

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-QSB

Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended June 30, 2004

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.

(Exact name of small business issuer as specified in its charter)

Delaware

68-0232575

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

1850 Research Park Drive, Davis, California 95616-4884

(Address of principal executive offices)

(530) 792-2600

(Issuer's telephone number)

N/A

(Former name, former address and formal fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period 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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: The number of shares of the issuer's common stock outstanding as of November 15, 2004 was 45,084,089

Transitional Small Business Disclosure Format: Yes No

Integrated Surgical Systems, Inc.
Form 10-QSB
For the quarter ended June 30, 2004
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Part I. Financial Information

Item 1. Financial Statements (unaudited)

Integrated Surgical Systems, Inc.
Condensed Consolidated Balance Sheet
June 30, 2004
(Unaudited)

Assets	
Current assets:	
Cash	\$ 634
Accounts receivable	121,419
Inventories	527,487
Other current assets	107,800

Total current assets	757,340
Property and equipment, net	21,332

	\$ 778,672
	=====
Liabilities and stockholders' deficit	
Current liabilities:	
Accounts payable	\$ 2,333,183
Accrued payroll and related expense	1,417,536
Accrued liabilities	331,003
Unearned income	2,335,292
Other current liabilities	280,533

Total current liabilities	6,697,547
Commitments and contingencies	
Convertible preferred stock, \$0.01 par value, 1,000,000 shares authorized; 168 shares issued and outstanding (\$168,496 aggregate liquidation value)	168,496
Stockholders' deficit:	
Common stock, \$0.01 par value, 100,000,000 shares authorized; 44,936,966 shares issued and outstanding	449,370
Additional paid-in capital	61,906,740
Accumulated deficit	(68,443,481)

Total stockholders' deficit	(6,087,371)

	\$ 778,672
	=====

See accompanying notes.

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

	Three months ended June 30,	
	----- 2004 -----	----- 2003 -----
Net revenue	\$ 467,072	\$ 1,941,194
Cost of revenue	263,330	1,469,206
	-----	-----
	203,742	471,988
Operating expenses:		
Selling, general and administrative	327,262	592,420
Research and development	331,002	288,143
	-----	-----
	658,264	880,563
	-----	-----
Operating loss	(454,522)	(408,575)
Other income (expense), net:	(1,113)	53,738
	-----	-----
Net loss	\$ (455,635)	\$ (354,837)
	=====	=====
Basic and diluted net loss per common share	\$ (0.01)	\$ (0.01)
	=====	=====
Shares used in computing basic and diluted net loss per share	44,880,918	42,571,876
	=====	=====

See accompanying notes.

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

	Six months ended June 30,	
	----- 2004 -----	----- 2003 -----
Net revenue	\$ 1,249,873	\$ 4,961,796
Cost of revenue	558,430	3,136,137
	-----	-----
	691,443	1,825,659
Operating expenses:		
Selling, general and administrative	683,144	1,370,983
Research and development	718,483	736,412
	-----	-----
	1,401,627	2,107,395
	-----	-----
Operating loss	(710,184)	(281,736)
Other income (expense), net:	(2,088)	96,890
	-----	-----
Net loss	\$ (712,272)	\$ (184,846)
	=====	=====
Basic and diluted net loss per common share	\$ (0.02)	\$ (0.00)
	=====	=====
Shares used in computing basic and diluted net loss per share	44,874,138	42,276,812
	=====	=====

See accompanying notes.

Integrated Surgical Systems, Inc.
Condensed Consolidated Statements Cash Flows (Unaudited)

	Six months ended June 30,	
	2004	2003
Cash flows from operating activities:		
Net loss	\$ (712,272)	\$ (184,846)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	13,665	147,244
Non-cash compensation charge	3,800	--
Changes in operating assets and liabilities:		
Accounts receivable	(10,663)	783,067
Inventories	(40,533)	425,907
Other current assets	5,109	36,035
Accounts payable	370,334	111,255
Accrued payroll and related expenses	536,089	285,819
Accrued liabilities	(23,913)	28,189
Unearned income	(508,881)	(1,548,762)
Other current liabilities	103,446	28,899
	(263,819)	112,807
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Purchases of property and equipment	--	(17,708)
	--	(17,708)
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Proceeds from exercise of stock options	945	--
Proceeds from officer advances and deferrals of salaries and unreimbursed travel expenses	180,799	339,847
Payments on officer advances, deferred salaries and unreimbursed travel expenses	(60,200)	(140,962)
	121,544	198,885
Net cash provided by financing activities		
Effect of exchange rate changes on cash	--	(88,115)
	(142,275)	205,869
Net increase (decrease) in cash		
Cash at beginning of period	142,909	82,069
	\$ 634	\$ 287,938
Cash at end of period		
	\$ 634	\$ 287,938
Supplemental disclosure of non-cash investing activity:		
Conversion of preferred stock	\$ --	\$ 32,000

See accompanying notes.

Integrated Surgical Systems, Inc.
Notes to Condensed Consolidated Financial Statements (unaudited)
June 30, 2004

1. Basis of presentation

The condensed consolidated financial statements have been prepared by Integrated Surgical Systems, Inc. (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted as permitted by such rules and regulations. While the interim financial information contained in this filing is unaudited, such financial statements reflect all adjustments, consisting only of normal recurring adjustments, which the Company considers necessary for a fair presentation. The results for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal period ended December 31, 2003.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and related disclosures. Actual results could differ from those estimates.

2. Results of Operations and Management's Plan

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying condensed consolidated financial statements for the six-month period ended June 30, 2004, the Company incurred a net loss for such six-month period of \$712,272 and had an accumulated deficit as of June 30, 2004 of \$68,443,481. For the year ended December 31, 2003, the Company incurred a net loss of \$3,250,219 and had an accumulated deficit at December 31, 2003 of \$67,731,209. The report of independent auditors on the Company's December 31, 2003 consolidated financial statements includes an explanatory paragraph indicating there is substantial doubt about the Company's ability to continue as a going concern. The Company believes that it has a plan to address these issues and enable the Company to continue operating through June 30, 2005. This plan includes obtaining additional equity or debt financing, increasing product sales in existing markets, increasing sales of system upgrades, and further reductions in operating expenses as necessary (see note 5). Although the Company believes that the plan will be realized, there is no assurance that these events will occur. In the event that the Company is unsuccessful, it is possible that it will cease operations and/or seek bankruptcy protection. The June 30, 2004 condensed 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 an inability of the Company to continue as a going concern.

3. Inventories

At June 30, 2004, the components of inventories were:

Raw materials	\$120,513
Work-in-process	233,726
Finished goods	124,608
Deferred product development contract costs	48,640

	\$527,487
	=====

4. Warranty and Service Contracts

The Company offers a one-year warranty for parts and labor on all ROBODOC(R) systems generally commencing upon the completion of training and installation. In most cases, the Company's customers purchase a service contract, which includes warranty coverage (parts and labor), unspecified product maintenance updates, customer support services and various consumables required during surgical procedures. Customers not covered by warranties or service contracts are billed on a time and materials basis for service, and on a per unit basis for products. At June 30, 2004, the Company had no recorded warranty liability as all systems within the one-year warranty period were covered by service contracts. Revenue related to maintenance and service contracts is recognized ratably over the duration of the contract.

5. Securities Purchase Agreement

To obtain funding for the Company's ongoing operations, the Company entered into a securities purchase agreement (the "Agreement") with an accredited investor on June 15, 2004 with respect to the sale by the Company for aggregate consideration of \$150,000 of (i) a convertible debenture in the principal amount of \$150,000 and (ii) warrants to purchase 1,500,000 shares of Company common stock. The Company is obligated to register under the Securities Act for resale by the investor the common stock underlying the debenture and warrants. The investor provided the Company with a \$200,000 consideration as follows:

- o \$100,000 was disbursed to the Company on June 15, 2004;
- o \$50,000 was disbursed to the Company on October 19, 2004; and
- o \$50,000 has been retained for disbursement to various professionals in payment for services to be provided to the Company.

The convertible debenture bears interest at 6 3/4%, matures two years from the date of issuance, and is convertible into Company common stock, at the investor's option. The convertible debenture is convertible into the number of shares of Company common stock equal to the principal amount of the debenture being converted multiplied by 11, less the product of the conversion factor multiplied by ten times the dollar principal amount of the debenture being converted. The conversion factor for the convertible debenture is the lesser of (i) \$0.25 or (ii) eighty percent of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. Accordingly, there is in fact no limit on the number of shares into which the debenture may be converted. In addition, the investor is obligated to proportionately exercise, concurrently with the submission of a conversion notice by the selling stockholder, the warrants. The warrants are exercisable into 1,500,000 shares of common stock at an exercise price of \$1.00 per share.

The investor has contractually agreed to restrict its ability to convert or exercise its warrants and receive shares of Company common stock such that the number of shares of common stock held by it and its affiliates after such conversion and exercise does not exceed 4.9% of the then issued and outstanding shares of Company common stock.

The issuance of more than 51.5 million shares of common stock pursuant to this agreement would require the Company to issue shares of common stock in excess of the Company's authorized capital. The Company intends to seek stockholders approval to increase the Company's current authorized common stock from 100,000,000 to 300,000,000 shares. Such solicitation will be made pursuant to a proxy statement conforming to the rules and regulations of the Securities and Exchange Commission. This Quarterly Report on Form 10-QSB should not be considered, in any manner, a solicitation for voting in favor of such an increase in authorized stock.

The issuance of the convertible debenture and warrants to the investor is contingent upon stockholder approval of the increase in the Company's authorized common stock. If such approval is not received, the Agreement will terminate and the Company will be obligated to repay the proceeds received. As a result, the Company recorded such proceeds in other current liabilities.

6. Stockholders' equity

During the six-month period ended June 30, 2004, 29,608 shares of common stock were issued as a result of employees exercising stock options at exercise prices ranging from \$0.025 to \$0.06 per share. The Company also issued 40,000 shares of its common stock at \$ 0.095 per share as payment for services rendered.

7. Stock-Based Compensation

The Company uses the intrinsic value method in accounting for its employee stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under the intrinsic value method, when the exercise price of employee stock option equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized. Stock option awards which are granted at less than fair market value result in the recognition of deferred compensation. Deferred compensation is shown as a reduction of stockholders' equity and is amortized to operating expenses over the vesting period of the stock award. The Company had no deferred compensation at June 30, 2004.

Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure of an Amendment of SFAS No. 123" and Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," require the disclosure of certain information as if the Company had adopted the fair value provisions of SFAS No. 123. The table below illustrates the effect on net loss and net loss per share had the Company adopted the fair value provisions of SFAS No. 123 using the following assumptions for the three months and six months ended June 30, 2004 and 2003, respectively: risk-free interest rates of 3.0% and 3.0%; volatility factors of the expected market price of the common stock of 1.004 and 0.950; and an expected life of the option of 4 years.

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Net loss	\$(455,635)	\$(354,837)	\$(712,272)	\$(184,846)
Add: stock-based employee compensation included in reported net loss	--	--	--	--
Less: stock-based employee compensation expense, determined under fair value methods for all awards	(3,443)	(34,814)	(11,902)	(60,948)
Pro forma net loss	\$(459,078)	\$(389,651)	\$(724,174)	\$(245,794)
Loss per share:				
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.00)

8. Net loss per share

Basic net loss per share is computed by dividing the net loss available to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of common and potential common shares outstanding during the period if their effect is dilutive. Potential common shares are comprised of outstanding employee stock options, outstanding warrants and outstanding preferred stock issuable upon the exercise of the stock option, warrant or preferred stock. The potential common shares issuable under stock options, warrants and preferred stock to purchase common shares have been excluded for the three and six month periods ending June 30, 2004 and 2003 respectively, from the diluted calculation because the effect of such shares would have been anti-dilutive.

At June 30, 2004, the Company had outstanding options to purchase 2,379,234 shares of common stock (with exercise prices ranging from \$0.025 to \$8.50 per share), 2,991,479 outstanding warrants to purchase 2,991,479 shares of common stock (with exercise prices from \$0.06 to \$1.02 per share), and 3,510,333 shares of common stock issuable upon conversion of Series G convertible preferred stock. The exercise price and the ultimate number of shares of common stock issuable upon exercise of outstanding options and warrants and conversion of the Series G convertible preferred stock are subject to adjustments based upon the occurrence of certain future events.

9. Accumulated Other Comprehensive Loss

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Net loss	\$(455,635)	\$(354,837)	\$(712,272)	\$(184,846)
Other comprehensive loss:				
Foreign currency translation	--	(36,559)	--	(58,275)
Comprehensive loss	\$(455,635)	\$(391,396)	\$(712,272)	\$(243,121)

10. Contingencies

The Company is subject to legal proceedings and claims that arise in the normal course of business. The Company cannot assure that it would prevail in such matters nor can it assure that the Company would have sufficient funds available to satisfy any adverse judgement. Due to the inherent uncertainties of litigation, were there any such matters, the Company would not be able to accurately predict their ultimate outcome. As of June 30, 2004, there were no current proceedings or litigation involving the Company that the Company believes, if judgement were rendered against the Company, would have a material adverse impact on its financial position, results of operations or cash flows.

Item 2. Management's Discussion and Analysis

The discussion in this Quarterly Report on Form 10-QSB contains forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current expectations, estimates and projections about the software industry and certain assumptions made by the Company's management. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "could," "would," "may" and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Unless required by law, the Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. However, readers should carefully review the risk factors set forth in other reports or documents the Company files from time to time with the SEC, particularly the Company's Annual Report on Form 10-KSB, Quarterly Reports on Form 10-QSB and any Current Reports on Form 8-K.

The following discussion should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and Notes thereto in Part I, Item 1 of this Quarterly Report on Form 10-QSB and with the audited Consolidated Financial Statements and Notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003 as filed with the SEC.

Overview

The Company designs, manufactures, sells and services image-directed, computer-controlled robotic software and hardware products for use in orthopedic and neurosurgical procedures.

In 1997, the Company acquired a 100% interest in a French company, Innovative Medical Machines International, S.A. ("ISS-SA"), involved in the manufacturing and servicing of neurosurgical products.

Under French law, a company whose net assets are less than 50% of its capital stock may come under the supervision and control of a regional administrative tribunal. On September 30, 2003 the Tribunal de Commerce (the "Tribunal") in Lyon, France determined that ISS-SA met the criteria for it to appoint an administrator to manage the Company's operations. The Tribunal acted after a hearing in which the Company and ISS-SA discussed the ability of ISS-SA to meet its obligations over the next four months and the Company's unwillingness to further fund its operations due to ISS-SA's history of operating losses. The Tribunal authorized the administrator to manage ISS-SA's operations pending a review of ISS-SA's operations and cash flow projections. Subsequent to its appointment, the administrator exercised control over all aspects of ISS-SA's operations including employee retention, purchasing, sales and inventory management. As a result, effective with the administrator's appointment, the Company no longer had access to the assets, personnel or records of ISS-SA.

On October 30, 2003, representatives of the Company met with the Tribunal to review the status of ISS-SA. At that meeting, the Tribunal determined that ISS-SA was making progress in improving its financial position and scheduled another meeting for December 2003. Prior to such meeting, the Tribunal reevaluated its decision to allow ISS-SA to continue operating and caused the assets and operations of ISS-SA to be sold, effectively terminating ISS-SA's operations on December 23, 2003. The Company recorded a loss of \$1,516,519 in connection with the liquidation of the Company's investment in ISS-SA and closure of the Company's European operation in the fourth quarter of 2003.

The Company's revenue consists of product revenue, product development revenue, parts and consumables and service revenue.

