SONOSITE INC
Form 10-Q
November 13, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended September 30, 2001

OR

[_] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from -- to --

Commission file number 0-23791

SONOSITE, INC.

(Exact name of registrant as specified in its charter)

Washington	91-1405022
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

21919 - 30/th/ Drive SE, Bothell, WA 98021-3904
(Address of Principal Executive Offices) (Zip Code)

(425) 951-1200
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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[X] No [_]

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

Common Stock, $0.01 par value	11,501,570
(Class)	(Outstanding as of November 8, 2001)

SonoSite, Inc.
Quarterly Report on Form 10-Q
For the Quarter Ended September 30, 2001
Table of Contents

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

SonoSite, Inc.
Condensed Consolidated Balance Sheets
(unaudited)

Assets

(In thousands)	September 30, 2001
Current assets:	
Cash and cash equivalents	$ 34,819
Short-term investment securities	1,994
Accounts receivable, less allowance for doubtful accounts of $709 and $723, respectively	11,741
Accrued interest receivable	128
Inventories	7,916
Prepaid expenses and other current assets	908
Total current assets	57,506
Property and equipment, net	5,513
Receivable from affiliate	1,027
Other assets	899
Total assets	$ 64,945

Liabilities and Shareholders' Equity

Current liabilities:	
Accounts payable	$ 1,673
Accrued expenses	3,337
Current portion of long-term obligations	228
Deferred revenue	1,314
Total current liabilities	6,552
Deferred rent	189
Long-term obligations, less current portion	219
Total liabilities	6,960
Commitments and contingencies	
Shareholders' equity:	
Preferred stock, $1.00 par value	
Authorized shares - 6,000,000	
Issued and outstanding shares - none	--
Common stock, $.01 par value:	
Authorized shares - 50,000,000	
Issued and outstanding shares:	
As of September 30, 2001 - 11,353,227	
As of December 31, 2000 - 9,551,596	114
Additional paid-in-capital	133,385
Accumulated deficit	(75,515
Accumulated other comprehensive income	1
Total shareholders' equity	57,985
Total liabilities and shareholders' equity	$ 64,945

See accompanying notes to condensed consolidated financial statements.

SonoSite, Inc.
Condensed Consolidated Statements of Operations
(unaudited)

(In thousands, except loss per share)	Quarter Ended September 30,		Three Se
	2001	2000	2001
Sales	$ 11,911	$ 8,357	$ 30,3
Cost of sales	5,167	4,720	15,3
Gross margin	6,744	3,637	14,9
Operating expenses:			
Research and development	3,333	3,097	10,1
Sales and marketing	4,991	4,642	16,0
General and administrative	1,053	973	3,1
Total operating expenses	9,377	8,712	29,3
Other income (loss):			
Interest income	438	602	8
Interest expense	(49)	(59)	(1
Equity in losses of affiliates	(70)	(48)	(2
Gain/(loss) on investments	50	--	(2
Total other income (loss)	369	495	2
Net loss	$ (2,264)	$ (4,580)	$ (14,0
Basic and diluted net loss per share	$ (0.21)	$ (0.49)	$ (1.
Weighted average common and potential common shares used in computing net loss per share	10,629	9,426	9,9

See accompanying notes to condensed consolidated financial statements.

SonoSite, Inc.
Condensed Consolidated Statements of Cash Flows

(unaudited)

