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 September 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
(State or Other Jurisdiction of
Incorporation or Organization)

68-0232575
(IRS Employer Identification Number)

1850 Research Park Drive, Davis, CA
(Address of Principal Executive
Offices)

95616-4884
(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
Common Stock, $.01 Par Value
Common Stock Purchase Warrants

Name of Each Exchange on Which Each
Class is Registered
None
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 November 7, 2001 the issuer had 38,306,385 shares of common stock,
$.01 par value, outstanding.

INTEGRATED SURGICAL SYSTEMS, INC.
FORM 10-QSB
FOR THE QUARTER ENDED SEPTEMBER 30, 2001
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Part I. Financial Information

Item 1. Financial Statements (unaudited)

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

Assets		
Current assets:		
Cash and cash equivalents	$	471,219
Accounts receivable less allowance for doubtful accounts of $115,022		1,881,083
Inventory		2,226,501
Other current assets		172,496
Total current assets		4,751,299
Net property and equipment		367,414
Leased equipment, net		355,405
Intangible assets, net		707,618
Other assets		10,603
	$	6,192,339
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$	1,448,467
Accrued payroll and related expense		467,784
Accrued liabilities		338,236
Unearned income		3,090,954
Other current liabilities		370,300
Total current liabilities		5,715,741
Note payable		89,482
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)		364,000
Stockholders' equity:		
Common stock, $0.01 par value, 100,000,000 shares authorized; 36,931,385 shares issued and outstanding		369,314
Additional paid-in capital		61,752,724
Accumulated other comprehensive loss		(1,039,919)
Accumulated deficit		(61,059,003)
Total stockholders' equity		23,116
	$	6,192,339

See accompanying notes.

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

	Three months ended September 30, 2001	2000 (Restated)
Net sales	$ 2,734,660	$ 2,400,689
Cost of sales	1,331,882	1,229,408
	1,402,778	1,171,281

Operating expenses:		
Selling, general and administrative	1,004,258	1,475,842
Research and development	845,706	618,448
Amortization of Intangibles	209,760	209,760
	2,059,724	2,304,050
Operating loss	(656,946)	(1,132,769)
Other income (expense), net	166,532	(455,993)
Net loss before preferred stock accretion	(490,414)	(1,588,762)
Preferred stock accretion	(38,275)	(411,029)
Net loss to common stockholders	$ (528,689)	$ (1,999,791)
Basic and diluted net loss per common share	$ (0.01)	$ (0.11)
Shares used in computing basic net loss per share	36,878,894	17,927,065

See accompanying notes.

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

	Nine months ended September 30, 2001	2000 (Restated)
Net sales	$ 6,760,633	$ 5,380,622
Cost of sales	2,885,129	2,564,901
	3,875,504	2,815,721
Operating expenses:		
Selling, general and administrative	3,185,214	3,454,188
Research and development	2,696,968	3,650,861
Amortization of Intangibles	629,280	629,280
	6,511,462	7,734,329
Operating loss	(2,635,958)	(4,918,608)
Other income (expense), net	(76,675)	299,536
Loss before provision for income taxes	(2,712,633)	(4,619,072)
Provision for income taxes	-	15,000
Net loss before cumulative effect of accounting change	(2,712,633)	(4,634,072)
Cumulative effect of accounting change under SAB 101	-	(581,907)
Net loss before preferred stock accretion	(2,712,633)	(5,215,979)
Preferred stock accretion	(38,275)	(3,609,845)
Net loss to common stockholders	$ (2,750,908)	$ (8,825,824)
Basic and diluted net loss per common share before cumulative effect of accounting change	$ (0.08)	$ (0.49)
Cumulative effect of accounting change under SAB 101	-	(0.03)
Basic and diluted net loss per common share	$ (0.08)	$ (0.53)

Shares used in computing basic net loss per share	35,304,598	16,803,453
Pro forma amounts assuming the accounting change under SAB 101 is applied retroactively:		
Net loss to common stockholders	$ (2,750,908)	$ 8,243,917)
Basic and diluted net loss per common share	$ (0.08)	$ (0.49)

See accompanying notes.