Product revenue consists of the Company's principal orthopaedic product, the ROBODOC(R) Surgical Assistant System ("ROBODOC"), which integrates the ORTHODOC(R) Presurgical Planner ("ORTHODOC") with a computer-controlled robot for use in joint replacement surgeries. Also included in product revenue for the first and second quarters of 2003 are sales of the NeuroMate(TM) System ("NeuroMate"), which consists of a computer-controlled robotic arm, head stabilizer, presurgical planning workstation and proprietary software used to position and precisely hold critical tools during stereotactic brain surgery. The Company develops specialized operating software for several implant manufacturing companies. These implant manufacturers contract with the Company for the development of particular lines of new prosthesis software to be used with the ROBODOC system. Fees for these services are recorded as product development revenue as earned.

The Company offers a one-year warranty for parts and labor on all ROBODOC systems generally commencing upon the completion of training and installation. In most cases, the Company's customers purchase a service contract, which includes warranty coverage (parts and labor), unspecified product maintenance updates, customer support services and various consumables required during surgical procedures. Customers not covered by warranties or service contracts are billed on a time and materials basis for service, and on a per unit basis for products. Revenue related to maintenance and service contracts is recognized ratably over the duration of the contract.

Results of Operations

For the three-month period ending June 30, 2004, net revenue decreased approximately 76% or \$1.5 million when compared to the three-month period ended June 30, 2003. Cost of revenue for the same three-month comparative periods decreased 82% or \$1.2 million which resulted in a decrease in the gross margin of 57% or \$0.3 million. Operating expenses decreased during the three-month period ending June 30, 2004 compared to the same three-month period of 2003 by 25% or \$0.2 million, with an operating loss of approximately \$455,000 and net loss of \$456,000 as compared to an operating loss of \$409,000 and net loss of

\$355,000, respectively, for the same three-month comparative periods. For the six-month period ending June 30, 2004, net revenue decreased 75% or \$3.7 million when compared to the six-month period ended June 30, 2003. Cost of revenue for the same six-month comparative periods decreased 82% or \$2.6 million which resulted in a decrease in the gross margin of 62% or \$1.1 million. Operating expenses decreased during the six-month period ending June 30, 2004 compared to the same six-month period of 2003 by 33% or \$0.7 million, with an operating loss of approximately \$710,000 and net loss of approximately \$712,000 as compared to an operating loss of approximately \$282,000 and net loss of approximately \$185,000 respectively for the same six-month comparative periods.

Net Revenue

Net revenue of \$1.9 million for the second quarter of 2003 decreased to \$0.5 million for the second quarter of 2004. This 76% decrease for comparative quarters is primarily due to the loss of \$0.9 million in net revenue generated by the Company's European operations, that were liquidated during the fourth quarter of 2003. The remaining reduction in revenue in the second quarter of 2004, when compared to the second quarter of 2003, was primarily the result of a \$450,000 decrease in product development revenue due to decreases in the number of projects and development activity that the Company's non-European operations were involved in. During the second quarter ending June 30, 2003 revenue on one Robodoc and two Neuromates's was recognized while revenue of only one refurbished Robodoc was recognized during the second quarter ended June 30, 2004.

Net revenue decreased 75% from \$5.0 million during the first six-months of 2003 to \$1.2 million during the first six months of 2004. The decrease in net revenue was primarily due to the elimination of \$2.6 million in net revenue generated by the Company's European operations, which were liquidated in December 2003. The remaining reduction of \$1.2 million in revenue in the first six months of 2004, when compared to the first six months of 2003, was primarily due to a decrease of \$0.9 in product development revenue as a result of decreases in the number of projects and development activity that the Company's non-European operations were involved in. During the six-month period ended June 30, 2003 the Company had recognized revenue on four ROBODOC systems and four NeuroMate systems while only two ROBODOC systems were sold for the same six-month period of 2004. Both of the ROBODOC systems in 2004 were previously returned units, which were recorded in inventory at a zero dollar value, and have a lower average selling price when resold.

Cost of revenue

Cost of revenue decreased 82% from \$1.5 million during the second quarter of 2003 to \$0.3 million during the second quarter of 2004. The decrease in cost of revenue was primarily due to the elimination of \$0.7 million in cost of revenue generated by the Company's European operations, which were liquidated during the fourth quarter of 2003. The remaining reduction of \$0.5 million in cost of revenue in the second quarter of 2004, when compared to the second quarter of 2003, was primarily the result of the sale of one refurbished unit, and a reduction in the amount of general and administrative expenses allocated to the Company's manufacturing activities due to its cost reduction programs. Cost of revenue for the six-month period ended June 30, 2004 decreased 81% to \$0.6 million from \$3.1 million for the six-month period ended June 30, 2003. The decrease in the cost of revenue was primarily due to the elimination of \$1.8 million in cost of revenue attributable to the Company's European operations. The remaining reduction in cost of revenue during the six-month period ending June 30, 2004, when compared to the cost of revenue for the same period of the prior year, was primarily due to the decreases in the number of units shipped.

Gross margin increased from approximately 24% for the three-month period ending June 30, 2003 to 43% for the three-month period ending June 30, 2004 and increased from 37% for the six-month period ending June 30, 2003 to 55% for the six-month period ending June 30, 2004. This increase for the three and six-month periods in 2004 was due to the higher margins the Company enjoyed on the sale of refurbished units.

Operating expenses

Total operating expenses have continued to decline as a result of the Company's cost reduction program and the liquidation of its European operations. Selling and general administrative expenses are comprised of salaries, commissions, travel expenses and costs associated with trade shows as well as the finance, legal and human resources departments and professional support fees for these functions. Selling and general administrative expenses for the three-month period ending June 30, 2004 decreased approximately 50% to \$0.3 million from \$0.6 million for the three-month period ending June 30, 2003. Selling and general administrative expenses for the six-month period ending June 30, 2004

decreased 50% to \$0.7 million from \$1.4 million for the six-month period ending June 30, 2003. The primary factor causing such decreases in selling, general and

administrative expense is the liquidation of the Company's European operations which accounted for \$0.2 million and \$0.4 million of the decrease for the three and six-month periods ended June 30, 2003 respectively. The remaining decrease in selling and general administrative expense for the three-month period ending June 30, 2004 is due to a reduction in commission expense resulting from lower sales volume. In addition to the decrease in commission expense, selling and general administrative expense decreased in the six-month period as a result of reduced headcount.

Research and development expenses are comprised of the engineering and related costs associated with the development of innovative image-directed computer-controlled robotic products for surgical applications, along with specialized operating software and hardware systems to support these products, quality assurance and testing. Research and development expenses increased approximately 14% to \$0.3 million during the three-month period ending June 30, 2004. The increase for the three-month period ended June 30, 2004 is related to \$125,000 in grant funding recorded by the Company as a reduction of research and development expense during the three-month period ended June 30, 2003. Without such grant funding, research and development expenses would have decreased by \$82,000 or 20%. After giving effect to the \$125,000 in grant funding research and development expenses for the six-month periods of June 30, 2004 and 2003 on a comparative basis remained relatively flat. The \$125,000, received in April 2003 was the final payment under a grant from the National Institute for Standards and Technology of the United States Department of Commerce ("NIST"). Under the terms of the NIST grant, the Company was entitled to reimbursement for certain of the expenses incurred in connection with the development of its revision hip surgery product. As of December 31, 2003, the Company had received a cumulative total of approximately \$1,221,000 in funding from NIST since 1995. The Company has recorded the proceeds from the NIST grant as a reduction of its research and development expenses.

During the three and six month periods ended June 30, 2003, the Company recorded \$53,000 and \$97,000 of other income (expense), net, respectively, primarily as the result of favorable foreign currency exchange rates for that three-month period and six-month periods respectively. The Company was not affected by foreign currency exchange rates during the first quarter and second quarter of 2004.

Critical Accounting Policies and Estimates

The preparation of the Company's unaudited condensed consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates the estimates, including those related to bad debts, inventories, impairment of assets, warranties, contingencies and litigation. The Company bases these estimates on historical experience and on other assumptions believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company's management has discussed these critical accounting policies with the audit committee of the Company. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect the Company's more significant judgments and estimates used in the preparation of the condensed consolidated financial statements:

The Company recognizes revenue from sales of its products upon the completion of equipment installation and training 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 generally occurs after the completion of installation and training. Furthermore, due to business customs in Japan and the interpretation of Japanese law, all equipment sales to Japanese customers are recognized after customer acceptance, which generally occurs after the completion of installation and training. Revenue related to maintenance and service contracts is recognized ratably over the duration of the contracts.

The Company periodically evaluates the need for allowances for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make required payments. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Where the Company's products are not covered by separate service agreements, the Company reserves against the estimated cost of product warranties at the time revenue is recognized. The warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from these estimates, revisions to the estimated warranty liability would be required.

The Company writes down inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those the Company projected additional inventory write-downs may be required.

Property, plant and equipment are amortized over their useful lives. Useful lives are based on estimates of the period that the assets will generate revenue. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Liquidity and Capital Resources

The cash position of the Company is inadequate and the Company has not yet identified sources of sufficient cash to assure continuing operations. The reports of the Company's independent auditors on the 2003 and 2002 consolidated financial statements included explanatory paragraphs stating that there is substantial doubt with respect to the Company's ability to continue as a going concern. The Company has a plan to address these issues, which the Company believes will enable the Company to continue operations through June 30, 2005. This plan includes obtaining additional equity or debt financing, increasing sales of the products in existing markets, increasing sales of system upgrades, and reducing operating expenses as necessary. Although the Company believes that the plan will be realized, there is no assurance that these events will occur. In the event that the Company is unsuccessful, it is possible that the Company will cease operations or seek bankruptcy protection. The June 30, 2004 condensed 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 an inability of the Company to continue as a going concern.

At June 30, 2004 the Company's "quick ratio" (cash and accounts receivable divided by current liabilities), a conservative liquidity measure designed to predict the Company's ability to pay bills, was only 2%. It has been difficult for the Company to meet obligations, including payroll, as they come due, and the Company expects this situation to continue through its December 31, 2004 calendar year. Net cash used in operating activities was approximately \$264,000 for the six-month period ended June 30, 2004. This primarily resulted from a net loss of \$712,000, an increase in accounts receivable of \$11,000, an increase in inventory of \$41,000, and a decrease in unearned income of \$509,000 which were partially offset by increases in accounts payable of \$370,000 and an increase in accrued payroll and related expenses of \$536,000 and \$103,000 of other current liabilities.

At June 30, 2004, the Company had amounts due to the executive officers of the Company of approximately \$1,027,000, in the aggregate, in the forms of an interest bearing advance, deferred salaries and unreimbursed travel expenses. Of such amounts, \$357,000, \$276,000 and \$93,000 are included in accrued payroll and related expense and accounts payable and accrued liabilities, respectively, due to Ramesh C. Trivedi, president and chief executive officer of the Company; \$102,000, \$33,000 and \$48,000 are included in accrued payroll and related expense and accounts payable and accrued liabilities, respectively, due to Leland Witherspoon, vice president of engineering of the Company; \$76,000, \$4,000 and \$38,000 are included in accrued payroll and related expense, accounts payable and accrued liabilities, respectively, due to Charles J. Novak, chief financial officer of the Company.

To obtain funding for the Company's ongoing operations, the Company entered into a securities purchase agreement (the "Agreement") with an accredited investor on June 15, 2004 with respect to the sale by the Company for aggregate consideration of \$150,000 of (i) a convertible debenture in the principal amount of \$150,000 and (ii) warrants to purchase 1,500,000 shares of Company common stock. The Company is obligated to register under the Securities Act for resale by the investor the common stock underlying the debenture and warrants.

The investor provided the Company with a \$200,000 consideration as follows:

- o \$100,000 was disbursed to the Company on June 15, 2004;
- o \$50,000 was disbursed to the Company on October 19, 2004; and
- o \$50,000 has been retained for disbursement to various professionals in payment for services to be provided to the Company.

The convertible debenture bears interest at 6 3/4%, matures two years from the date of issuance, and is convertible into Company common stock, at the investor's option. The convertible debenture is convertible into the number of shares of Company common stock equal to the principal amount of the debenture being converted multiplied by 11, less the product of the conversion factor multiplied by ten times the dollar principal amount of the debenture being converted. The conversion factor for the convertible debenture is the lesser of (i) \$0.25 or (ii) eighty percent of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. Accordingly, there is in fact no limit on the number of shares into which the debenture may be converted. In addition, the investor is obligated to proportionately exercise, concurrently with the submission of a conversion notice by the selling stockholder, the warrants. The warrants are exercisable into 1,500,000 shares of common stock at an exercise price of \$1.00 per share.

The investor has contractually agreed to restrict its ability to convert or exercise its warrants and receive shares of Company common stock such that the number of shares of common stock held by it and its affiliates after such conversion and exercise does not exceed 4.9% of the then issued and outstanding shares of Company common stock.

The issuance of more than 51.5 million shares of common stock pursuant to this agreement would require the Company to issue shares of common stock in excess of the Company's authorized capital. The Company intends to seek stockholders approval to increase the Company's current authorized common stock from 100,000,000 to 300,000,000 shares. Such solicitation will be made pursuant to a proxy statement conforming to the rules and regulations of the Securities and Exchange Commission. This Quarterly Report on Form 10-QSB should not be considered, in any manner, a solicitation for voting in favor of such an increase in authorized stock.

The issuance of the convertible debenture and warrants to the investor is contingent upon stockholder approval of the increase in the Company's authorized common stock. If such approval is not received the Agreement will terminate and the Company will be obligated to repay the proceeds received. As a result, the Company recorded such proceeds in other current liabilities.

Item 3. Controls and Procedures

(a) Under the supervision and with the participation of management, including the Company's President and Chief Executive Officer and Chief Financial Officer, an evaluation was made of the effectiveness of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

(b) There has been no change in the Company's internal control over financial reporting during the quarter ended June 30, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

The Company is subject to legal proceedings and claims that arise in the normal course of business. The Company cannot assure that it would prevail in such matters nor can it assure that the Company would have sufficient funds available to satisfy any adverse judgement. Due to the inherent uncertainties of litigation, were there any such matters, the Company would not be able to accurately predict their ultimate outcome. As of June 30, 2004, there were no current proceedings or litigation involving the Company that the Company believes if judgement were rendered against the Company, would have a material adverse impact on its financial position, results of operations or cash flows.

Item 2. Changes in Securities

During the second quarter of 2004, the Company issued a total of 69,608 shares of common stock of which 29,608 was issued to former employees upon exercise of stock options and the other 40,000 was issued to an independent contractor as payment for services rendered. The issuance of stock to the independent contractor was recorded as an expense during the second quarter of 2004.

Item 3. Changes in and Disagreements with Accountants

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 10.1 \$150,000, 6 3/4% Convertible Debenture, registered in the name of Golden Gate Investors, Inc.
- 10.2 1,500,000 Warrant Certificate, registered in the name of Golden Gate Investors, Inc.
- 10.3 Securities Purchase Agreement, dated June 15, 2004 between Integrated Surgical Systems, Inc. and Golden Gate Investors, Inc.
- 31.1 Certification Pursuant to Exchange Act Rule 13a-14(a) of Ramesh Trivedi
- 31.2 Certification Pursuant to Exchange Act Rule 13a-14(a) of Charles Novak
- 32.1 Certification Pursuant to 18 U.S.C. 1350 of Ramesh Trivedi
- 32.2 Certification Pursuant to 18 U.S.C. 1350 of Charles Novak

(b) 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/ CHARLES J. NOVAK

Charles J. Novak

(Principal Financial and Accounting Officer)

Dated: November 24, 2004 (Duly Authorized Officer)

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE, AND IS BEING OFFERED AND SOLD PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH LAWS. THIS SECURITY MAY NOT BE SOLD OR TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR SUCH OTHER LAWS.