(In thousands)	Th
	2001
Operating activities:	
Net loss	$ (
Adjustments to reconcile net loss to net cash used in operating activities:	
Loss on investments	
Depreciation and amortization	
Equity in losses of affiliates	
Changes in operating assets and liabilities:	
Increase in accounts receivable	
Increase in receivable from affiliate	
Decrease (Increase) in interest receivable	
Decrease (Increase) in inventories	
Decrease (Increase) in prepaid expenses and other current assets	
Increase in other assets	
(Decrease) Increase in accounts payable	
Decrease in accrued expenses	
Increase in deferred liabilities	
Net cash used in operating activities	(
Investing activities:	
Purchase of investments	
Proceeds from sales and maturities of investments	
Purchase of equipment	
Proceeds on sale of equipment	
Investment in affiliate	
Other assets	
Net cash provided by (used in) investing activities	
Financing activities:	
Repayment of long-term obligations	
Net proceeds from sale of common stock	
Exercise of stock options	
Net cash provided by financing activities	
Net change in cash	
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	$
Supplemental disclosure of cash flow information:	
Cash paid for interest	$
Supplemental disclosure of non-cash investing and financing activities:	
Assets acquired through debt obligations	$

See accompanying notes to condensed consolidated

financial statements.

5

SonoSite, Inc.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Interim Financial Information

The information contained herein has been prepared in accordance with instructions for Form 10-Q and Article 10 of Regulation S-X. The information furnished reflects, in the opinion of SonoSite management, all adjustments necessary (which are of a normal and recurring nature) for a fair presentation of the results for the interim periods presented. The results of operations for the quarter ended September 30, 2001 are not necessarily indicative of our expected results for the entire year ending December 31, 2001 or for any other fiscal period. These financial statements do not include all disclosures required by generally accepted accounting principles. For a presentation including all disclosures required by generally accepted accounting principles, these financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2000, included in our Annual Report on Form 10-K. Certain amounts reported in previous periods have been reclassified to conform to current presentation.

Business Overview

SonoSite commenced operations as a division of ATL Ultrasound, Inc., or ATL. We were formed to develop the design and specifications for a highly portable ultrasound device and other highly portable ultrasound products for diagnostic imaging in a multitude of clinical and field settings. On April 6, 1998, we became an independent, publicly owned company through a tax-free distribution of one new share of our stock for every three shares of ATL stock held as of that date. ATL retained no ownership in SonoSite following the spin-off.

We finalized the development and began commercialization of our first products in 1999, recognizing our initial product sales revenue in September 1999. Continuing to develop and enhance our products in 2000, we introduced the SonoHeartTM system for cardiology and the high frequency SonoSite(R) 180 system. In April 2001, we announced the release of our SonoSite(R) 180PLUS and SonoHeartTM PLUS systems, both of which include M-mode, Pulsed Wave (PW) Doppler and Tissue Harmonics Imaging capabilities.

Initially, we sold our products primarily through medical product distributors worldwide. In February 2000, recognizing the need for and potential of a direct selling operation, we established a contract direct sales force focused exclusively on selling our products within the United States. In the first quarter of 2001, we elected to convert our contract selling force to direct employees and to expand the number of direct sales people domestically.

Internationally, we continue to address other large potential markets in the world through our relationship with Olympus in Japan, our joint venture in China and dedicated distributors in other traditionally large ultrasound markets. In the first quarter of 2001, we established a subsidiary in the United Kingdom, SonoSite, Ltd., which sells directly in the United Kingdom.

The condensed consolidated financial statements include the accounts of SonoSite, Inc., and its wholly-owned subsidiary located in the United Kingdom. All significant intercompany accounts and transactions have been eliminated in

consolidation.

Financial Instruments

Cash equivalents
Cash and cash equivalents consist of money market and highly liquid debt instruments with original or remaining maturities at purchase of three months or less.

Investment securities
Investment securities consist of high-grade corporate debt. While our intent is to hold our securities until maturity, we classified all securities as available-for-sale because the sale of such securities may be required prior to maturity to implement management strategies or ensure compliance with investment policy standards. These securities are carried at fair value, with the unrealized gains and losses reported as a component of other comprehensive loss until realized. Realized gains and losses from the sale of available-for-sale securities, if any, are determined on a specific identification basis.

A decline in market value of any available-for-sale security below cost that is determined to be other than temporary results in a revaluation of its carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. Interest income is recognized when earned.