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

	Nine months ended September 30, 2001	2000 (Restated)
Cash flows from operating activities:		
Net loss	$(2,712,633)	$ (5,215,979)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	259,513	399,981
Amortization of intangible assets	629,280	629,280
Stock compensation	58,289	236,058
Changes in operating assets and liabilities:		
Accounts receivable	(1,050,108)	(1,035,444)
Inventory	1,758,783	(630,332)
Other current assets	150,368	(129,810)
Accounts payable	362,630	(824,051)
Accrued payroll and related expenses	45,569	19,706
Accrued liabilities	(63,652)	106,989
Unearned income	649,931	285,888
Other current liabilities	(282,560)	30,595
Net cash used in operating activities	(194,590)	(6,127,119)
Cash flows from investing activities:		
Principal payments received on sales-type lease	58,311	221,492
Purchases of property and equipment	-	(115,045)
Net cash provided by investing activities	58,311	106,447
Cash flows from financing activities:		
Payments on bank loans	(40,962)	(49,036)
Proceeds from sale of preferred stock and warrants	-	4,524,506
Proceeds from sale of common stock and warrants	632,000	-
Proceeds from exercise of stock options	-	31,501
Redemption of preferred stock	-	(1,185,000)
Net cash provided by financing activities	591,038	3,321,971
Effect of exchange rate changes on cash and cash equivalents	(259,862)	176,996
Net increase (decrease) in cash and cash equivalents	194,897	(2,521,705)
Cash and cash equivalents at beginning of period	276,322	2,918,016
Cash and cash equivalents		

at end of period	$	471,219	$	396,311

See accompanying notes.

Integrated Surgical Systems Inc.
Notes to Consolidated Financial Statements (unaudited)
September 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 nine month period ended September 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 September 30, 2001, the components of inventory were:

Raw materials	$ 449,914
Work-in-process	664,876
Finished goods	982,341
Deferred product development contract costs	129,370
	$2,226,501

4. Stockholders' equity. On September 21, 2001, 58,183 shares of common stock, with a fair value of $3,491, were issued to employees under our 2000 Long-Term Performance Plan as part of an employee bonus for 2000 performance.

On October 25, 2001 our board of directors approved a twelve month extension of the expiration date of all of our warrants to purchase common stock outstanding on October 25, 2001. The various warrant issues, the number of warrants outstanding, the number of shares of common stock which the warrants may purchase, the exercise price and the extended expiration date are listed below:

Warrant	Number of Warrants	Number of Shares	Exercise Price	Extended Expiration Date
IBM	2,206,479	2,206,479	$0.0100	December 31, 2006
IPO public offering	1,567,000	6,112,552	$1.5400	November 19, 2002
IPO underwriters (1)	339,250	1,323,344	$1.5400	November 19, 2002
IPO underwriters (2)	152,500	663,384	$1.9000	November 19, 2002
Rickel & Associates,Inc.	25,000	105,510	$1.7800	September 4, 2003
EASDAQ underwriters	150,000	654,680	$1.9100	November 21, 2003
Series B Preferred	12,500	12,500	$2.7500	March 25, 2003
Series C Preferred	9,375	9,375	$2.1531	June 9, 2003
Series D Preferred	25,000	25,000	$3.4125	June 29, 2003
Series E Preferred	37,500	37,500	$4.3880	July 29, 2003
Series F Preferred	125,000	125,000	$2.3750	February 7, 2004
Series G Preferred	63,000	63,000	$1.8750	May 29, 2004
Series H Preferred (1)	300,000	300,000	$0.9344	August 16, 2004
Series H Preferred (2)	250,000	250,000	$1.0156	August 16, 2004
Series H Preferred (3)	100,000	100,000	$0.5000	August 16, 2004
Equity Line	35,000	35,000	$0.8590	September 14,2004
ILTAG International Licensing Holding S.A.L.	4,000,000	4,000,000	$1.0270	December 13, 2003
		16,023,324		