6 3/4 % CONVERTIBLE DEBENTURE

Company: Integrated Surgical Systems, Inc.
Company Address: 1850 Research Park Drive, Davis, CA 95616
Closing Date: June 9, 2004
Maturity Date: June 9, 2006
Principal Amount: \$150,000
First Payment Due Date: August 15, 2004

Integrated Surgical Systems, Inc., a Delaware corporation, and any successor or resulting corporation by way of merger, consolidation, sale or exchange of all or substantially all of the assets or otherwise (the "Company"), for value received, hereby promises to pay to Golden Gate Investors, Inc., a California corporation (the "Holder") or such other Person (as such term is hereinafter defined) upon order of the Holder, on the Maturity Date, the Principal Amount (as such term is hereinafter defined), as such sum may be adjusted pursuant to Article 3, and to pay interest thereon from June 9, 2004 (the "Closing Date"), monthly in arrears, on the 15th day of each month (each an "Interest Payment Due Date" and collectively, the "Interest Payment Due Dates"), commencing on the First Payment Due Date, at the rate of six and three-quarter percent (6 3/4 %) per annum (the "Debenture Interest Rate"), until the Principal Amount of this Debenture has been paid in full. All interest payable on the Principal Amount of this Debenture shall be calculated on the basis of a 360-day year for the actual number of days elapsed. Payment of interest on this Debenture shall be in cash or, at the option of the Holder, in shares of Common Stock of the Company valued at the then applicable Conversion Price (as defined herein). This Debenture may not be prepaid without the written consent of the Holder.

ARTICLE 1
DEFINITIONS

SECTION 1.1 Definitions. The terms defined in this Article whenever used in this Debenture have the following respective meanings:

1

Initials

Initials

(i) "Affiliate" has the meaning ascribed to such term in Rule 12b-2 under the Securities Exchange Act of 1934, as amended.

(ii) "Bankruptcy Code" means the United States Bankruptcy Code of 1986, as amended (11 U.S.C. ss.ss. 101 et. seq.).

(iii) "Business Day" means a day other than Saturday, Sunday or any day on which banks located in the State of California are authorized or obligated to close.

(iv) "Capital Shares" means the Common Stock and any other shares of any other class or series of capital stock, whether now or hereafter authorized and however designated, which have the right to participate in the distribution of earnings and assets (upon dissolution, liquidation or winding-up) of the Company.

(v) "Common Shares" or "Common Stock" means shares of the Company's common stock, \$0.01 par value per share.

(vi) "Common Stock Issued at Conversion", when used with reference to the securities deliverable upon conversion of this Debenture, means all Common Shares now or hereafter Outstanding and securities of any other class or series into which this Debenture hereafter shall have been changed or substituted, whether now or hereafter created and however designated.

(vii) "Conversion" or "conversion" means the repayment by the Company

of the Principal Amount of this Debenture (and, to the extent the Holder elects as permitted by Section 3.1, accrued and unpaid interest thereon) by the delivery of Common Stock on the terms provided in Section 3.2, and "convert," "converted," "convertible" and like words shall have a corresponding meaning.

(viii) "Conversion Date" means any day on which all or any portion of the Principal Amount of this Debenture is converted in accordance with the provisions hereof.

(ix) "Conversion Notice" means a written notice of conversion substantially in the form annexed hereto as Exhibit A.

(x) "Conversion Price" on any date of determination means the applicable price for the conversion of this Debenture into Common Shares on such day as set forth in Section 3.1(a).

(xi) "Current Market Price" on any date of determination means the closing price of a Common Share on such day as reported by the National Association of Securities Dealers, Inc. Over-The-Counter Bulletin Board (the "OTCBB"); provided that, if such security is not listed or admitted to trading on the OTCBB, as reported on the principal national security exchange or quotation system on which such security is quoted or listed or admitted to trading, or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, the closing bid price of such security on the over-the-counter market on the day in question as reported by Bloomberg LP or a similar generally accepted reporting service, as the case may be.

(xii) "Deadline" means the date that is the 150th day from the Closing Date.

(xiii) "Debenture" or "Debentures" means this Convertible Debenture of the Company or such other convertible debenture(s) exchanged therefor as provided in Section 2.1.

(xiv) "Discount Multiplier" has the meaning set forth in Section 3.1(a).

(xv) "Event of Default" has the meaning set forth in Section 6.1.

(xvi) "Holder" means Golden Gate Investors, Inc., any successor thereto, or any Person to whom this Debenture is subsequently transferred in accordance with the provisions hereof.

(xvii) "Interest Payment Due Date" has the meaning set forth in the opening paragraph of this Debenture.

(xviii) "Market Disruption Event" means any event that results in a material suspension or limitation of trading of the Common Shares.

(xix) "Market Price" per Common Share means the lowest price of the Common Shares during any Trading Day as reported by the OTCBB; provided that, if such security is not listed or admitted to trading on the OTCBB, as reported on the principal national security exchange or quotation system on which such security is quoted or listed or admitted to trading, or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, the lowest price of the Common Shares during any Trading Day on the over-the-counter market as reported by Bloomberg LP or a similar generally accepted reporting service, as the case may be.

(xx) "Maximum Rate" has the meaning set forth in Section 6.4.

(xxi) "Outstanding" when used with reference to Common Shares or Capital Shares (collectively, "Shares") means, on any date of determination, all issued and outstanding Shares, and includes all such Shares issuable in respect of outstanding scrip or any certificates representing fractional interests in such Shares; provided, however, that any such Shares directly or indirectly owned or held by or for the account of the Company or any Subsidiary of the Company shall not be deemed "Outstanding" for purposes hereof.

(xxii) "Person" means an individual, a corporation, a partnership, an association, a limited liability company, an unincorporated business organization, a trust or other entity or organization, and any government or political subdivision or any agency or instrumentality thereof.

(xxiii) "Principal Amount" means, for any date of calculation, the principal sum set forth in the first paragraph of this Debenture (but only such principal amount as to which the Holder has (a) actually advanced pursuant to the Securities Purchase Agreement, and (b) not theretofore furnished a Conversion Notice in compliance with Section 3.2).

(xxiv) "Registration Rights Agreement" means that certain Registration Rights Agreement of even date herewith by and between the Company and Holder, as the same may be amended from time to time.

(xxv) "SEC" means the United States Securities and Exchange Commission.

(xxvi) "Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations of the SEC thereunder, all as in effect at the time.

(xxvii) "Securities Purchase Agreement" means that certain Securities Purchase Agreement of even date herewith by and among the Company and Holder, as the same may be amended from time to time.

(xxviii) "Subsidiary" means any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are owned directly or indirectly by the Company.

(xxix) "Trading Day" means any day on which (i) purchases and sales of securities on the principal national security exchange or quotation system on which the Common Shares are traded are reported thereon, or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, as reported by Bloomberg LP or a similar generally accepted reporting service, as the case may be, (ii) at least one bid for the trading of Common Shares is reported and (iii) no Market Disruption Event occurs.

All references to "cash" or "\$" herein means currency of the United States of America.

ARTICLE 2 EXCHANGES, TRANSFER AND OPTIONAL REDEMPTION

SECTION 2.1 Registration of Transfer of Debentures. This Debenture, when presented for registration of transfer, shall (if so required by the Company) be duly endorsed, or be accompanied by a written instrument of transfer in form reasonably satisfactory to the Company duly executed, by the Holder duly authorized in writing.

SECTION 2.2 Loss, Theft, Destruction of Debenture. Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of this Debenture and, in the case of any such loss, theft or destruction, upon receipt of indemnity or security reasonably satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Debenture, the Company shall make, issue and deliver, in lieu of such lost, stolen, destroyed or mutilated Debenture, a new Debenture of like tenor and unpaid Principal Amount dated as of the date hereof (which shall accrue interest

from the most recent Interest Payment Due Date on which an interest payment was made in full). This Debenture shall be held and owned upon the express condition that the provisions of this Section 2.2 are exclusive with respect to the replacement of a mutilated, destroyed, lost or stolen Debenture and shall preclude any and all other rights and remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement of negotiable instruments or other securities without the surrender thereof.

SECTION 2.3 Who Deemed Absolute Owner. The Company may deem the Holder in whose name this Debenture shall be registered upon the registry books of the Company to be, and may treat it as, the absolute owner of this Debenture (whether or not this Debenture shall be overdue) for the purpose of receiving payment of or on account of the Principal Amount of this Debenture, for the conversion of this Debenture and for all other purposes, and the Company shall not be affected by any notice to the contrary. All such payments and such conversions shall be valid and effectual to satisfy and discharge the liability upon this Debenture to the extent of the sum or sums so paid or the conversion or conversions so made.

SECTION 2.4 Repayment at Maturity. At the Maturity Date, the Company shall repay the outstanding Principal Amount of this Debenture in whole in cash, together with all accrued and unpaid interest thereon, in cash, to the Maturity Date.

SECTION 2.5 Optional Redemption. For a period of 6 months following the Closing Date, the Company may redeem this Debenture in whole in cash for 150% of the outstanding Principal Amount plus accrued and unpaid interest.

ARTICLE 3 CONVERSION OF DEBENTURE

SECTION 3.1 Conversion; Conversion Price; Valuation Event. (a) At the option of the Holder, this Debenture may be converted, either in whole or in part, up to the full Principal Amount hereof (in increments of \$1,000 in Principal Amount) into Common Shares (calculated as to each such conversion to the nearest 1/100th of a share), at any time and from time to time on any Business Day, subject to compliance with Section 3.2. The number of Common Shares into which this Debenture may be converted is equal to the dollar amount of the Debenture being converted multiplied by eleven, minus the product of the Conversion Price multiplied by ten times the dollar amount of the Debenture being converted, and the entire foregoing result shall be divided by the Conversion Price. In addition, the Company shall pay to the Holder on the Conversion Date, in cash, any accrued and unpaid interest on the Debenture being converted not included at the option of the Holder in clause (i) of the immediately preceding sentence. The "Conversion Price" shall be equal to the lesser of (i) \$0.25, or (ii) eighty percent (80%) of the average of the 5 lowest Volume Weighted Average Prices during the twenty (20) Trading Days prior to Holder's election to convert (a "Discount Multiplier"); provided, that in the event the Registration Statement (as such term is defined in the "Registration Rights Agreement") has not been declared effective by the SEC by the Deadline or, if the Registration Statement has theretofore been declared effective but is not thereafter effective, then the applicable Discount Multiplier shall decrease by three percentage points (3%) for each month or partial month occurring after the Deadline that the Registration Statement is not effective.

If the Holder elects to convert a portion of the Debenture and, on the day that the election is made, the Volume Weighted Average Price is below \$0.06, the Company shall have the right to prepay that portion of the Debenture that Holder elected to convert, plus any accrued and unpaid interest, at 125% of such amount. In the event that the Company elects to prepay that portion of the Debenture, Holder shall have the right to withdraw its Conversion Notice.

Beginning in the first full calendar month after the Registration Statement is declared effective, Holder shall convert at least 4% of the face value of the Debenture per calendar month into Common Shares of the Company, provided that the Common Shares are available, registered and freely tradable. In the event Holder breaches this provision, Holder shall not be entitled to collect interest on the Debenture for that month. In the event Holder breaches this provision for two consecutive months, at the option of the Company, this Agreement, the Registration Rights Agreement, the Securities Purchase Agreement and the associated warrants shall terminate, and the outstanding principal of this Debenture, together with accrued but unpaid interest thereon, shall mature one month after the end of such second consecutive month.

Commencing the date of the Deadline until the effective date of the Registration Statement, Holder shall convert no more than 12% (such 12% maximum amount to be cumulative from the Deadline), of the face value of the Debenture per calendar month into Common Shares of the Company. The 12% monthly maximum amount shall not be applicable if the Current Market Price of the Common Stock at anytime during the applicable month is higher than the Current Market Price of the Common Stock on the Closing Date.

(b) Notwithstanding the provisions of Section 3.1(a), in the event the Company's Registration Statement has not been declared effective by the Deadline or, if the Registration Statement has theretofore been declared effective but is not thereafter effective, the following will also apply in addition to any damages incurred by the Holder as a result thereof:

(i) The Holder may demand repayment of one hundred and fifty percent (150%) of the Principal Amount of the Debenture, together with all accrued and unpaid interest thereon, in cash, at any time prior to the Company's Registration Statement being declared effective by the SEC or during the period that the Company's Registration Statement is not effective, such repayment to be made within three (3) business days of such demand. In the event that the Debenture is so accelerated, in addition to the repayment of one hundred and fifty percent (150%) of the Principal Amount together with accrued interest as aforesaid, the Company shall immediately issue and pay, as the case may be, to the Holder 50,000 Shares of Common Stock and \$15,000 for each thirty (30) day period, or portion thereof, during which the Principal Amount, including interest thereon, remains unpaid, with the monthly payment amount to increase to \$20,000 for each thirty (30) day period, or portion thereof, after the first ninety (90) day period;

(ii) If the Holder does not elect to accelerate the Debenture, the Company shall immediately issue or pay, as the case may be, to Holder 50,000 Shares of Common Stock and \$15,000 for each thirty (30) day period, or portion thereof, that the Registration Statement is not effective, with the monthly payment amount to increase to \$20,000 for each thirty (30) day period, or portion thereof, after the first ninety (90) day period from the Deadline.

(iii) If the SEC indicates that the Company's Registration Statement will be declared effective upon request by the Company, and the Company does not, within 3 business days of the SEC indication, request that the Registration Statement become effective, the amounts set forth in subsections (ii) and (iii) above shall double.

SECTION 3.2 Exercise of Conversion Privilege. (a) Conversion of this Debenture may be exercised on any Business Day by the Holder by telecopying an executed and completed Conversion Notice to the Company. Each date on which a Conversion Notice is telecopied to the Company in accordance with the provisions of this Section 3.2 shall constitute a Conversion Date. The Company shall convert this Debenture and issue the Common Stock Issued at Conversion in the manner provided below in this Section 3.2, and all voting and other rights associated with the beneficial ownership of the Common Stock Issued at Conversion shall vest with the Holder, effective as of the Conversion Date at the time specified in the Conversion Notice. The Conversion Notice also shall state the name or names (with addresses) of the persons who are to become the holders of the Common Stock Issued at Conversion in connection with such conversion. As promptly as practicable after the receipt of the Conversion Notice as aforesaid, but in any event not more than three (3) Business Days after the Company's receipt of such Conversion Notice, the Company shall (i) issue the Common Stock Issued at Conversion in accordance with the provisions of this Article 3 and (ii) cause to be mailed for delivery by overnight courier, or if a Registration Statement covering the Common Stock has been declared effective by the SEC cause to be electronically transferred, to Holder (x) a certificate or certificate(s) representing the number of Common Shares to which the Holder is entitled by virtue of such conversion, (y) cash, as provided in Section 3.3, in respect of any fraction of a Common Share deliverable upon such conversion and (z) cash or shares of Common Stock, as applicable, representing the amount of accrued and unpaid interest on this Debenture as of the Conversion Date. Such conversion shall be deemed to have been effected at the time at which the Conversion Notice indicates, and at such time the rights of the Holder of this Debenture, as such (except if and to the extent that any Principal Amount thereof remains unconverted), shall cease and the Person and Persons in whose name or names the Common Stock Issued at Conversion shall be issuable shall be deemed to have become the holder or holders of record of the Common Shares represented thereby, and all voting and other rights associated with the beneficial ownership of such Common Shares shall at such time vest with such Person or Persons. The Conversion Notice shall constitute a contract between the

Holder and the Company, whereby the Holder shall be deemed to subscribe for the number of Common Shares which it will be entitled to receive upon such conversion and, in payment and satisfaction of such subscription (and for any cash adjustment to which it is entitled pursuant to Section 3.4), to surrender this Debenture and to release the Company from all liability thereon (except if and to the extent that any Principal Amount thereof remains unconverted). No cash payment aggregating less than \$1.00 shall be required to be given unless specifically requested by the Holder.