Accounts receivable

In the ordinary course of business, we grant credit to a broad customer base. Of the accounts receivable balance at September 30, 2001, 57% were receivable from international parties and 43% were receivable from domestic parties, prior to any provision for doubtful accounts. Approximately $345,000 of the international accounts receivable was classified as a long-term other asset. The same percentages as of December 31, 2000 were 51% international and 49% domestic.

For the quarter ended September 30, 2001, sales revenue was 53% domestic and 47% international. For the three quarters ended September 30, 2001, sales revenue was 52% domestic and 48% international. For the quarter ended September 30, 2000, sales revenue was 54% domestic and 46% international. For the three quarters ended September 30, 2000, sales revenue was 44% domestic and 56% international.

The following tables present individual customers whose outstanding accounts receivable balance as a percentage of total accounts receivables and/or sales revenue as a percentage of total sales revenue exceeded 10%:

Accounts Receivable

	September 30, 2001	December, 31 2000
Brazilian distributor		11%

Japanese distributor	21%	
Totals	21%	11%

Sales Revenue

	For the Quarter Ended		For the Three Quart	
	September 30, 2001	September 30, 2000	September 30, 2001	S
Japanese distributor	20%	18%	16%	
United States distributor		12%		
Totals	20%	30%	16%	

Fair value of financial instruments

The carrying value of our financial instruments, including cash and cash equivalents, accounts receivable, certain long-term other assets and debt, approximates fair value. Cash and cash equivalents and accounts receivable approximate fair value due to their short-term nature. Long-term other assets and debt approximate fair value as interest rates on these notes approximate market.

Concentration of credit risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents, investments and accounts receivable.

Inventories

Inventories are stated at the lower of cost, on a first-in, first-out method, or market. Inventories consist of the following (in thousands):

	September 30, 2001	December 31, 2000
Raw material	$ 3,366	$ 4,257
Finished goods	4,550	8,068
Total	$ 7,916	$ 12,325

Property and equipment

Property and equipment are stated at historical cost, less accumulated depreciation and amortization. Maintenance and repair costs are expensed as incurred, with additions and improvements to property and equipment capitalized. Depreciation and amortization are calculated using the straight-line basis over estimated useful lives as follows:

Asset	Estimated Useful Lives
Equipment, other than computer	5-7 years
Software	3 years
Computer equipment	3-5 years
Furniture and fixtures	5 years
Leasehold improvements	Lesser of estimated useful life o expected remaining lease term

The carrying value of long-lived assets is evaluated for impairment when events or changes in circumstances occur, which may indicate the carrying amount of the asset may not be recoverable. We evaluate the carrying value of the assets by comparing the estimated future cash flows generated from the use of the asset and its eventual disposition with the asset's reported net book value.

Accumulated Other Comprehensive Loss

Other comprehensive losses consist entirely of net unrealized losses on investments.

The following presents the components of comprehensive loss:

	For the Quarter Ended September 30, 2001	September 30, 2000	For the T September 30 2001
Net loss	$ $ (2,264)	$ $ (4,580)	$ (14,02
Unrealized holding gains (losses) arising during the period	--	79	(24
Less reclassification adjustment for (gains) losses included in net loss	(50)	--	24
Other comprehensive gain (loss)	(50)	79	(
Comprehensive loss	$ (2,314)	$ $ (4,502)	$ (14,03

Net Loss per Share

Basic and diluted net loss per share was computed by dividing the net loss by the weighted average shares outstanding exclusive of unvested restricted shares.

Outstanding options to purchase our shares and our unvested restricted shares issued were not included in the computations of diluted net loss per share because to do so would be antidilutive. As of September 30, 2001, our outstanding options and unvested restricted shares totaled 2,588,002. As of September 30, 2000, our outstanding options and unvested restricted shares totaled 2,120,491.

