U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

[X] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2001

[ ] Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from __________ to __________

Commission file number 1-12471

INTEGRATED SURGICAL SYSTEMS, INC.

(Name of Small Business Issuer in its Charter)

Delaware	**68-0232575**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)
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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of Each Exchange on Which Each Class is Registered
Common Stock, $.01 Par Value	**None**
Common Stock Purchase Warrants	**None**

Securities registered pursuant to Section 12(g) of the Act:
Not Applicable
(Title of Class)

ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS

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

APPLICABLE ONLY TO CORPORATE REGISTRANTS

On August 1, 2001 the issuer had 36,873,202 shares of common stock, $.01 par value, outstanding.

INTEGRATED SURGICAL SYSTEMS, INC.
FORM 10-QSB
FOR THE QUARTER ENDED JUNE 30, 2001

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Part I. Financial Information

Item 1. Financial Statements (unaudited)

Integrated Surgical Systems, Inc.
Consolidated Balance Sheet
June 30, 2001
(Unaudited)

Assets		
Current assets:		
Cash and cash equivalents	$	537,782
Accounts receivable less allowance for doubtful accounts of $109,472		976,187
Inventory		3,057,296
Other current assets		260,127
Total current assets		4,831,392
Net property and equipment		320,767
Leased equipment, net		419,897
Long-term net investment in sales-type leases		13,534
Intangible assets, net		917,378
Other assets		10,603
	$	6,513,571
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$	1,400,983
Accrued payroll and related expense		437,984
Accrued liabilities		311,947
Unearned income		2,825,098
Other current liabilities		457,743
Total current liabilities		5,433,755
Note payable		118,191
Commitments and contingencies		-
Convertible preferred stock, $0.01 par value, 1,000,000 shares authorized; 364 shares issued and outstanding ($364,000 aggregate liquidation value)		325,724
Stockholders' equity:		
Common stock, $0.01 par value, 100,000,000 shares authorized; 36,873,202 shares issued and outstanding		368,732
Additional paid-in capital		61,749,814
Accumulated other comprehensive loss		(952,331)
Accumulated deficit		(60,530,314)
Total stockholders' equity		635,901
	$	6,513,571

See accompanying notes.

Integrated Surgical Systems, Inc.
Consolidated Statements of Operations
(Unaudited)

	Three months ended June 30,	
	2001	2000 (Restated)
Net sales	**$ 2,390,432**	$ 1,111,882
Cost of sales	**1,073,741**	437,153
	1,316,691	674,729
Operating expenses:		
Selling, general and administrative	**981,178**	1,073,287
Research and development	**987,497**	1,285,020
Amortization of Intangibles	**209,760**	209,760
	2,178,435	2,568,067
Operating loss	**(861,744)**	(1,893,338)
Other income (expense), net	**(60,632)**	912,378
Loss before provision for income taxes	**(922,376)**	(980,960)
Provision for income taxes	**-**	6,000
Net loss before preferred stock accretion	**(922,376)**	(986,960)
Preferred stock accretion	**-**	(317,647)
Net loss to common stockholders	**$ (922,376)**	$ (1,304,607)
Basic and diluted net loss per common share	**$ (0.03)**	$ (0.08)
Shares used in computing basic net loss per share	**36,295,748**	16,905,473

See accompanying notes.

Integrated Surgical Systems, Inc.
Consolidated Statements of Operations
(Unaudited)

	Six months ended June 30,	
	2001	2000 (Restated)
Net sales	**$ 4,025,973**	$ 2,979,933
Cost of sales	**1,553,247**	1,335,493
	2,472,726	1,644,440
Operating expenses:		
Selling, general and administrative	**2,180,956**	1,978,346
Research and development	**1,851,262**	3,032,413
Amortization of Intangibles	**419,520**	419,520
	4,451,738	5,430,279
Operating loss	**(1,979,012)**	(3,785,839)
Other income (expense), net	**(243,207)**	755,529
Loss before provision for income taxes	**(2,222,219)**	(3,030,310)
Provision for income taxes	**-**	15,000
Net loss before cumulative effect of accounting change	**(2,222,219)**	(3,045,310)
Cumulative effect of accounting change under SAB 101	**-**	(581,907)
Net loss before preferred stock accretion and dividend	**(2,222,219)**	(3,627,217)
Preferred stock accretion and dividend	**-**	(3,198,816)
Net loss to common stockholders	**$ (2,222,219)**	$ (6,826,033)
Basic and diluted net loss per common share before cumulative effect of accounting change	**$ (0.06)**	$ (0.38)
Cumulative effect of accounting change under SAB 101	**-**	(0.04)
Basic and diluted net loss per common share	**$ (0.06)**	$ (0.42)
Shares used in computing basic net loss per share	**34,504,403**	16,241,648
Pro forma amounts assuming the accounting change under SAB 101 is applied retroactively:		
Net loss to common stockholders	**$ (2,222,219)**	$ (6,244,126)
Basic and diluted net loss per common share	**$ (0.06)**	$ (0.38)