If, at any time after the date of this Debenture, (i) the Company challenges, disputes or denies the right of the Holder hereof to effect the conversion of this Debenture into Common Shares or otherwise dishonors or rejects any Conversion Notice delivered in accordance with this Section 3.2 or (ii) any third party who is not and has never been an Affiliate of the Holder commences any lawsuit or legal proceeding or otherwise asserts any claim before any court or public or governmental authority which seeks to challenge, deny, enjoin, limit, modify, delay or dispute the right of the Holder hereof to effect the conversion of this Debenture into Common Shares, then the Holder shall have the right, by written notice to the Company, to require the Company to promptly redeem this Debenture for cash at one hundred and fifty (150%) of the Principal Amount thereof, together with all accrued and unpaid interest thereon to the date of redemption. Under any of the circumstances set forth above, the Company shall be responsible for the payment of all costs and expenses of the Holder, including reasonable legal fees and expenses, as and when incurred in defending itself in any such action or pursuing its rights hereunder (in addition to any other rights of the Holder).

(a) The Holder shall be entitled to exercise its conversion privilege notwithstanding the commencement of any case under the Bankruptcy Code. In the event the Company is a debtor under the Bankruptcy Code, the Company hereby waives to the fullest extent permitted any rights to relief it may have under 11 U.S.C. ss. 362 in respect of the Holder's conversion privilege. The Company hereby waives to the fullest extent permitted any rights to relief it may have under 11 U.S.C. ss. 362 in respect of the conversion of this Debenture. The Company agrees, without cost or expense to the Holder, to take or consent to any and all action necessary to effectuate relief under 11 U.S.C. ss. 362.

SECTION 3.3 Fractional Shares. No fractional Common Shares or scrip representing fractional Common Shares shall be delivered upon conversion of this Debenture. Instead of any fractional Common Shares which otherwise would be delivered upon conversion of this Debenture, the Company shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction multiplied by the Current Market Price on the Conversion Date. No cash payment of less than \$1.00 shall be required to be given unless specifically requested by the Holder.

SECTION 3.4 Adjustments. The Conversion Price and the number of shares deliverable upon conversion of this Debenture are subject to adjustment from time to time as follows:

(i) Reclassification, Etc. In case the Company shall reorganize its capital, reclassify its capital stock, consolidate or merge with or into another Person (where the Company is not the survivor or where there is a change in or distribution with respect to the Common Stock of the Company), sell, convey, transfer or otherwise dispose of all or substantially all its property, assets or business to another Person, or effectuate a transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Company is disposed of (each, a "Fundamental Corporate Change") and, pursuant to the terms of such Fundamental Corporate Change, shares of common stock of the

successor or acquiring corporation, or any cash, shares of stock or other securities or property of any nature whatsoever (including warrants or other subscription or purchase rights) in addition to or in lieu of common stock of the successor or acquiring corporation ("Other Property") are to be received by or distributed to the holders of Common Stock of the Company, then the Holder of this Debenture shall have the right thereafter, at its sole option, to (x) require the Company to prepay this Debenture for cash at one hundred and fifty percent (150%) of the Principal Amount thereof, together with all accrued and unpaid interest thereon to the date of prepayment, (y) receive the number of shares of common stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and Other Property as is receivable upon or as a result of such Fundamental Corporate Change by a holder of the number of shares of Common Stock into which the outstanding portion of this Debenture may be converted at the Conversion Price applicable immediately prior to such Fundamental Corporate Change or (z) require the Company, or such successor, resulting or purchasing corporation, as the case may be, to, without benefit of any additional consideration therefor, execute and deliver to the Holder a debenture with substantial identical rights, privileges, powers, restrictions and other terms as this Debenture in an amount equal to the amount outstanding under this Debenture immediately prior to such Fundamental Corporate Change. For purposes hereof, "common stock of the successor or acquiring corporation" shall include stock of such corporation of any class which is not preferred as to dividends or assets over any other class of stock of such corporation and which is not subject to prepayment and shall also include any evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable for any such stock, either immediately or upon the arrival of a specified date or the happening of a specified event and any warrants or other rights to subscribe for or purchase any such stock. The foregoing provisions shall similarly apply to successive Fundamental Corporate Changes.

SECTION 3.5 Certain Conversion Limits.

Notwithstanding anything herein to the contrary, if and to the extent that, on any date, the holding by the Holder of this Debenture would result in the Holder's being deemed the beneficial owner of more than 4.99% of the then Outstanding shares of Common Stock, then the Holder shall not have the right, and the Company shall not have the obligation, to convert any portion of this Debenture as shall cause such Holder to be deemed the beneficial owner of more than 4.99% of the then Outstanding shares of Common Stock. If any court of competent jurisdiction shall determine that the foregoing limitation is ineffective to prevent a Holder from being deemed the beneficial owner of more than 4.99% of the then Outstanding shares of Common Stock, then the Company shall prepay such portion of this Debenture as shall cause such Holder not to be deemed the beneficial owner of more than 4.99% of the then Outstanding shares of Common Stock. Upon such determination by a court of competent jurisdiction, the Holder shall have no interest in or rights under such portion of the Debenture. Any and all interest paid on or prior to the date of such determination shall be deemed interest paid on the remaining portion of this Debenture held by the Holder. Such prepayment shall be for cash at a prepayment price of one hundred and fifty percent (150%) of the Principal Amount thereof, together with all accrued and unpaid interest thereon to the date of prepayment.

SECTION 3.6 Surrender of Debenture. Upon any redemption of this Debenture pursuant to Sections 3.2, 3.5 or 6.2, or upon maturity pursuant to Section 2.4, the Holder shall either deliver this Debenture by hand to the Company at its principal executive offices or surrender the same to the Company at such address by nationally recognized overnight courier. Payment of the redemption price or the amount due on maturity specified in Section 2.4, shall be made by the Company to the Holder against receipt of this Debenture (as provided in this Section 3.5) by wire transfer of immediately available funds to such account(s) as the Holder shall specify by written notice to the Company. If payment of such redemption price is not made in full by the redemption date, or the amount due on maturity is not paid in full by the Maturity Date, the Holder shall again have the right to convert this Debenture as provided in Article 3 hereof or to declare an Event of Default.

ARTICLE 4
STATUS; RESTRICTIONS ON TRANSFER

SECTION 4.1 Status of Debenture. This Debenture constitutes a legal, valid and binding obligation of the Company, enforceable in accordance with its terms subject, as to enforceability, to general principles of equity and to principles of bankruptcy, insolvency, reorganization and other similar laws of general applicability relating to or affecting creditors' rights and remedies generally.

SECTION 4.2 Restrictions on Transfer. This Debenture, and any Common Shares deliverable upon the conversion hereof, have not been registered under the Securities Act. The Holder by accepting this Debenture agrees that this Debenture and the shares of Common Stock to be acquired as interest on and upon conversion of this Debenture may not be assigned or otherwise transferred unless and until (i) the Company has received the opinion of counsel for the Holder that this Debenture or such shares may be sold pursuant to an exemption from registration under the Securities Act or (ii) a registration statement relating to this Debenture or such shares has been filed by the Company and declared effective by the SEC.

Each certificate for shares of Common Stock deliverable hereunder shall bear a legend as follows unless and until such securities have been sold pursuant to an effective registration statement under the Securities Act:

"The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "Securities Act"). The securities may not be offered for sale, sold or otherwise transferred except (i) pursuant to an effective registration statement under the Securities Act or (ii) pursuant to an exemption from registration under the Securities Act in respect of which the issuer of this certificate has received an opinion of counsel satisfactory to the issuer of this certificate to such effect. Copies of the agreement covering both the purchase of the securities and restrictions on their transfer may be obtained at no cost by written request made by the holder of record of this certificate to the Secretary of the issuer of this certificate at the principal executive offices of the issuer of this certificate."

ARTICLE 5
COVENANTS

SECTION 5.1 Conversion. The Company shall cause the transfer agent, not later than three (3) Business Days after the Company's receipt of a Conversion Notice, to issue and deliver to the Holder the requisite shares of Common Stock Issued at Conversion. Such delivery shall be by electronic transfer if a Registration Statement covering the Common Stock has been declared effective by the SEC.

SECTION 5.2 Notice of Default. If any one or more events occur which constitute or which, with notice, lapse of time, or both, would constitute an Event of Default, the Company shall forthwith give notice to the Holder, specifying the nature and status of the Event of Default or such other event(s), as the case may be.

SECTION 5.3 Payment of Obligations. So long as this Debenture shall be outstanding, the Company shall pay, extend, or discharge at or before maturity, all its respective material obligations and liabilities, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings.

SECTION 5.4 Compliance with Laws. So long as this Debenture shall be outstanding, the Company shall comply with all applicable laws, ordinances, rules, regulations and requirements of governmental authorities, except for such noncompliance which would not have a material adverse effect on the business, properties, prospects, condition (financial or otherwise) or results of operations of the Company and the Subsidiaries.

SECTION 5.5 Inspection of Property, Books and Records. So long as this Debenture shall be outstanding, the Company shall keep proper books of record and account in which full, true and correct entries shall be made of all material dealings and transactions in relation to its business and activities and shall permit representatives of the Holder at the Holder's expense to visit and inspect any of its respective properties, to examine and make abstracts from any of its respective books and records, not reasonably deemed confidential by the Company, and to discuss its respective affairs, finances and accounts with its respective officers and independent public accountants, all at such reasonable times and as often as may reasonably be desired.

SECTION 5.6 Right of First Refusal on Other Financing. In the event that the Company obtains any other financing (either debt, equity, or a combination thereof) which is to close during the term of this Debenture, Holder shall be entitled to a right of first refusal to enable it to match the terms of the

other financing. The Company shall deliver to Holder, at least ten (10) days prior to the proposed closing date of such transaction, written notice describing the proposed transaction, including the terms and conditions thereof, and providing Holder an option during the ten (10) day period following delivery of such notice to provide the financing being offered in such transaction on the same terms as contemplated by such transaction.

ARTICLE 6
EVENTS OF DEFAULT; REMEDIES

SECTION 6.1 Events of Default. "Event of Default" wherever used herein means any one of the following events:

(i) the Company shall default in the payment of principal of or interest on this Debenture as and when the same shall be due and payable and, in the case of an interest payment default, such default shall continue for five (5) Business Days after the date such interest payment was due, or the Company shall fail to perform or observe any other covenant, agreement, term, provision, undertaking or commitment under this Debenture, the Conversion Warrants (as defined in the Securities Purchase Agreement), the Securities Purchase Agreement or the Registration Rights Agreement and such default shall continue for a period of ten (10) Business Days after the delivery to the Company of written notice that the Company is in default hereunder or thereunder;

(ii) any of the representations or warranties made by the Company herein, in the Securities Purchase Agreement, the Registration Rights Agreement or in any certificate or financial or other written statements heretofore or hereafter furnished by or on behalf of the Company in connection with the execution and delivery of this Debenture, the Warrants, the Securities Purchase Agreement or the Registration Rights Agreement shall be false or misleading in a material respect on the Closing Date;

(iii) under the laws of any jurisdiction not otherwise covered by clauses (iv) and (v) below, the Company or any Subsidiary (A) makes a general assignment for the benefit of creditors, (B) institutes or has instituted against it any proceeding seeking (x) to adjudicate it a bankrupt or insolvent, (y) liquidation, winding-up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors including any plan of compromise or arrangement or other corporate proceeding involving or affecting its creditors or (z) the entry of an order for relief or the appointment of a receiver, trustee or other similar person for it or for any substantial part of its properties and assets, and in the case of any such official proceeding instituted against it (but not instituted by it), either the proceeding remains undismissed or unstayed for a period of sixty (60) calendar days, or any of the actions sought in such proceeding (including the entry of an order for relief against it or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its properties and assets) occurs or (D) takes any corporate action to authorize any of the above actions;

(iv) the entry of a decree or order by a court having jurisdiction in the premises adjudging the Company or any Subsidiary a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under the Bankruptcy Code or any other applicable Federal or state law, or appointing a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Company or of any substantial part of its property, or ordering the winding-up or liquidation of its affairs, and any such decree or order continues and is unstayed and in effect for a period of sixty (60) calendar days;

(v) the institution by the Company or any Subsidiary of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Bankruptcy Code or any other applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as and when they become due, or the taking of corporate action by the Company in furtherance of any such action;

(vi) a final judgment or final judgments for the payment of money shall have been entered by any court or courts of competent jurisdiction against the Company and remains undischarged for a period (during which execution shall be effectively stayed) of thirty (30) days, provided that the aggregate amount of all such judgments at any time outstanding (to the extent not paid or to be paid, as evidenced by a written communication to that effect from the applicable insurer, by insurance) exceeds One Hundred Thousand Dollars (\$100,000);

(vii) it becomes unlawful for the Company to perform or comply with its obligations under this Debenture, the Conversion Warrant, the Securities Purchase Agreement or the Registration Rights Agreement in any respect;

(viii) the Common Shares shall be delisted from the OTCBB (the "Trading Market" or, to the extent the Company becomes eligible to list its Common Stock on any other national security exchange or quotation system, upon official notice of listing on any such exchange or system, as the case may be, it shall be the "Trading Market") or suspended from trading on the Trading Market, and shall not be reinstated, relisted or such suspension lifted, as the case may be, within five (5) days or;

(ix) the Company shall default (giving effect to any applicable grace period) in the payment of principal or interest as and when the same shall become due and payable, under any indebtedness, individually or in the aggregate, of more than One Hundred Thousand Dollars (\$100,000);

SECTION 6.2 Acceleration of Maturity; Rescission and Annulment. If an Event of Default occurs and is continuing, then and in every such case the Holder may, by a notice in writing to the Company, rescind any outstanding Conversion Notice and declare that all amounts owing or otherwise outstanding under this Debenture are immediately due and payable and upon any such declaration this Debenture shall become immediately due and payable in cash at a price of one hundred and fifty percent (150%) of the Principal Amount thereof, together with all accrued and unpaid interest thereon to the date of payment; provided, however, in the case of any Event of Default described in clauses (iii), (iv), (v) or (vii) of Section 6.1, such amount automatically shall become immediately due and payable without the necessity of any notice or declaration as aforesaid.

SECTION 6.3 Late Payment Penalty. If any portion of the principal of or interest on this Debenture shall not be paid within ten (10) days of when it is due, the Discount Multiplier under this Debenture, and under all warrants granted by the Company to the Holder, shall decrease by one percentage (1%) point for all conversions of this Debenture and warrant exercises thereafter.

SECTION 6.4 Maximum Interest Rate. Notwithstanding anything herein to the contrary, if at any time the applicable interest rate as provided for herein shall exceed the maximum lawful rate which may be contracted for, charged, taken or received by the Holder in accordance with any applicable law (the "Maximum Rate"), the rate of interest applicable to this Debenture shall be limited to the Maximum Rate. To the greatest extent permitted under applicable law, the Company hereby waives and agrees not to allege or claim that any provisions of this Note could give rise to or result in any actual or potential violation of any applicable usury laws.

SECTION 6.5 Remedies Not Waived. No course of dealing between the Company and the Holder or any delay in exercising any rights hereunder shall operate as a waiver by the Holder.

SECTION 6.6 Remedies. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder, by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Debenture will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Debenture, that the Holder shall be entitled to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Debenture and to enforce specifically the terms and provisions thereof, without the necessity of showing economic loss and without any bond or other security being required.