The following is a reconciliation of the numerator and denominator of the basic loss per share calculations:

(in thousands, except loss per share)

	For the Quarter Ended September 30, 2001			For the Qua September	
	Loss	Shares	LPS	Loss	Sha
Weighted average shares outstanding		10,630			
Weighted average unvested restricted stock		(1)			
Basic and diluted loss per share	$ (2,264)	10,629	$ (.21)	$ (4,580)	

(in thousands, except loss per share)

	For the Three Quarters Ended September 30, 2001			For the Three Q September	
	Loss	Shares	LPS	Loss	Sha
Weighted average shares outstanding		9,944			
Weighted average unvested restricted stock		(1)			
Basic and diluted loss per share	$ (14,023)	9,943	$ (1.41)	$ (10,741)	

Litigation

On July 24, 2001, a complaint was filed against us in U.S. District Court, Southern District of Texas, Houston Division, by Neutrino Development Corporation (Neutrino), alleging infringement of U.S. Patent 6,221,021 by SonoSite as a result of our use, sale and manufacture of the SonoSite 180, SonoSite 180 PLUS, SonoHeart and SonoHeart PLUS portable ultrasound imaging devices. The complaint asserts claims for preliminary and permanent injunctive relief enjoining all alleged acts of infringement, compensatory and enhanced damages, attorney's fees and costs, and pre- and post-judgment interest. On August 14, 2001, we filed an answer asserting defenses of both non-infringement and patent invalidity, and including a counterclaim seeking a declaratory judgment of non-infringement and invalidity regarding the patent. On October 4, 2001, the court denied a request by Neutrino for preliminary injunctive relief to prevent us from manufacturing and selling our products for the duration of the litigation. We believe the we have good and sufficient defenses to the claims of patent infringement asserted against us by Neutrino and we are vigorously defending ourselves in this matter.

Financing

On August 8, 2001, we sold 1,666,667 shares of common stock at a price of $15.00 per share to selected institutional and other accredited investors. Gross

proceeds from this private placement were $25.0 million.

Segment Reporting

We currently have one operating segment. Geographic regions are determined by the shipping destination. Sales revenues by geographic location and segregated between distributor and direct sales in the United States are as follows:

(in thousands)	Quarter Ended September 30, 2001	2000	Three Quarters E 2001
United States distributor	$ 293	$ 1,676	$ 1,484
United States direct sales	6,049	2,828	14,097
Total United States	6,342	4,504	15,581
Japan	2,429	1,493	4,818
Europe, Africa and the Middle East	2,240	1,089	6,688
Canada, South and Latin America	809	873	2,273
Other Asia (a)	91	398	997
Total sales revenue	$ 11,911	$ 8,357	$ 30,357

(a) Other Asia includes China, India, Korea, Singapore and Taiwan

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, is recorded in the balance sheet as either an asset or liability measured at its fair value. The statement also requires that changes in the derivative instrument's fair value are recognized in earnings unless specific hedge accounting criteria are met. This statement became effective for us beginning January 1, 2001. Our adoption of the standard did not have a material effect on our financial results.

In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that all business combinations are accounted for under a single method - the purchase method. Use of the pooling-of-interest method is no longer permitted. Statement 141 requires that the purchase method is used for business combinations initiated after June 30, 2001. Statement 142 requires that goodwill no longer is amortized to earnings, but instead is reviewed for impairment. The amortization of goodwill ceases upon adoption of the Statement, which will be adopted by the company on January 1, 2002. The adoption of this statement is not expected to have a material impact on our financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements in this Quarterly Report on Form 10-Q are "forward-looking statements." Forward-looking statements are based on the opinions and estimates

of our management at the time the statements are made and are subject to risks and uncertainties that could cause our actual results to differ materially from those expected or implied by the forward-looking statements. The words "believe," "expect," "intend," "anticipate" and similar expressions are intended to identify forward-looking statements, but their absence does not necessarily mean that the statement is not forward-looking. These statements are not guaranties of future performance and are subject to known and unknown risks and uncertainties and are based upon potentially inaccurate assumptions. Factors that could affect SonoSite's actual results include those described under the heading "Important Factors That May Affect Our Business, Our Results of Operations and Our Stock Price" in this Form 10-Q and in our filings from time to time with the Securities and Exchange Commission. We caution readers not to place undue reliance upon these forward-looking statements that speak only as to the date of this report. We undertake no obligation to publicly revise any forward-looking statements to reflect new information, events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