5. Net loss per share. At September 30, 2001, outstanding options to purchase 1,915,578 shares of common stock (with exercise prices ranging from $0.01 to $8.88), 9,397,604 outstanding warrants to purchase 16,023,324 shares of common stock (with exercise prices from $0.01 to $4.39), and 3,641,460 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 September 30,		Nine months ended September 30,	
	2001	2000 (Restated)	2001	2000 (Restated)
Net loss before preferred stock accretion	$ 490,414	$1,588,762	$2,712,633	$5,215,979
Other comprehensive loss:				
Foreign currency translation	87,588	24,298	503,506	77,941
Comprehensive loss	$ 578,002	$1,613,060	$3,216,139	$5,293,920

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 revenue of $2,735,000 for the three months ended September 30, 2001 brings year-to-date 2001 revenue to $6,761,000, compared to $5,934,000 for the whole of calendar 2000. Revenue for six systems has been recognized through the third quarter of 2001 (including three in the three months ended September 30, 2001) against four systems in all of 2000.

Selling, general and administrative ("SG&A") expense at $1,004,000 for the three months ended September 30, 2001 is $470,000 lower than for the same period of 2000--the result of cost containment efforts. SG&A rose slightly ($23,000) in the third quarter against the second quarter of 2001, as travel expense associated with our marketing efforts increased. During the first five months of 2000, most European selling expenses were transferred to an exclusive distributor. However, administrative cost reductions through 2001 led to a favorable SG&A comparison to year-to-date 2000, despite this offset.

Research and development ("R&D") expenses for 2001 are lower than 2000 on a year-to-date basis due to cost-savings measures undertaken in 2000 in response to lowered sales projections. While the three months ended September 30, 2001 show a $227,000 increase in R&D expenses over the same period last year, significant resources were redirected from R&D to product development contracts in the third quarter of 2000, resulting in a decrease of approximately $492,000 in R&D expense.

Other income for the three month period ended September 30, 2001 included a transportation claim settlement of approximately $54,000. The other major component of other income, foreign currency exchange gain, was $108,000 as the dollar weakened slightly against European currencies in the third quarter in comparison to the first half of 2001. The major components of 2000 other income on a year-to-date basis were approximately $740,000 of licensing fees we received under an exclusive distribution agreement which was terminated in May 2000, offset by approximately $450,000 in foreign currency losses. There were no comparable licensing fees received in 2001, and foreign exchange losses were approximately $107,000 through the third quarter.

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. We believe, however, that we have begun to generate sales at a level sufficient to ensure our survival. Although we believe that our plan will be realized, there is no assurance that this 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 September 30, 2001 was $75,000 greater than at end of the third quarter of 2000, and has increased $195,000 from the balance at December 31, 2000 as systems sales have increased year-over-year. However, at September 30, 2001, our current liabilities exceeded our current assets, accounts payable contributed $363,000 to cash flow over the nine month period, and it has been difficult for us to meet our obligations as they become due.

Inventory provided approximately $882,000 to cash flow during the third quarter of 2001 and $1,759,000 during the nine months ended September 30, 2001, as systems were shipped from supplies already on hand. Unearned income, at $3,091,000, represented 53% of the our liabilities at June 30, 2001. Unearned income includes payments for systems sales on which revenue is not yet recognized, advance payment for service contracts which revenue is recognized ratably over the period of the contract and deposits on product development contracts. Accounts receivable have been our largest use of cash, $1,050,000, since December 31, 2000. Receivables have increased $905,000 from their second quarter 2001 level, as cash for 1.5 systems remained outstanding at the end of the quarter.

Capital Resources

On October 23, 2001 the OTC Bulletin Board began to offer quotations on our common stock. Between May 24 and October 22, 2001 quotes were available only through the pink sheets. While we believe that Bulletin Board coverage will make it easier for our shareholders to trade their common stock, our shares closed at $0.06 on October 31, making it unlikely that the equity markets will support fundraising activity at our historic level.

We have received proceeds of $742,000 through our Private Equity Line of Credit Agreement from its inception on November 2, 2000 through October 31, 2001, and through that date have $11,258,000 in additional credit on which to draw. However, the level of our current share price means that any use of the equity line of credit will cause significant dilution to our common shareholders.

Part II. Other Information

Item 6. Exhibits and Reports of Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

On October 30, 2001 we filed a Form 8-K concerning the extension of the expiration date of our outstanding warrants to purchase common stock.

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 PILZ

Patricia Pilz
(Principal Financial and Accounting Officer)

Dated: November 8, 2000