SECTION 6.7 Payment of Certain Amounts. Whenever pursuant to this Debenture the Company is required to pay an amount in excess of the Principal Amount plus accrued and unpaid interest, the Company and the Holder agree that the actual damages to the Holder from the receipt of cash payment on this Debenture may be difficult to determine and the amount to be so paid by the Company represents stipulated damages and not a penalty and is intended to compensate the Holder in part for loss of the opportunity to convert this Debenture and to earn a return from the sale of shares of Common Stock acquired upon conversion of this Debenture at a price in excess of that price paid for such shares pursuant to this Debenture. The Company and the Holder hereby agree that such amount of stipulated damages is not disproportionate to the possible loss to the Holder from the receipt of a cash payment without the opportunity to convert this Debenture into shares of Common Stock.

ARTICLE 7
MISCELLANEOUS

SECTION 7.1 Notice of Certain Events. In the case of the occurrence of any event described in Section 3.4 of this Debenture, the Company shall cause to be mailed to the Holder of this Debenture at its last address as it appears in the Company's security registry, at least twenty (20) days prior to the applicable record, effective or expiration date hereinafter specified (or, if such twenty (20) days' notice is not possible, at the earliest possible date prior to any such record, effective or expiration date), a notice thereof, including, if applicable, a statement of (y) the date on which a record is to be taken for the purpose of such dividend, distribution, issuance or granting of rights, options or warrants, or if a record is not to be taken, the date as of which the holders of record of Common Stock to be entitled to such dividend, distribution, issuance or granting of rights, options or warrants are to be determined or (z) the date on which such reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up is expected to become effective, and the date as of which it is expected that holders of record of Common Stock will be entitled to exchange their shares for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale transfer, dissolution, liquidation or winding-up.

SECTION 7.2 Register. The Company shall keep at its principal office a register in which the Company shall provide for the registration of this Debenture. Upon any transfer of this Debenture in accordance with Articles 2 and 4 hereof, the Company shall register such transfer on the Debenture register.

SECTION 7.3 Withholding. To the extent required by applicable law, the Company may withhold amounts for or on account of any taxes imposed or levied by or on behalf of any taxing authority in the United States having jurisdiction over the Company from any payments made pursuant to this Debenture.

SECTION 7.4 Transmittal of Notices. Except as may be otherwise provided herein, any notice or other communication or delivery required or permitted hereunder shall be in writing and shall be delivered personally, or sent by telecopier machine or by a nationally recognized overnight courier service, and shall be deemed given when so delivered personally, or by telecopier machine or overnight courier service as follows:

(1) if to the Company, to:

Integrated Surgical Systems, Inc.
1850 Research Park Drive
Davis, CA 95616
Telephone: 530-792-2600
Facsimile: 530-792-2690

With a copy to:

Snow Becker Krauss P.C.
605 3rd Avenue
New York, NY 10158
Telephone: 212-687-3860
Facsimile: 212-949-7052
Attn: Jack Becker, Esq.

(2) if to the Holder, to:

Golden Gate Investors, Inc.
7817 Herschel Avenue, Suite 200
La Jolla, California 92037
Telephone: 858-551-8789
Facsimile: 858-551-8779

Each of the Holder or the Company may change the foregoing address by notice given pursuant to this Section 7.4.

SECTION 7.5 Attorneys' Fees. Should any party hereto employ an attorney for the purpose of enforcing or construing this Debenture, or any judgment based on this Debenture, in any legal proceeding whatsoever, including insolvency, bankruptcy, arbitration, declaratory relief or other litigation, the prevailing party shall be entitled to receive from the other party or parties thereto reimbursement for all reasonable attorneys' fees and all reasonable costs, including but not limited to service of process, filing fees, court and court reporter costs, investigative costs, expert witness fees, and the cost of any bonds, whether taxable or not, and that such reimbursement shall be included in any judgment or final order issued in that proceeding. The "prevailing party" means the party determined by the court to most nearly prevail and not necessarily the one in whose favor a judgment is rendered.

SECTION 7.6 Governing Law. This Debenture shall be governed by, and construed in accordance with, the laws of the State of California (without giving effect to conflicts of laws principles). With respect to any suit, action or proceedings relating to this Debenture, the Company irrevocably submits to the exclusive jurisdiction of the courts of the State of California sitting in San Diego and the United States District Court located in the City of San Diego and hereby waives, to the fullest extent permitted by applicable law, any claim that any such suit, action or proceeding has been brought in an inconvenient forum. Subject to applicable law, the Company agrees that final judgment against it in any legal action or proceeding arising out of or relating to this Debenture shall be conclusive and may be enforced in any other jurisdiction within or outside the United States by suit on the judgment, a certified copy of which judgment shall be conclusive evidence thereof and the amount of its indebtedness, or by such other means provided by law.

SECTION 7.7 Waiver of Jury Trial. To the fullest extent permitted by law, each of the parties hereto hereby knowingly, voluntarily and intentionally waives its respective rights to a jury trial of any claim or cause of action based upon or arising out of this Debenture or any other document or any dealings between them relating to the subject matter of this Debenture and other documents. Each party hereto (i) certifies that neither of their respective representatives, agents or attorneys has represented, expressly or otherwise, that such party would not, in the event of litigation, seek to enforce the foregoing waivers and (ii) acknowledges that it has been induced to enter into this Debenture by, among other things, the mutual waivers and certifications herein.

SECTION 7.8 Headings. The headings of the Articles and Sections of this Debenture are inserted for convenience only and do not constitute a part of this Debenture.

SECTION 7.9 Payment Dates. Whenever any payment hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

SECTION 7.10 Binding Effect. Each Holder by accepting this Debenture agrees to be bound by and comply with the terms and provisions of this Debenture.

SECTION 7.11 No Stockholder Rights. Except as otherwise provided herein, this Debenture shall not entitle the Holder to any of the rights of a stockholder of the Company, including, without limitation, the right to vote, to receive dividends and other distributions, or to receive any notice of, or to attend, meetings of stockholders or any other proceedings of the Company, unless and to the extent converted into shares of Common Stock in accordance with the terms hereof.

SECTION 7.12 Facsimile Execution. Facsimile execution shall be deemed originals.

IN WITNESS WHEREOF, the Company has caused this Debenture to be signed by its duly authorized officer on the date of this Debenture.

Integrated Surgical Systems, Inc.

By: /s/ RAMESH C. TRIVEDI

Ramesh C. Trivedi
President and CEO

Initials

Initials

EXHIBIT A
DEBENTURE CONVERSION NOTICE

TO: Integrated Surgical Systems, Inc.

The undersigned owner of this Convertible Debenture due June __, 2006 (the "Debenture") issued by Integrated Surgical Systems, Inc. (the "Company") hereby irrevocably exercises its option to convert \$_____ Principal Amount of the Debenture into shares of Common Stock in accordance with the terms of the Debenture. The undersigned hereby instructs the Company to convert the portion of the Debenture specified above into shares of Common Stock Issued at Conversion in accordance with the provisions of Article 3 of the Debenture. The undersigned directs that the Common Stock and certificates therefor deliverable upon conversion, the Debenture reissued in the Principal Amount not being surrendered for conversion hereby, [the check or shares of Common Stock in payment of the accrued and unpaid interest thereon to the date of this Notice,] together with any check in payment for fractional Common Stock, be registered in the name of and/or delivered to the undersigned unless a different name has been indicated below. All capitalized terms used and not defined herein have the respective meanings assigned to them in the Debenture. The conversion pursuant hereto shall be deemed to have been effected at the date and time specified below, and at such time the rights of the undersigned as a Holder of the Principal Amount of the Debenture set forth above shall cease and the Person or Persons in whose name or names the Common Stock Issued at Conversion shall be registered shall be deemed to have become the holder or holders of record of the Common Shares represented thereby and all voting and other rights associated with the beneficial ownership of such Common Shares shall at such time vest with such Person or Persons.

Date and time: _____

By: _____

Title: _____

Fill in for registration of Debenture:
Please print name and address
(including ZIP code number):

WARRANT TO PURCHASE COMMON STOCK

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT FOR DISTRIBUTION, AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED NEITHER THE WARRANT NOR THE SHARES MAY BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED. THIS WARRANT MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, PLEDGE OR OTHER TRANSFER OF ANY INTEREST IN THIS WARRANT OR THE SHARES ISSUABLE HEREUNDER.

Issuer: Integrated Surgical Systems, Inc.
Class of Stock: Common Stock
Issue Date: June 9, 2004
Expiration Date: June 9, 2006

THIS WARRANT CERTIFICATE is being issued pursuant to that certain Securities Purchase Agreement dated as of the date hereof (the "Securities Purchase Agreement") between Integrated Surgical Systems, Inc., a Delaware corporation (the "Company") and Golden Gate Investors, Inc., a California corporation ("Holder"). Terms not defined herein shall have the meanings ascribed to them in the Securities Purchase Agreement or the 6 3/4 % Convertible Debenture ("Debenture").

1.1 Warrants. The Company hereby grants to Holder the right to purchase 1,500,000 shares of the Company's Common Stock (the "Shares" or "Warrant Shares"). For avoidance of doubt, this Warrant may be exercised concurrently with or subsequent to the issuance of a Conversion Notice under the Debenture in accordance with the Securities Purchase Agreement. The date that the Holder issues a Conversion Notice under the Debenture is hereafter referred to as the "Conversion Date." Holder agrees that, beginning in the first full calendar month after the Registration Statement is declared effective with the SEC,

Beginning in the first full calendar month after the Registration Statement is declared effective, Holder will exercise at least 4% of the Warrants per calendar month, in conjunction with the issuance of Conversion Notices under the Debenture, provided that the Common Shares are available, registered and freely tradable. In the event Holder breaches this provision, Holder shall not be entitled to collect interest on the Debenture for that month. In the event Holder breaches this provision for two consecutive months, at the option of the Company, this Agreement, the Registration Rights Agreement, the Securities Purchase Agreement and the associated Debenture shall terminate, and the outstanding principal of the Debenture, together with accrued but unpaid interest thereon, shall mature one month after the end of such second consecutive month.

Holder will exercise no more than 12% (such 12% maximum amount to be cumulative from the Deadline), of the Warrants per calendar month. The 12% monthly maximum amount shall not be applicable if the Current Market Price of the Common Stock at anytime during the applicable month is higher than the Current Market Price of the Common Stock on the Closing Date.

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Initials

Initials

This Warrant shall expire and Holder shall no longer be able to purchase the Warrant Shares on June 9, 2006.

ARTICLE 2
EXERCISE

2.1 Method of Exercise. Holder may exercise this Warrant Certificate by delivering a duly executed warrant notice of exercise in substantially the form attached hereto as Appendix A ("Warrant Notice of Exercise") to the principal office of the Company.

2.2 Delivery of Certificate and New Warrant. As promptly as practicable after the receipt of the Warrant Notice of Exercise, but in any event not more than three (3) Business Days after the Company's receipt of the Warrant Notice of Exercise, the Company shall issue the Warrant Shares and cause to be mailed for delivery by overnight courier, or if a Registration Statement covering the Warrant Shares has been declared effective by the SEC cause to be

electronically transferred, to Holder a certificate representing the Warrant Shares acquired and, if this Warrant has not been fully exercised and has not expired, a new Warrant Certificate substantially in the form of this Warrant representing the right to acquire the portion of the Warrant Shares not so exercised shall be delivered to Holder.

2.3 Replacement of Warrants. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant Certificate and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of mutilation, or surrender and cancellation of this Warrant Certificate, the Company at its expense shall execute and deliver, in lieu of this Warrant Certificate, a new warrant certificate of like tenor.

2.4 Exercise Price. The Exercise Price of this Warrant shall be \$1.00 per Share.

2.5 Cashless Exercise. Notwithstanding anything to the contrary contained in this Warrant Certificate, if the resale of the Warrant Shares by the Holder is not then registered pursuant to an effective Registration Statement, upon the expiration of one year from April 2, 2004 (the "Issue Date"), this Warrant may be exercised by presentation and surrender of this Warrant to the Company at its principal executive offices with a written notice of Holder's intention to effect a cashless exercise, including a calculation of the number of shares of Common Stock to be issued upon such exercise in accordance with the terms hereof (a "Cashless Exercise"). In the event of a Cashless Exercise, in lieu of paying the Exercise Price in cash, Holder shall surrender this Warrant for that number of Warrant Shares determined by multiplying the number of Warrant Shares to which it otherwise would be entitled by a fraction, the numerator of which shall be the difference between the then current Market Price per share of the Common Stock and the Exercise Price, and the denominator or which shall be the then Current Market Price per share of Common Stock.

2.6 Mandatory Exercise. In accordance with the Securities Purchase Agreement, at anytime Holder shall convert all or any part of the Debenture, Holder shall simultaneously therewith exercise Warrants in a dollar amount equal to ten times the dollar amount of the Debenture conversion.

ARTICLE 3
ADJUSTMENT TO THE WARRANT SHARES

The number of Warrant Shares purchasable upon the exercise of this Warrant and the Exercise Price shall be subject to adjustment from time to time upon the occurrence of certain events, as follows:

3.1 Reclassification. In case of any reclassification or change of outstanding securities of the class issuable upon exercise of this Warrant then, and in any such case, the Holder, upon the exercise hereof at any time after the consummation of such reclassification or change, shall be entitled to receive in lieu of each Warrant Share theretofore issuable upon exercise of this Warrant, the kind and amount of shares of stock, other securities, money and/or property received upon such reclassification or change by a holder of one Warrant Share. The provisions of this Section 2.1 shall similarly apply to successive reclassifications or changes.

3.2 Subdivision or Combination of Common Stock. If the Company at any time while this Warrant remains outstanding and unexpired shall subdivide or combine its Common Stock, the Exercise Price shall be proportionately decreased in the case of a subdivision or increased in the case of a combination.

3.3 Stock Dividends. If the Company, at any time while this Warrant is outstanding shall pay a dividend payable in shares of Common Stock, or make any other distribution of shares of Common Stock (except any distribution specifically provided for in Section 2.1 and Section 2.2 above), then the Exercise Price shall be adjusted, effective from and after the date of determination of shareholders entitled to receive such dividend or distribution, to that price determined by multiplying the Exercise Price in effect immediately prior to such date of determination by a fraction, (a) the numerator of which shall be the total number of shares of Common Stock outstanding immediately prior to such dividend or distribution, and (b) the denominator of which shall be the total number of shares of Common Stock outstanding immediately after such dividend or distribution.

3.4 Non-Cash Dividends. If the Company at any time while this Warrant is outstanding shall pay a dividend payable in securities other than Common Stock or other non-cash property, or make any other distribution of such securities or property (except any distribution specifically provided for in Section 2.1 and Section 2.2 above), then this Warrant shall represent the right to acquire upon exercise of this Warrant such securities or property which the Holder would have been entitled to receive upon such dividend or distribution had such Warrant been exercised in full immediately prior thereto, without the payment by the Holder of any additional consideration for such securities or property.

3.5 Effect of Reorganization and Asset Sales. If any (i) reorganization or reclassification of the Common Stock (ii) consolidation or merger of the Company with or into another corporation, or (iii) sale or all or substantially all of the Company's operating assets to another corporation followed by a liquidation of the Company (any such transaction shall be referred to herein as an "Event"), is effected in such a way that holders of Common Stock are entitled to receive securities and/or assets as a result of their Common Stock ownership, the Holder, upon exercise of this Warrant, shall be entitled to receive such shares of stock securities or assets which the Holder would have received had it fully exercised this Warrant on or prior the record date for

such Event. The Company shall not merge into or consolidate with another corporation or sell all of its assets to another corporation for a consideration consisting primarily of securities of such corporation, unless the successor or acquiring corporation, as the case may be, shall expressly assume the due and punctual observance and performance of each and every covenant and condition of this Warrant Certificate to be performed or observed by the Company and all of the obligations and liabilities hereunder, subject to such modification as shall be necessary to provide for adjustments which shall be as nearly equivalent as practicable to the adjustments provided for in this Section 2. The foregoing provisions shall similarly apply to successive mergers, consolidations or sales of assets.