Overview

SonoSite commenced operations as a division of ATL. We were formed to develop the design and specifications for a highly portable ultrasound device and other highly portable ultrasound products for diagnostic imaging in a multitude of clinical and field settings. On April 6, 1998, we became an independent, publicly owned company through a tax-free distribution of one new share in our stock for every three shares of ATL stock held as of that date. ATL retained no ownership in SonoSite following the spin-off.

We finalized the development and began commercialization of our first products in 1999 and recognized our initial product sales revenue in September 1999. Continuing to develop and enhance our products in 2000, we introduced the SonoHeart system for cardiology and the high frequency SonoSite 180 system. In April 2001, we announced the release of our SonoSite 180PLUS and SonoHeart PLUS systems. Both systems contain advanced features that include M-mode, Pulsed Wave (PW) Doppler and Tissue Harmonics Imaging capabilities.

As of September 30, 2001, our products included our initial platforms and the SonoSite 180 PLUS and SonoHeart PLUS, which, when used in conjunction with one of our five transducers, may be used in a variety of applications. Our transducers include a curved array transducer, the C60, for abdominal imaging and obstetrics, an intra-cavital transducer, the ICT, for transvaginal and intra-cavital imaging, a microconvex transducer, the C15, for cardiac imaging, a linear array transducer, the L38, for use in radiology, surgery, emergency medicine and vascular imaging and a neonatal transducer, the C11, for pediatric applications.

Initially, we sold our products primarily through medical product distributors worldwide. In 2000, we developed and introduced a contract direct sales force to the United States market to supplement and eventually replace our distributors in the United States. Recognizing the value of real-world experience, we utilized sonographers, some of whom had no selling experience, and trained them to sell our systems. As the year progressed, we saw significant

increases in revenue generated by this direct sales group in the United States. As a result, we hired these sonographers onto our direct sales team in early 2001. Additionally, since the beginning of the year we nearly doubled the number of sales consultants domestically by adding experienced sales people, bringing our total of domestic consultants to nearly 50 by the end of September, which is

consistent with our planned number of domestic sales consultants at year end.

Internationally, we continue to address other larger potential markets in the world through our relationship with Olympus in Japan, our joint venture in China and dedicated distributors in other traditionally large ultrasound markets. In the first quarter of 2001, after seeing the success in the United States, we established a subsidiary in the United Kingdom, SonoSite, Ltd., which sells directly in the United Kingdom. At the end of September, we had a direct sales team of 6 in the United Kingdom. We expect to expand our direct selling efforts to include the other key European markets of Germany, France and Spain in the fourth quarter.

In the future, our prospects and ability to grow a profitable business will depend on our ability to effectively market and sell our products to a variety of customers, both in terms of geography and medical specialty. We identified those markets where we believe that our products will generate sales and have a positive impact on the medical industry. These markets include obstetrics and gynecology, emergency medicine, cardiology, radiology and surgery. In addition, we believe that our products can be successfully marketed and sold to address many other medical applications, many of which currently do not use ultrasound.

Since operations began, we have incurred losses. We expect to continue to incur operating losses unless and until our product sales generate sufficient revenue to fund our continuing operations. We may be unable to generate sufficient revenue to fund our operations in future periods.