See accompanying notes.

Integrated Surgical Systems, Inc.
Consolidated Statements Cash Flows (Unaudited)
Increase (Decrease) in Cash and Cash Equivalents

	Six months ended June 30,	
	2001	2000 (Restated)
Cash flows from operating activities:		
Net loss	**$(2,222,219)**	$ (3,627,217)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	**255,708**	293,240
Amortization of intangible assets	**419,520**	416,958
Stock compensation	**54,797**	199,835
Changes in operating assets and liabilities:		
Accounts receivable	**(195,792)**	66,582
Inventory	**876,302**	(828,790)
Other current assets	**54,208**	(89,379)
Accounts payable	**377,694**	(982,902)
Accrued payroll and related expenses	**27,540**	13,337
Accrued liabilities	**(97,676)**	5,957
Unearned income	**432,096**	(26,147)
Other current liabilities	**(182,223)**	395,134
Net cash used in operating activities	**(200,045)**	(4,163,392)
Cash flows from investing activities:		
Principal payments received on sales-type lease	**43,914**	147,503
Purchases of property and equipment	**-**	(233,047)
Net cash provided (used) in investing activities	**43,914**	(85,544)
Cash flows from financing activities:		
Payments on bank loans	**(41,041)**	(35,278)
Payment of short-term note payable	**(200,000)**	-
Proceeds from the issuance of short-term note payable	**200,000**	-
Proceeds from sale of preferred stock and warrants	**-**	3,480,096
Proceeds from sale of common stock and warrants	**632,000**	-
Proceeds from exercise of stock options	**-**	30,801
Redemption of preferred stock	**-**	(1,185,000)
Net cash provided by financing activities	**590,959**	2,290,619
Effect of exchange rate changes on cash and cash equivalents	**(173,368)**	95,916
Net increase (decrease) in cash and cash equivalents	**261,460**	(1,862,401)
Cash and cash equivalents at beginning of period	**276,322**	2,918,016
Cash and cash equivalents at end of period	**$ 537,782**	$ 1,055,615

See accompanying notes.

Integrated Surgical Systems Inc.
Notes to Consolidated Financial Statements (unaudited)
June 30, 2001

1. Basis of presentation. The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and 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, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Integrated Surgical Systems, Inc. annual report on Form 10-KSB for the year ended December 31, 2000.

2. Cumulative effect of change in accounting principle. In December 1999, the Securities and Exchange Commission staff issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," and effective January 1, 2000, we changed our method of accounting for revenue recognition in accordance with SAB No. 101. Previously, we generally recognized revenue upon delivery of equipment to customers. The costs of installation and training were accrued in the same period revenue was recognized. Under the new accounting method adopted retroactively to January 1, 2000, we now recognize revenue upon completion of training and installation of the equipment at the end-user's site, except when the sales contract requires formal customer acceptance. Equipment sales with contractual customer acceptance provisions are recognized as revenue upon written notification of customer acceptance, which occurs after the completion of training and installation. Furthermore, due to business customs in Japan and our interpretation of Japanese law, all equipment sales to Japan are recognized upon customer acceptance, which occurs after the completion of training and installation. Revenue related to maintenance and service contracts is recognized ratably over the duration of the contracts. The cumulative effect of the change on prior years resulted in an increase in the consolidated loss of $581,907, which is included in the consolidated statement of operations for the year ended December 31, 2000. The effect of the change on the year ended December 31, 2000 was to decrease the consolidated loss before the cumulative effect of the accounting change by $581,907 ($0.03 per share).