3.6 Adjustment of Number of Warrant Shares. Upon each adjustment in the Exercise Price, the number of Warrant Shares shall be adjusted, to the nearest whole share, to the product obtained by multiplying the number of Warrant Shares, purchasable immediately prior to such adjustment by a fraction, the numerator of which shall be the Exercise Price immediately prior to such adjustment and the denominator of which shall be the Exercise Price immediately thereafter.

3.7 No Impairment. The Company shall not, by amendment of its articles of incorporation or through a 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 under this Warrant Certificate by the Company, but shall at all times in good faith assist in carrying out all of the provisions of this Warrant Certificate and in taking all such action as may be reasonably necessary or appropriate to protect Holder's rights hereunder against impairment. If the Company takes any action affecting its Common Stock other than as described above that adversely affects Holder's rights under this Warrant Certificate, the Exercise Price shall be adjusted downward and the number of Warrant Shares issuable upon exercise of this Warrant shall be adjusted upward in such a manner that the aggregate Exercise Price of this Warrant is unchanged.

3.8 Fractional Warrant Shares. No fractional Warrant Shares shall be issuable upon the exercise of this Warrant, and the number of Warrant Shares to be issued shall be rounded down to the nearest whole Share.

3.9 Certificate as to Adjustments. Upon any adjustment of the Exercise Price, the Company, at its expense, shall compute such adjustment and furnish Holder with a certificate of its Chief Financial Officer setting forth such adjustment and the facts upon which such adjustment is based. The Company shall, upon written request, furnish Holder a certificate setting forth the Exercise Price in effect upon the date thereof and the series of adjustments leading to such Exercise Price.

3.10 No Rights of Shareholders. This Warrant does not entitle Holder to any voting rights or any other rights as a shareholder of the Company prior to the exercise of Holder's right to purchase Warrant Shares as provided herein.

ARTICLE 4
REPRESENTATIONS AND COVENANTS OF THE COMPANY

4.1 Representations and Warranties. The Company hereby represents and warrants to Holder that all Warrant Shares which may be issued upon the exercise of the purchase right represented by this Warrant Certificate, shall, upon issuance, be duly authorized, validly issued, fully paid and nonassessable, and free of any liens and encumbrances.

4.2 Notice of Certain Events. If the Company proposes at any time (a) to declare any dividend or distribution upon its Common Stock, whether in cash, property, stock, or other securities and whether or not a regular cash dividend; (b) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights; (c) to effect any reclassification or recapitalization of Common Stock; (d) to merge or consolidate with or into any other corporation, or sell, lease, license, or convey all or substantially all of its assets, or to liquidate, dissolve or wind up; or (e) offer holders of registration rights the opportunity to participate in an underwritten public offering of the Company's securities for cash, then, in connection with each such event, the Company shall give Holder (1) at least 20 days prior written notice of the date on which a record will be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of Common Stock will be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (c) and (d) above; (2) in the case of the matters referred to in (c) and (d) above at least 20 days prior written notice of the date when the same will take place (and specifying the date on which the holders of Common Stock will be entitled to exchange their Common Stock for securities or other property deliverable upon the occurrence of such event); and (3) in the case of the matter referred to in (e) above, the same notice as is given to the holders of such registration rights.

4.3 Information Rights. So long as Holder holds this Warrant and/or any of the Warrant Shares, the Company shall deliver to Holder (a) promptly after mailing, copies of all notices or other written communications to the shareholders of the Company, (b) within ninety (90) days of their availability, the annual audited financial statements of the Company certified by independent public accountants of recognized standing, and (c) within forty-five (45) days after the end of each fiscal quarter or each fiscal year, the Company's quarterly, unaudited financial statements.

4.4 Reservation of Warrant Shares. The Company has reserved and will keep available, out of the authorized and unissued Warrant Shares of Common Stock, the full number of shares of Common Stock sufficient to provide for the exercise of the rights of purchase represented by this Warrant.

4.5 Registration Rights. If Holder exercises this Warrant and purchases some or all of the Warrant Shares, Holder shall have the Registration Rights set forth in that certain Registration Rights Agreement executed concurrently therewith.

ARTICLE 5
REPRESENTATIONS AND COVENANTS OF THE HOLDER

5.1 Private Issue. Holder understands (i) that the Warrant Shares issuable upon exercise of Holder's rights contained in this Warrant Certificate are not registered under the Securities Act of 1933, as amended (the "Securities Act") or qualified under applicable state securities laws on the ground that the issuance contemplated by this Warrant Certificate will be exempt from the registration and qualifications requirements thereof, and (ii) that the Company's reliance on such exemption is predicated on Holder's representations set forth in this Article 5.

5.2 Financial Risk. Holder has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment and has the ability to bear the economic risks of its investment.

5.3 Risk of No Registration. Holder understands that if the Company does not register with the Securities and Exchange Commission pursuant to Section 12 of the Securities Act, or file reports pursuant to Section 15(d), of the Securities Exchange Act of 1934, or if a registration statement covering the securities under the Securities Act is not in effect when it desires to sell (i) the right to purchase the Warrant Shares pursuant to the Warrant, or (ii) the Warrant Shares issuable upon exercise of the right to purchase, it may be required to hold such securities for an indefinite period.

5.4 Accredited Investor. Holder is an "accredited investor," as such term is defined in Rule 501(a) of Regulation D promulgated under the Securities Act.

5.5 Investment. Holder is purchasing the Warrant and the Warrant Shares for its own account, for investment purposes only and not with a view toward or in connection with the public sale or distribution thereof in violation of the Securities Act.

ARTICLE 6 MISCELLANEOUS

6.1 Term. This Warrant is exercisable, in whole or in part, at any time and from time to time on or after the Conversion Date and on or before June 9, 2006.

6.2 Compliance with Securities Laws on Transfer. This Warrant may not be transferred or assigned in whole or in part without compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company). The Company shall not require Holder to provide an opinion of counsel if the transfer is to an affiliate of Holder.

6.3 Transfer Procedure. Holder shall have the right without the consent of the Company to transfer or assign in whole or in part this Warrant and the Warrant Shares issuable upon exercise of this Warrant, provided such transfer is in compliance with Federal and state securities laws. Holder agrees that unless there is in effect a registration statement under the Securities Act covering the proposed transfer of all or part of this Warrant, prior to any such proposed transfer the Holder shall give written notice thereof to the Company (a "Transfer Notice"). Each Transfer Notice shall describe the manner and circumstances of the proposed transfer in reasonable detail and, if the Company so requests, shall be accompanied by an opinion of legal counsel, in a form reasonably satisfactory to the Company, to the effect that the proposed transfer may be effected without registration under the Securities Act; provided that the Company will not require opinions of counsel for transactions involving transfers to affiliates or pursuant to Rule 144 promulgated by the Securities and Exchange Commission under the Securities Act, except in unusual circumstances.

6.4 Notices, etc. All notices and other communications required or permitted hereunder shall be in writing and shall be delivered personally, or sent by telecopier machine or by a nationally recognized overnight courier service, and shall be deemed given when so delivered personally, or by telecopier machine or overnight courier service as follows:

if to the Company, to:

Integrated Surgical Systems, Inc.
1850 Research Park Drive
Davis, CA 95616
Telephone: 530-792-2600
Facsimile: 530-792-2690

With a copy to:

Snow Becker Krauss P.C.
605 3rd Avenue
New York, NY 10158
Telephone: 212-687-3860
Facsimile: 212-949-7052
Attn: Jack Becker, Esq.

if to the Holder, to:

Golden Gate Investors, Inc.
7817 Herschel Avenue, Suite 200
La Jolla, CA 92037
Telephone: 858-551-8789
Facsimile: 858-551-8779

or at such other address as the Company shall have furnished to the Holder. Each such notice or other communication shall for all purposes of this agreement be treated as effective or having been given when delivered if delivered personally, or, if sent by mail, at the earlier of its receipt or five days after the same has been deposited in a regularly maintained receptacle for the deposit of the United States mail, addressed and mailed as aforesaid.

6.5 Counterparts. This Warrant Certificate may be executed in any number of counterparts, each of which shall be enforceable against the parties actually executing such counterparts, and all of which together shall constitute one instrument. Facsimile execution shall be deemed originals.

6.6 Waiver. This Warrant Certificate and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

6.7 Attorneys Fees. In the event of any dispute between the parties concerning the terms and provisions of this Warrant Certificate, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys fees.

6.8 Governing Law; Jurisdiction. This Warrant Certificate shall be governed by and construed in accordance with the laws of the State of California, without giving effect to its principles regarding conflicts of law. Each of the parties hereto consents to the jurisdiction of the federal courts whose districts encompass any part of the City of San Diego or the state courts of the State of California sitting in the City of San Diego in connection with any dispute arising under this Warrant Certificate and hereby waives, to the maximum extent permitted by law, any objection including any objection based on forum non conveniens, to the bringing of any such proceeding in such jurisdictions.

6.9 Remedies. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder, by vitiating the intent and purpose of the transactions hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Warrant Certificate will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Warrant Certificate, that the Holder shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Warrant Certificate and to enforce specifically the terms and provisions hereof, without the necessity of showing economic loss and without any bond or other security being required.

IN WITNESS WHEREOF, the parties hereto have duly caused this Warrant Certificate to be executed and delivered on the first date set forth above.

Integrated Surgical Systems, Inc.

Golden Gate Investors, Inc.

By: /s/ RAMESH C. TRIVEDI

By: /s/ TRAVIS W. HUFF

Ramesh C. Trivedi,
President and CEO

Travis W. Huff,
Portfolio Manager

Initials

Initials

APPENDIX 1

WARRANT NOTICE OF EXERCISE

1. The undersigned hereby elects to purchase _____ shares of the Common Stock of Integrated Surgical Systems, Inc. pursuant to the terms of the Warrant Certificate dated June __, 2004.

2. Please issue a certificate or certificates representing said shares in the name of the undersigned or in such other name as is specified below:

(Name and Address)

3. The undersigned makes the representations and covenants set forth in Article 5 of the Warrant Certificate.

(Signature)

(Date)

ADDENDUM TO CONVERTIBLE DEBENTURE AND
WARRANT TO PURCHASE COMMON STOCK

This Addendum to Convertible Debenture and Warrant to Purchase Stock ("Addendum") is entered into on the 9th day of June 2004 by and between Integrated Surgical Systems, Inc., a Delaware corporation ("Integrated"), and Golden Gate Investors, Inc., a California Corporation ("GGI").

WHEREAS, GGI and Integrated are parties to that certain 6 3/4 % Convertible Debenture dated as of June 9, 2004 ("Debenture"); and

WHEREAS, GGI and Integrated are parties to that certain Warrant to Purchase Common Stock dated as of June 9, 2004 ("Warrant"); and

WHEREAS, the parties desire to amend the Debenture and Warrants in certain respects.

NOW, THEREFORE, in consideration of mutual promises and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Integrated and GGI, agree as follows:

1. All terms used herein and not otherwise defined herein shall have the definitions set forth in the debenture
2. When the Debenture Principle Amount declines below \$50,000, LJCI shall be permitted, for a period of 90 days, to add up to \$100,000 of additional principal to the Debenture, on the same terms and conditions as the Debenture.
3. Except as specifically amended herein, all other terms and conditions of the Debenture and Warrant shall remain in full force and effect.

IN WITNESS WHEREOF, Integrated and GGI have caused this Addendum to be signed by its duly authorized officers on the date first set forth above.

Integrated Surgical Systems, Inc.

Golden Gate Investors, Inc.

By: /s/ RAMESH C. TRIVEDI

By: /s/ TRAVIS W. HUFF

Ramesh C. Trivedi
President and CEO

Travis W. Huff,
Portfolio Manager

SECURITIES PURCHASE AGREEMENT

Securities Purchase Agreement dated as of June 9, 2004 (this "Agreement") by and between Integrated Surgical Systems, Inc., a Delaware corporation, with principal executive offices located at 1850 Research Park Drive, Davis, CA 95616 (the "Company"), and Golden Gate Investors, Inc., a California corporation, with principal executive offices at 7817 Herschel Avenue, Suite 200, La Jolla, CA 92037 ("Buyer").

WHEREAS, Buyer desires to purchase from the Company, and the Company desires to issue and sell to Buyer, upon the terms and subject to the conditions of this Agreement, the Convertible Debenture of the Company in the aggregate principal amount of \$150,000 (the "Debenture"); and

WHEREAS, in conjunction with the Debenture, the Company has issued a Warrant to Purchase Common Stock to the Buyer (the "Warrant or Conversion Warrant"); and

WHEREAS, upon the terms and subject to the conditions set forth in the Debenture and the Warrant, the Debenture and Warrant are convertible and exercisable, respectively, into shares of the Company's common stock, \$0.01 par value per share (the "Common Stock");

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto, intending to be legally bound, hereby agree as follows:

I. PURCHASE AND SALE OF DEBENTURE AND WARRANT

A. Transaction. Buyer hereby agrees to purchase from the Company, and the Company has offered and hereby agrees to issue and sell to Buyer in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act of 1933, as amended (the "Securities Act"), the Debenture and Warrant.

Purchase Price; Form of Payment. The purchase price for the Debenture to be purchased by Buyer hereunder shall be \$150,000 for the Debenture and \$250 for the Warrant (the "Purchase Price"). Simultaneously with the execution of this Agreement, Buyer shall pay \$100,000 of the Purchase Price (the "Initial Purchase Price") by wire transfer of immediately available funds to the Company. Simultaneously with the execution of this Agreement, the Company shall deliver the Convertible Debenture and the Conversion Warrants (which shall have been duly authorized, issued and executed I/N/O Buyer or, if the Company otherwise has been notified, I/N/O Buyer's nominee).

II. BUYER'S REPRESENTATIONS AND WARRANTIES

Buyer represents and warrants to and covenants and agrees with the Company as follows:

B. Buyer is purchasing the Debenture and the Common Stock issuable upon conversion or redemption of the Debenture (the "Conversion Shares") and the Warrant and the shares issuable upon exercise of the Warrant (the "Warrant Shares") for its own account, for investment purposes only and not with a view towards or in connection with the public sale or distribution thereof in violation of the Securities Act. The Debenture, Conversion Shares, Warrant and Warrant Shares are collectively referred to as the "Securities".

Initials

Initials

C. Buyer is (i) an "accredited investor" within the meaning of Rule 501(a) of Regulation D promulgated under the Securities Act, (ii) experienced in making investments of the kind contemplated by this Agreement, (iii) capable, by reason of its business and financial experience, of evaluating the relative merits and risks of an investment in the Securities, and (iv) able to afford the loss of its investment in the Securities.

D. Buyer understands that the Securities are being offered and sold by the Company in reliance on an exemption from the registration requirements of the Securities Act and equivalent state securities and "blue sky" laws, and that the Company is relying upon the accuracy of, and Buyer's compliance with, Buyer's representations, warranties and covenants set forth in this Agreement to determine the availability of such exemption and the eligibility of Buyer to

purchase the Securities;

E. Buyer understands that the Securities have not been approved or disapproved by the SEC or any state or provincial securities commission.

F. This Agreement has been duly and validly authorized, executed and delivered by Buyer and is a valid and binding agreement of Buyer enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally and except as rights to indemnity and contribution may be limited by federal or state securities laws or the public policy underlying such laws.

II. THE COMPANY'S REPRESENTATIONS

The Company represents and warrants to Buyer that:

A. Capitalization.

1. The capitalization of the Company is accurately set forth on Schedule III.A.1.

2. The Conversion Shares and the Warrant Shares have been duly and validly authorized and reserved for issuance by the Company, and, when issued by the Company upon conversion of the Debenture and exercise of the Warrant, will be duly and validly issued, fully paid and nonassessable and will not subject the holder thereof to personal liability by reason of being such holder.