Results of Operations

Sales

Sales increased to $11.9 million and $30.4 million for the quarter and three quarters ended September 30, 2001 compared to $8.4 million and $25.4 million for the quarter and three quarters ended September 30, 2000, an increase of $3.5 million and $5.0 million, over the prior year periods. As a result of the increase in our domestic direct sales force, our U.S direct sales increased $3.2 million and $9.5 million for the quarter and three quarters ended September 30, 2001. Our overall increase in sales represents a significant growth in the number of end customer sales, when compared to the three quarters of the prior year, during which our sales figures primarily reflected large orders to meet initial distributor demand. Consequently, year-to-date sales to distributors decreased but were partially offset by the increase in U.S direct sales. Product revenues are generally recognized at the time of shipment.

The following represents sales revenue by region:

	Quarter Ended September 30,		Three Quarters E
	2001	2000	2001
United States	53%	54%	52%
Japan	20%	18%	16%
Europe, Africa and the Middle East	19%	13%	22%
Canada, South and Latin America	7%	10%	7%
Other Asia (a)	1%	5%	3%
Total sales revenue	100%	100%	100%

(a) Other Asia includes China, India, Korea, Singapore and Taiwan

We anticipate that sales revenue will continue to increase for the balance of 2001 as compared to prior years due to our expanded direct selling efforts, feature-based pricing and selling programs, new product developments, new corporate customer agreements and overall expansion of general market awareness of the company and our products.

Gross margin on sales revenue

Gross margin percentages on sales revenue for the quarter and three quarters ended September 30, 2001 were 57% and 49%. Gross margin percentages on sales revenue for the quarter and three quarters ended September 30, 2000 were 44% and 43%. The increase in gross margin is due to feature-based pricing, an increase in domestic direct sales, and internalization of key manufacturing processes. Prior to October 2000, third parties performed all of our manufacturing. We anticipate that we will be able to sustain the gross margin percentage on our product sales in the fourth quarter.

Research and development expenses

Research and development expenses for the quarter and three quarters ended September 30, 2001 were $3.3 million and $10.1 million. This is an increase of $200,000 from $3.1 million reported for the quarter ended September 30, 2000 and an increase of $1.6 million from $8.5 million reported for the three quarters ended September 30, 2000. Compared with the second quarter and comparative third quarter, research and development expenses remained relatively stable. The increase in the comparative three quarters ended September 30 is due to increased activities surrounding the design, tooling and manufacture of the SonoSite 180PLUS and SonoHeart PLUS systems and related transducers, which were released in April 2001. We anticipate that research and development spending will remain relatively level in future quarters.

Sales and marketing expenses

Sales and marketing expenses for the quarter and three quarters ended September 30, 2001 were $5.0 million and $16.0 million. This is an increase of approximately $400,000 from $4.6 million reported for the quarter ended September 30, 2000 and an increase of $4.1 million from $11.9 million reported for the three quarters ended September 30, 2000. The increase is primarily due to increases in personnel and personnel-related expenses, launch of the PLUS systems, our direct sales force expansion and related commissions and continued advertising and promotion activity to support both our new and existing products.

We continue to recognize the need to support our existing products and expect marketing and selling costs to increase in 2001 as we expand our direct selling efforts and support existing and new products.

General and administrative expenses

General and administrative expenses for the quarter and three quarters ended September 30, 2001 were $1.1 million and $3.1 million. This is an increase of $100,000 from the $1.0 million reported for the quarter ended September 30, 2000 and equal to the $3.1 million reported for the three quarters ended September 30, 2000. We anticipate that our general and administrative expenses will remain relatively level in future quarters.

Other income/loss

Other income for the quarter and three quarters ended September 30, 2001 was $369,000 and $283,000. This is a decrease of $126,000 from the other income of $495,000 reported for the quarter ended September 30, 2000 and a decrease of $1.4 million from the other income of $1.7 million reported for the three quarters ended September 30, 2000.

For the quarters ended September 30, 2001 and 2000, other income consisted primarily of interest income of $438,000 and $602,000. The decrease in interest income for the comparative quarters ending September 30 of approximately $164,000 is due to our lower average investment balance and lower rates of return.