For the three months ended March 31, 2000, we recognized $1,137,907 in revenue that was included in the cumulative effect adjustment as of January 1, 2000. The effect of that revenue and related cost of revenue of $556,000 in the first quarter was to reduce the consolidated loss by $581,907 during that period. The unaudited pro forma amounts presented in the statement of operations were calculated assuming the accounting change was made retroactively to prior periods.

3. Inventories. At June 30, 2001, the components of inventory were:

Raw materials	$ 626,024
Work-in-process	846,183
Finished goods	1,019,294
Deferred product development contract costs	565,795
	$3,057,296

4. Stockholders' equity. During the three months ended June 30, 2001, proceeds of $117,000 were received and 1,529,413 shares of common stock were issued in conjunction with financing under our Private Equity Line of

Credit Agreement.

On May 10, 2001, 256,649 shares of common stock, with a fair value of $30,798, were issued to employees under our 2000 Long-Term Performance Plan as part of an employee bonus for 2000 performance.

On June 11, 2001, 200,000 shares of unregistered common stock, with a fair value of $24,000, were issued as compensation for services performed in conjunction with short-term financing.

5. Net loss per share. At June 30, 2001, outstanding options to purchase 1,658,378 shares of common stock (with exercise prices ranging from $0.01 to $8.88), 11,843,560 outstanding warrants to purchase 16,067,324 shares of common stock (with exercise prices from $0.01 to $4.39), and 3,034,550 shares of common stock issuable upon conversion of Series G and H convertible preferred stock could potentially dilute basic earnings per share in the future and have not been included in the computation of diluted net loss per share because to do so would have been antidilutive for the periods presented. The exercise price and the ultimate number of shares of common stock issuable upon conversion of the warrants are subject to adjustments based upon the occurrence of certain future events.

6. Accumulated other comprehensive loss.

	Three months ended June 30,		Six months ended June 30,	
	2001	2000 (Restated)	2001	2000 (Restated)
Net loss before preferred stock accretion and dividend	$ 922,376	$986,960	$ 2,222,219	$ 3,627,217
Other comprehensive loss:				
Foreign currency translation	78,146	19,374	415,918	102,239
Comprehensive loss	$ 1,000,522	$1,006,334	$ 2,638,137	$ 3,729,456

7. Recent Accounting Pronouncements. We adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," on January 1, 2001. This statement standardized the accounting for derivatives and hedging activities and requires that all derivatives be recognized in the statement of financial position as either assets or liabilities at fair value. Changes in the fair value of derivatives that do not meet the hedge accounting criteria are to be reported in earnings. The adoption of SFAS No. 133 on January 1, 2001 had no effect on our consolidated financial statements.

On June 29, 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations. Under statement No. 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually, or more frequently if impairment indicators arise, for impairment. Intangible assets whose lives are not indefinite are amortized over their useful lives, and reviewed for impairment in accordance with SFAS No. 121. We have not yet determined the impact, if any, that SFAS Nos. 141 and 142 will have on our consolidated financial statements. We now evaluate our intangible assets in accordance with SFAS No. 121, and will adopt SFAS Nos. 141 and 142 on January 1, 2002.

Item 2. Management's Discussion and Analysis

Results of Operations

Net sales of $2.4 million for the three months ended June 30, 2001 were more than double the sales of the second quarter of 2000, bringing year-to-date 2001 sales to 135% of their 2000 level. Revenue for the second quarter of 2001 included three systems sales (two ROBODOC®s and one NeuroMate®) while the 2000 period contained only one ROBODOC® sale.

Selling, general and administrative ("SG&A") expense at $981,000 for the three months ended June 30, 2001 is $92,000 lower than for the same period of 2000—the result of continued cost containment. The comparative SG&A increase of $203,000 for the first half of 2001 over the first half of 2000 was the result of the transfer of most sales and marketing expense to a European distributor during the first quarter of 2000. In the first half of 1999, the last comparable period in which these costs were incurred in full, SG&A expenses were $3.1 million. Research and development expenses for 2001 show the effect of cost-savings measures undertaken in 2000 in response to lowered sales projections.

Other income for the three month period ended June 30, 2000 included approximately $740,000 of licensing fees paid to the Company under an exclusive distribution agreement which was terminated in May 2000. No corresponding income was received in 2001. The other major component of other expense, foreign currency exchange loss, increased $169,000 during the first six months of 2001 over the comparable period of 2000 as the dollar strengthened against European currencies.

