,380,000 which included the sale of two ROBODOC systems.

Cost of Sales. Cost of sales for the 1998 Interim Period was approximately $1,601,000 (47% of net sales) as compared to the 1997 Interim Period of approximately $532,000 (39% of net sales). The higher cost as a percent of sales in the 1998 Interim Period is a result of higher manufacturing overhead costs in the 1998 Interim Period as the Company moved from its pilot manufacturing operation in the 1997 Interim Period toward creating the infrastructure necessary to support on-going manufacturing.

Selling, General and Administrative. Selling, general and administrative expenses for the 1998 Interim Period (approximately $3,160,000) increased by approximately $1,,777,000, or 128% as compared to the 1997 Interim Period (approximately $1,384,000). Marketing costs increased approximately $963,000 with the addition of ten employees and increased participation in medical conferences and travel to potential customer sites. General and administrative costs increased approximately $814,000 to support increased growth as well as investor relations, and additional administrative expenses connected with the acquisition of IMMI.

Research and Development. Research and development expenses for the 1998 Interim Period (approximately $3,355,000) increased by approximately $2,172,000, or approximately 184%, as compared to the 1997 Interim Period (approximately $1,183,000), due to additional engineering staff required to support new applications of existing products and new product development projects.

Stock Compensation. Stock compensation expense during the 1998 Interim Period was $36,000, $54,000 lower than the 1997 Interim Period ($90,000). 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 1998 and 1997 Interim Periods represents the additional vesting which occurred in the first six months of 1998 and 1997.

Interest Income. Interest income for the 1998 Interim Period (approximately $166,000) increased by approximately $41,000, or 33%, as compared to the 1997 Interim Period (approximately $125,000), primarily due to higher average cash balances during the 1998 Interim Period as a result of the Company's European offering in November 1997.

Other Income and Expense. Other income for the 1998 Interim Period was approximately $70,000 compared to income of approximately $14,000 in the 1997 Interim Period. The increase in income ($56,000) is primarily attributable to grant income in the 1998 Interim Period. IMMI was awarded a grant of approximately $222,000 from the French agency, Agence Nationale de Valorisation de la Recherchc ("ANVAR"). The grant is to fund the clinical tests to be performed at two university hospitals on the NeuroMate system. The grant income is being recognized ratably over the project period.

Net Loss. The net loss for the 1998 Interim Period (approximately $4,531,000) increased by approximately $2,843,000, or approximately 168%, as compared to the net loss for the 1997 Interim Period (approximately $1,688,000), primarily due to the higher operating expenses and the amortization of identified intangible assets acquired in connection with the acquisition of IMMI.

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 $32.6 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 in operating activities of approximately $2,182,000 and $5,598,000 in the 1997 and 1998 Interim Periods, respectively. Net cash used in operations in each of these periods resulted primarily from the net loss. Cash used in operations in the 1997 Interim Period reflected an increase in inventory of approximately $760,000, and an increase in accounts payable of approximately $371,000. Cash used in operations in the 1998 Interim Period reflected an increase in accounts receivable of approximately $1,417,000, an increase in inventory of approximately $1,181,000, an increase in customer deposits of approximately $388,000, an increase in value added taxes payable of approximately $303,000 and an increase in other current liabilities of approximately $401,000.

The Company's investing activities consists of expenditures for property and equipment which totaled approximately $102,000 and $432,000 in the 1997 and 1998 Interim Periods, respectively and investments of approximately $454,000 in a medical clinic in Spain in the 1998 Interim Period.

Cash provided by financing activities from inception through March 31, 1998 is comprised principally 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 and warrants for approximately $6,137,000, resulting from the Company's initial public offering in November 1996, and approximately $8,440,000 from the Company's European offering in November 1997. 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 and $2,942,000 of preferred stock and warrants to purchase preferred stock were converted into Common Stock and warrants to purchase common stock in December 1995 and November 1996, respectively.

The Company expects to incur additional operating losses at least through 1998. These losses will be as a result of expenditures related to product development projects and the establishment of marketing, sales, service and training organizations. Until and unless the Company obtains FDA approval for sales of the ROBODOC System in the United States, it will continue to be dependent on sales of such products overseas. FDA approval is not assured, and even if obtained, may be delayed. The timing and amount of these expenditures will depend on many factors, some of which are beyond the Company's control, such as, the requirements for and the 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 is continuously engaged in the development of enhancements and improvements to the ROBODOC System and subjects these developments to testing, principally overseas. Coincident with the pre-submission review process by the FDA of the Company's pre-market approval ("PMA") application for the ROBODOC System (which process is intended to expedite the FDA's formal pre-market approval process), the Company may find it desirable to incorporate certain of the foregoing product enhancements to the ROBODOC System as part of its PMA application. There can be no assurance that the incorporation of such enhancements, if included, will not substantially extend the time of the review process. The Company's other robotic system, the Neuromate, for neurosurgical applications, has been cleared by the FDA for sale in the United States since 1997. The Company has adequate resources for its operations in the immediate future. In order to continue research and development and other operations at current levels and to pursue pre-market approval for the ROBODOC System with the U.S. Food and Drug Administration, the Company requires, and in the future is likely to continue to require, additional financing. The Company presently has arrangements to obtain long-term financing, which is expected to be consummated in the near future. The Company believes that the long-term financing, together with cash flow from other operations, will be sufficient to finance its business through 1999.

PART II. OTHER INFORMATION

Item 4. Matters Submitted to Securityholders

The Company's Annual Meeting of Stockholders was held on April 28, 1998. The following Directors, constituting all of the Directors of the Company, were elected at the meeting to serve as Directors until the next Annual Meeting of Stockholders and until their successors are duly elected and qualified. The Directors elected at the Annual Meeting received the number of votes set forth opposite their respective names:

	Votes Cast	
	For Election	Withheld Authority/Abstained
Ramesh C. Trivedi	3,109,665	10,400
James C. McGroddy	3,109,665	10,400
John N. Kapoor	3,101,777	18,288
Paul A.H. Pankow	3,109,665	10,400
Gerald D. Knudson	3,109,665	10,400
Patrick G. Hays	3,109,665	10,400

At the Annual Meeting, the stockholders also approved the following proposals by the number of votes indicated:

	For	Against	Abstain	Broker Non-Votes
Adoption of the Company's 1998 Stock Option Plan............	2,055,222	35,220	7,285	1,031,828
Adoption of the Company's Stock Purchase Plan...............	2,056,717	35,820	5,300	1,031,828
Approval of an amendment to the Company's Restated Certificate of Incorporation eliminating the Series D. Preferred Stock..............................	2,771,634	12,875	9,190	1,031,828
Ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the year ending December 31, 1998.....................................	3,105,415	10,200	4,450	-0-

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 June 30, 1998.

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: August 13, 1998

by: /s/ Mark W. Winn

Mark W. Winn, Chief Financial Officer

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YEAR
DEC-31-1998
JUN-30-1998
2,632,182
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2,843,693
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3,076,777
9,147,784
2,470,408
1,570,660
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