For the three quarters ended September 30, 2001, other income consisted primarily of $867,000 of interest income, that was partially offset by $117,000 of interest expense, $227,000 of losses from equity investments, and $240,000 of losses on investments. The $240,000 loss on investments recorded in the prior quarter was due to the decline in market value of a bond from a California utility that was deemed to be other than temporary. This bond was sold because it no longer met the criteria of our investment policy. For the three quarters ended September 30, 2000, other income consisted of $2.0 million of interest income, which was partially offset by $115,000 of interest expense and $180,000 of losses from equity investments. The decrease in interest income for the comparative three quarters ending September 30 of approximately $1.4 million was due to our lower average investment balance and lower rates of return.

Liquidity and Capital Resources

In the first three quarters of 2001, our cash and cash equivalents balance increased by $23.8 million. This increase was the result of $23.8 million provided by financing activities and $14.7 million provided by investing activities, which was partially offset by $14.7 million used in operating activities. Cash provided by financing activities represented the net proceeds from the sale of common stock of $23.2 million. Cash provided by investing activities represented the net of proceeds from investment sales and maturities of $18.6 million, which was offset by cash used to purchase investments of $2.6 million and equipment of $1.3 million. Our operating cash uses consisted of our net loss of $14.0 million and cash changes in accounts receivable of $4.4 million and accounts payable of $3.9 million, and offset by decreases in inventory of $4.4 million, increases in deferred liabilities of $1.1 million, and depreciation and amortization expense of $1.7 million.

During the year ended December 31, 2000 and the three quarters ended September 30, 2001, our primary source of operating capital has been our sales revenue and cash obtained from public and private capital financing. On August 8, 2001 we sold 1,666,667 shares of common stock at a price of $15.00 per share to selected institutional and other accredited investors. Gross proceeds from this private placement were $25.0 million and net proceeds were approximately $23.1 million.

To support increasing customer demand, we expect our cash requirements to grow as we increase production, expand our direct selling efforts and targeted marketing plans, enhance our educational offerings and fund our working capital needs. We expect increasing sales revenue to mitigate these increased cash needs. We believe that our existing cash will be sufficient to fund our operations. However, it is difficult to accurately predict the amount of cash that we may require. Actual cash needs will depend in part upon factors beyond our control, such as lower than anticipated revenues, technical obstacles,

market acceptance of our products, competition, disruption in manufacturing or the supply of raw materials, economic circumstances and cost overruns. If additional capital is required, we may not be able to obtain adequate financing on a timely basis, on terms acceptable to us, or at all.

Important Factors That May Affect Our Business, Our Results of Operations and Our Stock Price

We have a limited history as a stand-alone company.

We commenced operations as a stand-alone company in April 1998. Prior to that, we operated as a business unit of ATL. We shipped our first products in September of 1999. Accordingly, we have a limited operating and sales history. Additionally, we only recently brought manufacturing of our products in-house. As a result, our prospects for success are difficult to determine. When evaluating whether to invest in our common stock, you should consider our business and prospects in light of the risks and uncertainties encountered by new technology and manufacturing companies.

There are many reasons why we may be unsuccessful in implementing our strategy, including:

- any inability to manufacture our products with the quality and in the quantity necessary to achieve profitability;
- our dependence on the market acceptance of a new platform for ultrasound imaging procedures;
- our inability to achieve market acceptance of our products for any other reason;
- our reliance on third-party suppliers of material components;
- any failure in our newly developed and implemented in-house manufacturing operations;
- our need to maintain and expand sales channels;
- our need to obtain governmental approvals in key foreign markets;
- any loss of key personnel;
- any inability to respond effectively to competitive pressures;
- any inability to manage rapid growth and expanding operations; and
- any failure to comply with governmental regulations.

We have a history of losses, we expect future losses and we may never be profitable.