3. Except as disclosed on Schedule III.A.3., there are no preemptive, subscription, "call," right of first refusal or other similar rights to acquire any capital stock of the Company or other voting securities of the Company that have been issued or granted to any person and no other obligations of the Company to issue, grant, extend or enter into any security, option, warrant, "call," right, commitment, agreement, arrangement or undertaking with respect to any of their respective capital stock.

B. Organization; Reporting Company Status.

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of the state or jurisdiction in which it is incorporated and is duly qualified as a foreign corporation in all jurisdictions in which the failure so to qualify would reasonably be expected to have a material adverse effect on the business, properties, prospects, condition (financial or otherwise) or results of operations of the Company or on the consummation of any of the transactions contemplated by this Agreement (a "Material Adverse Effect").

2. The Company is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Common Stock is listed on the National Association of Securities Dealers, Inc. Over-The-Counter Bulletin Board ("OTCBB") and the Company has not received any notice regarding, and to its knowledge there is no threat of, the termination or discontinuance of the eligibility of the Common Stock for such listing.

C. Authorization. The Company (i) has duly and validly authorized and reserved for issuance shares of Common Stock, which is a number sufficient for the conversion of the Debenture and the exercise of the Warrant and (ii) at all times from and after the date hereof shall have a sufficient number of shares of Common Stock duly and validly authorized and reserved for issuance to satisfy the conversion of the Debenture in full and the exercise of the Warrant. The Company understands and acknowledges the potentially dilutive effect on the Common Stock of the issuance of the Conversion Shares and the Warrant Shares. The Company further acknowledges that its obligation to issue Conversion Shares upon conversion of the Debenture and Warrant Shares upon exercise of the Warrant in accordance with this Agreement is absolute and unconditional regardless of the dilutive effect that such issuance may have on the ownership interests of other stockholders of the Company and notwithstanding the commencement of any case under 11 U.S.C. ss. 101 et seq. (the "Bankruptcy Code"). In the event the Company is a debtor under the Bankruptcy Code, the Company hereby waives to the fullest extent permitted any rights to relief it may have under 11 U.S.C. ss. 362 in respect of the conversion of the Debenture and Warrants. The Company agrees, without cost or expense to Buyer, to take or consent to any and all action necessary to effectuate relief under 11 U.S.C. ss. 362.

Authority; Validity and Enforceability. The Company has the requisite corporate power and authority to enter into the Documents (as such term is hereinafter defined) and to perform all of its obligations hereunder and thereunder (including the issuance, sale and delivery to Buyer of the Securities). The execution, delivery and performance by the Company of the Documents and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance of the Debenture and the Warrant and the issuance and reservation for issuance of the Conversion Shares and the Warrant Shares) have been duly and validly authorized by all necessary corporate action on the part of the Company. Each of the Documents has been duly and validly executed and delivered by the Company and each Document constitutes a valid and binding obligation of the Company enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally and except as rights to indemnity and contribution may be limited by federal or state securities laws or the public policy underlying such laws. The Securities have been duly and validly authorized for issuance by the Company and, when executed and delivered by the Company, will be valid and binding obligations of the Company enforceable against it in accordance with their respective terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally. For purposes of this Agreement, the term "Documents" means (i) this Agreement, including schedules; (ii) the Registration Rights Agreement dated as of even date herewith between the Company and Buyer substantially in the form attached hereto as Exhibit C (the "Registration Rights Agreement"), (iii) the Debenture substantially in the form attached hereto as Exhibit A; and (iv) the Warrant, substantially in the form attached hereto as Exhibit B.

Validity of Issuance of the Securities. The Securities will be validly issued and outstanding, fully paid and nonassessable, and not subject to any preemptive rights, rights of first refusal, tag-along rights, drag-along rights or other similar rights.

Non-contravention. The execution and delivery by the Company of the Documents, the issuance of the Securities, and the consummation by the Company of the other transactions contemplated hereby and thereby do not, and compliance with the provisions of this Agreement and other Documents will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or loss of a material benefit under, or result in the creation of any Lien (as such term is hereinafter defined) upon any of the properties or assets of the Company or any of its Subsidiaries (as such term is defined in the Debenture) under, or result in the termination of, or require that any consent be obtained or any notice be given with respect to (i) the Articles or Certificate of Incorporation or By-Laws of the Company or the comparable charter or organizational documents of any of its Subsidiaries, in each case as amended to the date of this Agreement, (ii) any loan or credit agreement, debenture, bond, mortgage, indenture, lease, contract or other agreement, instrument or permit applicable to the Company or any of its Subsidiaries or their respective properties or assets or (iii) any Law (as such term is hereinafter defined) applicable to, or any judgment, decree or order of any court or government body having jurisdiction over, the Company or any of its Subsidiaries or any of their respective properties or assets.

Approvals. No authorization, approval or consent of any court or public or governmental authority is required to be obtained by the Company for the issuance and sale of the Securities to Buyer as contemplated by this Agreement, except such authorizations, approvals and consents as have been obtained by the Company prior to the date hereof.

D. SEC Filings. The Company has properly and timely filed with the SEC all reports, proxy statements, forms and other documents required to be filed with the SEC under the Securities Act and the Exchange Act since becoming subject to such Acts (the "SEC Filings"). As of their respective dates, (i) the SEC Filings complied in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such SEC Filings and (ii) none of the SEC Filings contained at the time of its filing any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Filings, as of the dates of such documents, were true and complete in all material respects and complied with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, were prepared in accordance with generally accepted accounting principles in the United States ("GAAP") (except in the case of unaudited financial statements permitted by Form 10-QSB under the Exchange Act) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly presented the consolidated financial position of the Company and its Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments that in the aggregate are not material and to any other adjustment described therein).

E. Full Disclosure. Buyer hereby acknowledges receipt of the Company's annual report on Form 10-KSB for its fiscal year ended December 31, 2003 and its quarterly reports on Form 10-QSB for the last three quarters ended March 31, 2003, June 30, 2003 and September 30, 2003. Since September 30, 2003, there is no fact known to the Company (other than general economic or industry conditions known to the public generally) that has not been fully disclosed in the SEC Filings (including the aforementioned annual report and quarterly reports) that (i) reasonably could be expected to have a Material Adverse Effect or (ii) reasonably could be expected to materially and adversely affect the ability of the Company to perform its obligations pursuant to the Documents, except as set forth on Schedule III.B.I.

F. Absence of Events of Default. No "Event of Default" (as such term is defined in the Debenture) and no event which, with notice, lapse of time or both, would constitute an Event of Default (as so defined), has occurred and is continuing.

G. Securities Law Matters. Assuming the accuracy of the representations and warranties of Buyer set forth in Article II, the offer and sale by the Company of the Securities is exempt from (i) the registration and prospectus delivery requirements of the Securities Act and the rules and regulations of the SEC thereunder and (ii) the registration and/or qualification provisions of all applicable state and provincial securities and "blue sky" laws. The Company shall not directly or indirectly take, and shall not permit any of its directors, officers or affiliates, as such term is defined in Rule 501(b) of Regulation D under the Securities Act ("Affiliate") directly or indirectly to take, any action (including, without limitation, any offering or sale to any person or entity of any security similar to the Debenture) which will make unavailable the exemption from Securities Act registration being relied upon by the Company for the offer and sale to Buyer of the Debenture, the Conversion Shares, the Warrant and the Warrant Shares as contemplated by this Agreement. No form of general solicitation or advertising has been used or authorized by the Company or any of its officers, directors or Affiliates in connection with the offer or sale of the Securities as contemplated by this Agreement or any other agreement to which the Company is a party.

H. Registration Rights. Except as set forth on Schedule III.L., no Person (as such term is defined in the Debenture) has, and as of the Closing Date (as such term is hereinafter defined), no Person shall have, any demand, "piggy-back" or other rights to cause the Company to file any registration statement under the Securities Act relating to any of its securities or to participate in any such registration statement.

I. Interest. The timely payment of interest on the Debenture is not prohibited by the Articles or Certificate of Incorporation or By-Laws of the Company, in each case as amended to the date of this Agreement, or any agreement, contract, document or other undertaking to which the Company is a party.

J. No Misrepresentation. No representation or warranty of the Company contained in this Agreement or any of the other Documents, any schedule, annex or exhibit hereto or thereto or any agreement, instrument or certificate furnished by the Company to Buyer pursuant to this Agreement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

K. Finder's Fee. There is no finder's fee, brokerage commission or like payment in connection with the transactions contemplated by this Agreement for which Buyer is liable or responsible.

III. CERTAIN COVENANTS AND ACKNOWLEDGMENTS

A. Filings. The Company shall make all necessary SEC Filings and "blue sky" filings required to be made by the Company in connection with the sale of the Securities to Buyer as required by all applicable Laws, and shall provide a copy thereof to Buyer promptly after such filing.

B. Reporting Status. So long as Buyer beneficially owns any of the Securities, the Company shall timely file all reports required to be filed by it with the SEC pursuant to Section 13 or 15(d) of the Exchange Act.

C. Listing. Except to the extent the Company lists its Common Stock on The New York Stock Exchange, The American Stock Exchange or The Nasdaq Stock Market, the Company shall use its best efforts to maintain its listing of the Common Stock on the OTCBB. If the Common Stock is delisted from OTCBB, the Company will use its best efforts to list the Common Stock on the most liquid national securities exchange or quotation system that the Common Stock is qualified to be listed on.

D. Reserved Conversion Common Stock. The Company at all times from and after the date hereof shall have such number of shares of Common Stock duly and validly authorized and reserved for issuance as shall be sufficient for the conversion in full of the Debenture and the exercise of the Warrant.

E. Information. Each of the parties hereto acknowledges and agrees that Buyer shall not be provided with, nor be given access to, any material non-public information relating to the Company.

F. Accounting and Reserves. The Company shall maintain a standard and uniform system of accounting and shall keep proper books and records and accounts in which full, true, and correct entries shall be made of its transactions, all in accordance with GAAP applied on consistent basis through all periods, and shall set aside on such books for each fiscal year all such reserves for depreciation, obsolescence, amortization, bad debts and other purposes in connection with its operations as are required by such principles so applied.

G. Transactions with Affiliates. So long as the Debenture is outstanding, neither the Company nor any of its Subsidiaries shall, directly or indirectly, enter into any material transaction or agreement with any stockholder, officer, director or Affiliate of the Company or family member of any officer, director or Affiliate of the Company, unless the transaction or agreement is (i) reviewed and approved by a majority of Disinterested Directors (as such term is hereinafter defined) and (ii) on terms no less favorable to the Company or the applicable Subsidiary than those obtainable from a nonaffiliated person. A "Disinterested Director" shall mean a director of the Company who is not and has not been an officer or employee of the Company and who is not a member of the family of, controlled by or under common control with, any such officer or employee.

H. Certain Restrictions. So long as the Debenture is outstanding, no dividends shall be declared or paid or set apart for payment nor shall any other distribution be declared or made upon any capital stock of the Company, nor shall any capital stock of the Company be redeemed, purchased or otherwise acquired (other than a redemption, purchase or other acquisition of shares of Common Stock made for purposes of an employee incentive or benefit plan (including a stock option plan) of the Company or pursuant to any of the security agreements listed on Schedule III.A, for any consideration by the Company, directly or indirectly, nor shall any moneys be paid to or made available for a sinking fund for the redemption of any Common Stock of any such stock.

I. Short Selling. So long as the Debenture is outstanding, Buyer agrees and covenants on its behalf and on behalf of its Affiliates that neither Buyer nor its Affiliates shall at any time engage in any short sales with respect to the Company's Common Stock, or sell put options or similar instruments with respect to the Company's Common Stock.

IV. ISSUANCE OF COMMON STOCK

A. The Company undertakes and agrees that no instruction other than the instructions referred to in this Article V and customary stop transfer instructions prior to the registration and sale of the Common Stock pursuant to an effective Securities Act registration statement shall be given to its transfer agent for the Conversion Shares and the Warrant Shares and that the Conversion Shares and the Warrant Shares shall otherwise be freely transferable on the books and records of the Company as and to the extent provided in this Agreement, the Registration Rights Agreement and applicable law. Nothing contained in this Section V.A. shall affect in any way Buyer's obligations and agreement to comply with all applicable securities laws upon resale of such Common Stock.

B. Buyer shall have the right to convert the Debenture and exercise the Warrant by telecopying an executed and completed Conversion Notice (as such term is defined in the Debenture) or Warrant Notice of Exercise (as such term is defined in the Warrant) to the Company. Each date on which a Conversion Notice or Warrant Notice of Exercise is telecopied to and received by the Company in accordance with the provisions hereof shall be deemed a Conversion Date (as such term is defined in the Debenture or the Warrant, as the case may be). The Company shall cause the transfer agent to transmit the certificates evidencing the Common Stock issuable upon conversion of the Debenture (together with a new debenture, if any, representing the principal amount of the Debenture not being so converted) or exercise of the Warrant (together with a new Warrant, if any, representing the amount of the Warrant not being so exercised) to Buyer via express courier, or if a Registration Statement covering the Common Stock has been declared effective by the SEC by electronic transfer, within three (3) business days after receipt by the Company of the Conversion Notice or Warrant Notice of Exercise (the "Delivery Date").

C. Upon the conversion of the Debenture or exercise of the Warrant or part thereof, the Company shall, at its own cost and expense, take all necessary action (including the issuance of an opinion of counsel) to assure that the Company's transfer agent shall issue stock certificates in the name of Buyer (or its nominee) or such other persons as designated by Buyer and in such denominations to be specified at conversion or exercise, as the case may be, representing the number of shares of Common Stock issuable upon such conversion or exercise. The Company warrants that the Conversion Shares and Warrant Shares will be unlegended, free-trading, and freely transferable, and will not contain a legend restricting the resale or transferability of the Company Common Stock provided the Conversion Shares and Warrant Shares are being sold pursuant to an effective Registration Statement covering the Common Stock to be sold or is otherwise exempt from registration when sold.

D. The Company understands that a delay in the delivery of the Common Stock in the form required pursuant to this section, or the Mandatory Redemption Amount described in Section E hereof, beyond the Delivery Date or Mandatory Redemption Payment Date (as hereinafter defined) could result in economic loss to the Buyer. As compensation to the Buyer for such loss, the Company agrees to pay late payments to the Buyer for late issuance of Common Stock in the form

required pursuant to Section C hereof upon conversion of the Debenture or late payment of the Mandatory Redemption Amount, in the amount of \$100 per business day after the Delivery Date or Mandatory Redemption Payment Date, as the case may be, for each \$10,000 of Debenture principal amount being converted or redeemed. The Company shall pay any payments incurred under this Section D in immediately available funds upon demand. Furthermore, in addition to any other remedies which may be available to the Buyer, in the event that the Company fails for any reason to effect delivery of the Common Stock by the Delivery Date or make payment by the Mandatory Redemption Payment Date, the Buyer will be entitled to revoke all or part of the relevant Notice of Conversion or rescind all or part of the notice of Mandatory Redemption by delivery of a notice to such effect to the Company whereupon the Company and the Buyer shall each be restored to their respective positions immediately prior to the delivery of such notice, except that late payment charges described above shall be payable through the date notice of revocation or rescission is given to the Company.

E. Mandatory Redemption. In the event the Company is prohibited from issuing Common Stock, or fails to timely deliver Common Stock on a Delivery Date, or upon the occurrence of an Event of Default (as defined in the Debenture) or for any reason other than pursuant to the limitations set forth herein, then at the Buyer's election, the Company must pay to the Buyer ten (10) business days after request by the Buyer or on the Delivery Date (if requested by the Buyer) a sum of money determined by multiplying up to the outstanding principal amount of the Debenture designated by the Buyer by 130%, together with accrued but unpaid interest thereon ("Mandatory Redemption Payment"). The Mandatory Redemption Payment must be received by the Buyer on the same date as the Company Common Stock otherwise deliverable or within ten (10) business days after request, whichever is sooner ("Mandatory Redemption Payment Date"). Upon receipt of the Mandatory Redemption Payment, the corresponding Debenture principal and interest will be deemed paid and no longer outstanding.