Liquidity

The report of our independent auditors on our 2000 consolidated financial statements included an explanatory paragraph indicating that there is substantial doubt with respect to the Company's ability to continue as a going concern. Since inception, our expenses have exceeded our revenue, and operations have been funded primarily through the sale of equity securities. As discussed below under "Capital Resources," it is unlikely that the equity markets will continue to support fund-raising at historic levels. We believe, however, that we have begun to generate sales at a level sufficient to ensure our survival through the remainder of 2001. Although we believe that our plan will be realized, there is no assurance that these events will occur. The consolidated financial statements do not include any adjustments to reflect the uncertainties related to the recoverability and classification of assets or the amounts and classification of liabilities that may result from our inability to continue as a going concern.

Our cash balance at June 30, 2001 was half of the cash balance at the end of the second quarter of 2000, but has increased $261,000 from the balance at December 31, 2000. During the first half of 2000, we raised $2.3 million, net of redemptions, through the sale of convertible preferred stock, while during the first half of 2001, we raised $667,000 through our equity financing line. The increased revenue of the first half of 2001 versus 2000 closed some of this funding gap, but on June 30, 2001, our current liabilities exceeded our current assets, accounts payable contributed $378,000 to cash flow over the six month period, and it has been difficult for us to meet our obligations as they become due.

Inventory provided $876,000 to cash flow during the six months ended June 30, 2001, as systems were shipped from supplies already on hand. Unearned income, at $2.8 million, represented 51% of the company's liabilities at June 30, 2001, an increase in cash flow of $432,000 over December 31, 2000. Unearned income includes payments for systems sales on which revenue is not yet recognized, as well as advance payment for service contracts which revenue is recognized ratably over the period of the contract and deposits on product development contracts. Our $196,000 cash flow impact from accounts receivable, our largest use of cash since December 31, 2000, represents unpaid balances due on products shipped near the end of the second quarter, for which revenue has not yet been recognized.

Capital Resources

In the first quarter of 2001, our common stock and warrants were delisted from the NASDAQ because the stock did not maintain the exchange's minimum bid price of $1.00 per share. On May 24th, the OTC Bulletin Board ceased providing quotes for our common stock and warrants because we had not filed our Form 10-KSB for the year ended December 31, 2000 and our Form 10-QSB for the quarter ended March 31, 2001 with the Securities and Exchange Commission ("SEC"). Quotes for our common stock and warrants are now available only through the pink sheets.

Our annual report on Form 10-KSB was filed on June 27, 2001 and our Form 10-QSB for the quarter ended March 31, 2001 was filed on July 26, 2001 and we believe that we are now in compliance with all of our SEC filing obligations. There is no assurance, however, that the OTC Bulletin Board will resume its quotation of our common stock. Without the relative visibility which would accompany Bulletin Board coverage, it is likely that our equity market activities will be limited.

We have received net proceeds of $742,000 through our Private Equity Line of Credit Agreement from inception through August 1, 2001, and through that date, have $11.3 million in additional credit on which to draw. However, the price of our common stock, $0.12 at June 30, 2001, means that the use of the equity line of credit causes significant dilution to our common shareholders.

Part II. Other Information

Item 2. Changes in Securities and Use of Proceeds

On June 11, 2001, 200,000 shares of unregistered common stock were issued to Triton West Group, Inc., an accredited investor, as compensation for services performed in conjunction with short-term financing. The transaction was exempt from the registration requirements of the Securities Act under Rule 506 of Regulation D.

During the second quarter of 2001, we sold an aggregate of 1,529,413 shares of common stock to Triton West Group, Inc. for a total purchase price of $117,000 under an equity line of credit agreement. The purchaser is an accredited investor. The sale was exempt from the registration requirements of the Securities Act under Section 4(2) of the Securities Act and Rule 506 of Regulation D.

Item 6. Exhibits and Reports on Form 8-K

None.

SIGNATURE

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTEGRATED SURGICAL SYSTEMS, INC.

By: /s/ PATRICIA E. PILZ
Patricia E. Pilz
(Principal Financial and Accounting Officer)

Dated: August 13, 2001