F. Buy-In. In addition to any other rights available to the Buyer, if the Company fails to deliver to the Buyer such Common Stock issuable upon conversion of a Debenture by the Delivery Date and if ten (10) days after the Delivery Date the Buyer purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Buyer of the Common Stock which the Buyer anticipated receiving upon such conversion (a "Buy-In"), then the Company shall pay in cash to the Buyer (in addition to any remedies available to or elected by the Buyer) the amount by which (A) the Buyer's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (B) the aggregate principal and/or interest amount of the Debenture for which such conversion or exercise was not timely honored, together with interest thereon at a rate of 15% per annum, accruing until such amount and any accrued interest thereon is paid in full (which amount shall be paid as liquidated damages and not as a penalty). For example, if the Buyer purchases shares of Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted conversion of \$10,000 of Debenture principal and/or interest, the Company shall be required to pay the Buyer \$1,000, plus interest. The Buyer shall provide the Company written notice indicating the amounts payable to the Buyer in respect of the Buy-In.

G. The Securities shall be delivered by the Company to the Buyer pursuant to Section I.B. hereof on a "delivery-against-payment basis" on the Closing Date.

V. CLOSING DATE

The Closing shall occur by the delivery: (i) to the Buyer of the certificate evidencing the Debenture and all other Agreements, and (ii) to the Company the Purchase Price.

VI. CONDITIONS TO THE COMPANY'S OBLIGATIONS

Buyer understands that the Company's obligation to sell the Debenture and Warrant on the Closing Date to Buyer pursuant to this Agreement is conditioned upon:

A. Delivery by Buyer to the Company and any other Person as indicated herein, of the Purchase Price;

B. The accuracy on the Closing Date of the representations and warranties of Buyer contained in this Agreement as if made on the Closing Date (except for representations and warranties which, by their express terms, speak as of and relate to a specified date, in which case such accuracy shall be measured as of such specified date) and the performance by Buyer in all material respects on or before the Closing Date of all covenants and agreements of Buyer required to be performed by it pursuant to this Agreement on or before the Closing Date; and

C. There shall not be in effect any Law or order, ruling, judgment or writ of any court or public or governmental authority restraining, enjoining or otherwise prohibiting any of the transactions contemplated by this Agreement.

VII. CONDITIONS TO BUYER'S OBLIGATIONS

The Company understands that Buyer's obligation to purchase the Securities on the Closing Date pursuant to this Agreement is conditioned upon:

A. Delivery by the Company of the Debenture, the Warrant and the other ancillary agreements (I/N/O Buyer or I/N/O Buyer's nominee);

B. The accuracy on the Closing Date of the representations and warranties of the Company contained in this Agreement as if made on the Closing Date (except for representations and warranties which, by their express terms, speak as of and relate to a specified date, in which case such accuracy shall be measured as of such specified date) and the performance by the Company in all respects on or before the Closing Date of all covenants and agreements of the Company required to be performed by it pursuant to this Agreement on or before the Closing Date, all of which shall be confirmed to Buyer by delivery of the certificate of the chief executive officer of the Company to that effect;

C. There not having occurred (i) any general suspension of trading in, or limitation on prices listed for, the Common Stock on the NASD OTCBB, (ii) the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, (iii) the commencement of a war, armed hostilities or other international or national calamity directly or indirectly involving the United States or any of its territories, protectorates or possessions or (iv) in the case of the foregoing existing at the date of this Agreement, a material acceleration or worsening thereof;

D. There not having occurred any event or development, and there being in existence no condition, having or which reasonably and foreseeably could have a Material Adverse Effect, except as set forth on Schedule VIII.D.;

E. There shall not be in effect any Law, order, ruling, judgment or writ of any court or public or governmental authority restraining, enjoining or otherwise prohibiting any of the transactions contemplated by this Agreement;

F. The Company shall have obtained all consents, approvals or waivers from governmental authorities and third persons necessary for the execution, delivery and performance of the Documents and the transactions contemplated thereby, all without material cost to the Company;

G. Buyer shall have received such additional documents, certificates, payment, assignments, transfers and other deliveries as it or its legal counsel may reasonably request and as are customary to effect a closing of the matters herein contemplated;

I. Delivery by the Company of an enforceability opinion from its outside counsel in form and substance satisfactory to Buyer

VIII. SURVIVAL; INDEMNIFICATION

A. The representations, warranties and covenants made by each of the Company and Buyer in this Agreement, the annexes, schedules and exhibits hereto and in each instrument, agreement and certificate entered into and delivered by them pursuant to this Agreement shall survive the Closing Date and the consummation of the transactions contemplated hereby. In the event of a breach or violation of any of such representations, warranties or covenants, the party to whom such representations, warranties or covenants have been made shall have all rights and remedies for such breach or violation available to it under the provisions of this Agreement or otherwise, whether at law or in equity, irrespective of any investigation made by or on behalf of such party on or prior to the Closing Date.

B. The Company hereby agrees to indemnify and hold harmless Buyer, its Affiliates and their respective officers, directors, partners and members (collectively, the "Buyer Indemnitees") from and against any and all losses, claims, damages, judgments, penalties, liabilities and deficiencies (collectively, "Losses") and agrees to reimburse Buyer Indemnitees for all out-of-pocket expenses (including the fees and expenses of legal counsel), in each case promptly as incurred by Buyer Indemnitees and to the extent arising out of or in connection with:

1. any misrepresentation, omission of fact or breach of any of the Company's representations or warranties contained in this Agreement or the other Documents, or the annexes, schedules or exhibits hereto or thereto or any instrument, agreement or certificate entered into or delivered by the Company pursuant to this Agreement or the other Documents;

2. any failure by the Company to perform any of its covenants, agreements, undertakings or obligations set forth in this Agreement or the other Documents or any instrument, certificate or agreement entered into or delivered by the Company pursuant to this Agreement or the other Documents;

3. the purchase of the Debenture, the conversion of the Debenture, the payment of interest on the Debenture, the purchase of the Warrants, the issuance of the Warrant Shares, the consummation of the transactions contemplated by this Agreement and the other Documents, the use of any of the proceeds of the Purchase Price by the Company, the purchase or ownership of any or all of the Securities, the performance by the parties hereto of their respective obligations hereunder and under the Documents or any claim, litigation, investigation, proceedings or governmental action relating to any of the foregoing, whether or not Buyer is a party thereto; or

4. resales of the Common Stock by Buyer in the manner and as contemplated by this Agreement and the Registration Rights Agreement.

C. Buyer hereby agrees to indemnify and hold harmless the Company, its Affiliates and their respective officers, directors, partners and members (collectively, the "Company Indemnitees") from and against any and all Losses, and agrees to reimburse the Company Indemnitees for all out-of-pocket expenses (including the fees and expenses of legal counsel), in each case promptly as incurred by the Company Indemnitees and to the extent arising out of or in connection with:

1. any misrepresentation, omission of fact or breach of any of Buyer's representations or warranties contained in this Agreement or the other Documents, or the annexes, schedules or exhibits hereto or thereto or any instrument, agreement or certificate entered into or delivered by Buyer pursuant to this Agreement or the other Documents; or

2. any failure by Buyer to perform in any material respect any of its covenants, agreements, undertakings or obligations set forth in this Agreement or the other Documents or any instrument, certificate or agreement entered into or delivered by Buyer pursuant to this Agreement or the other Documents.

D. Promptly after receipt by either party hereto seeking indemnification pursuant to this Article VIII (an "Indemnified Party") of written notice of any investigation, claim, proceeding or other action in respect of which indemnification is being sought (each, a "Claim"), the Indemnified Party promptly shall notify the party against whom indemnification pursuant to this Article VIII is being sought (the "Indemnifying Party") of the commencement thereof, but the omission so to notify the Indemnifying Party shall not relieve it from any liability that it otherwise may have to the Indemnified Party except to the extent that the Indemnifying Party is materially prejudiced and forfeits substantive rights or defenses by reason of such failure. In connection with any Claim as to which both the Indemnifying Party and the Indemnified Party are parties, the Indemnifying Party shall be entitled to assume the defense thereof. Notwithstanding the assumption of the defense of any Claim by the Indemnifying Party, the Indemnified Party shall have the right to employ separate legal counsel and to participate in the defense of such Claim, and the Indemnifying Party shall bear the reasonable fees, out-of-pocket costs and expenses of such separate legal counsel to the Indemnified Party if (and only if): (x) the Indemnifying Party shall have agreed to pay such fees, out-of-pocket costs and expenses, (y) the Indemnified Party and the Indemnifying Party reasonably shall have concluded that representation of the Indemnified Party and the Indemnifying Party by the same legal counsel would not be appropriate due to actual or, as reasonably determined by legal counsel to the Indemnified Party, potentially differing interests between such parties in the conduct of the defense of such Claim, or if there may be legal defenses available to the Indemnified Party that are in addition to or disparate from those available to the Indemnifying Party or (z) the Indemnifying Party shall have failed to employ legal counsel reasonably satisfactory to the Indemnified Party within a reasonable period of time after notice of the commencement of such Claim. If the Indemnified Party employs separate legal counsel in circumstances other than as described in clauses (x), (y) or (z) above, the fees, costs and expenses of such legal counsel shall be borne exclusively by the Indemnified Party. Except as provided above, the Indemnifying Party shall not, in connection with any Claim in the same jurisdiction, be liable for the fees and expenses of more than one firm of legal counsel for the Indemnified Party (together with appropriate local counsel). The Indemnifying Party shall not, without the prior written consent of the Indemnified Party (which consent shall not unreasonably be withheld), settle or compromise any Claim or consent to the entry of any judgment that does not include an unconditional release of the Indemnified Party from all liabilities with respect to such Claim or judgment.

E. In the event one party hereunder should have a claim for indemnification that does not involve a claim or demand being asserted by a third party, the Indemnified Party promptly shall deliver notice of such claim to the Indemnifying Party. If the Indemnified Party disputes the claim, such dispute shall be resolved by mutual agreement of the Indemnified Party and the Indemnifying Party or by binding arbitration conducted in accordance with the procedures and rules of the American Arbitration Association. Judgment upon any award rendered by any arbitrators may be entered in any court having competent jurisdiction thereof.

IX. GOVERNING LAW

This Agreement shall be governed by and interpreted in accordance with the laws of the State of California, without regard to the conflicts of law principles of such state.

X. SUBMISSION TO JURISDICTION

Each of the parties hereto consents to the exclusive jurisdiction of the federal courts whose districts encompass any part of the City of San Diego or the state courts of the State of California sitting in the City of San Diego in connection with any dispute arising under this Agreement and the other Documents. Each party hereto hereby irrevocably and unconditionally waives, to the fullest extent it may effectively do so, any defense of an inconvenient forum or improper venue to the maintenance of such action or proceeding in any such court and any right of jurisdiction on account of its place of residence or domicile. Each party hereto irrevocably and unconditionally consents to the service of any and all process in any such action or proceeding in such courts by the mailing of copies of such process by registered or certified mail (return receipt requested), postage prepaid, at its address specified in Article XVII. Each party hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

XI. WAIVER OF JURY TRIAL

TO THE FULLEST EXTENT PERMITTED BY LAW, EACH OF THE PARTIES HERETO HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY OTHER DOCUMENT OR ANY DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THIS AGREEMENT AND OTHER DOCUMENTS. EACH PARTY HERETO (i) CERTIFIES THAT NEITHER OF THEIR RESPECTIVE REPRESENTATIVES, AGENTS OR ATTORNEYS HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS AND (ii) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS HEREIN.

XII. COUNTERPARTS; EXECUTION

This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but both of which counterparts shall together constitute one and the same instrument. A facsimile transmission of this signed Agreement shall be legal and binding on both parties hereto.

XIII. HEADINGS

The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

XIV. SEVERABILITY

In the event any one or more of the provisions contained in this Agreement or in the other Documents should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

XV. ENTIRE AGREEMENT; REMEDIES, AMENDMENTS AND WAIVERS

This Agreement and the Documents constitute the entire agreement between the parties hereto pertaining to the subject matter hereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of such parties. No supplement, modification or waiver of this Agreement shall be binding unless executed in writing by both parties. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

XVI. NOTICES

Except as may be otherwise provided herein, any notice or other communication or delivery required or permitted hereunder shall be in writing and shall be delivered personally, or sent by telecopier machine or by a nationally recognized overnight courier service, and shall be deemed given when so delivered personally, or by telecopier machine or overnight courier service as follows:

A. if to the Company, to:

Integrated Surgical Systems, Inc.
1850 Research Park Drive
Davis, CA 95616
Telephone: 530-792-2600
Facsimile: 530-792-2690

With a copy to:

Snow Becker Krauss P.C.
605 Third Avenue
New York, NY 10158
Telephone: 212-687-3860
Facsimile: 212-455-0331

B. if to Buyer, to:

Golden Gate Investors, Inc.
7817 Herschel Avenue, Suite 200
La Jolla, California 92037
Telephone: 858-551-8789
Facsimile: 858-551-8779

The Company or Buyer may change its foregoing address by notice given pursuant to this Article XVII.

XVII. CONFIDENTIALITY

Each of the Company and Buyer agrees to keep confidential and not to disclose to or use for the benefit of any third party the terms of this Agreement or any other information which at any time is communicated by the other party as being confidential without the prior written approval of the other party; provide, however, that this provision shall not apply to information which, at the time of disclosure, is already part of the public domain (except by breach of this Agreement) and information which is required to be disclosed by law (including, without limitation, pursuant to Item 601(b)(10) of Regulation S-K under the Securities Act and the Exchange Act).

XVIII. ASSIGNMENT

This Agreement shall not be assignable by either of the parties hereto prior to the Closing without the prior written consent of the other party, and any attempted assignment contrary to the provisions hereby shall be null and void; provided, however, that Buyer may assign its rights and obligations hereunder, in whole or in part, to any Affiliate of Buyer.

IN WITNESS WHEREOF, the parties hereto have duly caused this Agreement to be executed and delivered on the date first above written.

Integrated Surgical Systems, Inc.

Golden Gate Investors, Inc.

By: /s/ RAMESH C. TRIVEDI

By: /s/ TRAVIS W. HUFF

Ramesh C. Trivedi
President and CEO

Travis W. Huff,
Portfolio Manager

Initials

Initials

SCHEDULE III.L.
REGISTRATION RIGHTS

Name

CERTIFICATION

I, Ramesh C. Trivedi, Chief Executive Officer of Integrated Surgical Systems, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004 of Integrated Surgical Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 24, 2004

By: /s/ RAMESH C. TRIVEDI

Ramesh C. Trivedi
Chief Executive Officer

CERTIFICATION

I, Charles J. Novak, Chief Financial Officer of Integrated Surgical Systems, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB for the year quarter ended June 30, 2004 of Integrated Surgical Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 24, 2004

By: /s/ CHARLES J. NOVAK

Charles J. Novak
Chief Financial Officer

CERTIFICATION

I, Ramesh C. Trivedi, Chief Executive Officer of Integrated Surgical Systems, Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Quarterly Report on Form 10-QSB of the Company for the quarter ended June 30, 2004, which this certification accompanies (the "Periodic Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 24, 2004

/s/ Ramesh C. Trivedi

Ramesh C. Trivedi
Chief Executive Officer

CERTIFICATION

I, Charles J. Novak, Chief Financial Officer of Integrated Surgical Systems, Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Quarterly Report on Form 10-QSB of the Company for the quarter ended June 30, 2004, which this certification accompanies (the "Periodic Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 24, 2004

/s/ Charles J. Novak

Charles J. Novak
Chief Financial Officer