We incurred net losses in each quarter since we started operations and have a limited history of product sales. As of September 30, 2001, we had an accumulated deficit of approximately $75.5 million, including approximately $10.6 million that was accumulated prior to our commencing operations as a separate company in April 1998. We expect to incur substantial additional

expenses in the future as we continue to conduct research and development efforts on newer generation products and increase sales and marketing efforts. We will need to generate significant additional revenues in the future before we will be able to achieve and maintain profitability. Our business strategies may not be successful and we may not be profitable in any future period. If we do become profitable, we cannot be certain that we can sustain or increase profitability on a quarterly or annual basis.

Demand for our products is unknown.

Our products represent a new platform for ultrasound imaging procedures and we have sold our products in limited quantities. The market for hand-carried, high-performance ultrasound devices is new and largely undeveloped. We do not know the rate at which physicians or other healthcare providers will adopt our products or the rate at which they will purchase them in the future. Acceptance of our products by physicians, including physicians who do not currently use ultrasound, is essential to our success and may require us to overcome resistance to a new platform for ultrasound imaging.

Current users of ultrasound may resist change to established industry practices and discourage widespread new users and uses.

Currently, patients requiring an ultrasound examination are generally referred to a centralized imaging location. Radiologists and other specialized providers of ultrasound at these locations may have an incentive to discourage market acceptance of our products in order to maintain these referrals.

Physicians and other healthcare providers will not purchase our products unless they determine that they are preferable to other means of obtaining an ultrasound examination and that the benefits to the patient and physician outweigh the costs of purchasing our products. This determination will depend on our products' image quality, cost-effectiveness, ease-of-use, reliability and portability. Furthermore, acceptance of our products by physicians and other healthcare providers may be more difficult if they are unable to obtain adequate reimbursement from third-party payers for tests performed using our products. In addition, while we priced our products to be competitive in the marketplace for lower-end ultrasound machines, our pricing policies could limit market acceptance compared to competing products or alternative imaging methods.

Customer training and education may not be available, sufficient or accepted by new users of ultrasound.

Use of our products will require training for physicians and other health care providers who currently do not use ultrasound-imaging instruments. The time required to complete such training might be substantial and could result in a delay or decrease in market acceptance. We anticipate new users of ultrasound to provide us with future revenue streams. If new users are not able or willing to be trained due to time constraints or availability of courses, our ability to enter new markets will be adversely impacted.

We only recently assumed some of the manufacture and assembly of our products.

In the fourth quarter of 2000, we transitioned the manufacturing operations from ATL to our own facility and under the control of our employees. In order to make this transition, we built a series of manufacturing lines and developed our own manufacturing processes and procedures. The production of our products may be interrupted, resulting in harm to our business, for any number of reasons, including line shutdowns, product procurement issues, procedural issues, rework, quality control issues or yield issues. Additionally, we may be unable to comply with regulations applicable to manufacturers of ultrasound devices or to manufacture our products at a cost or in quantities necessary to achieve or maintain profitability. Any of these risks may prevent us from meeting

production schedules and quality requirements.

If our vendors fail to supply us with the highly specialized parts and other components we need for our products, we will be unable to effectively ship our products.

We depend on vendors to supply highly specialized parts, such as custom-designed integrated circuits, cable assemblies and transducer components. These vendors may experience difficulty in manufacturing these parts or in meeting our high quality standards. In addition, these parts may have long order lead-times, which restrict our ability to respond quickly to changing market conditions. If we are required to switch vendors, the manufacture and delivery of our products could be interrupted for an extended period. We also rely on third-party vendors to supply essential parts and components that are in high demand in other industries, such as electronics manufacturing and telecommunications equipment manufacturing. Our ability to manufacture and deliver products in a timely manner could be harmed if these vendors fail to maintain an adequate supply of these components.

We depend on single-source vendors for some of our components that may be difficult and costly to replace.

We depend on single-source vendors for some key components for our products, including custom-designed integrated circuits, image displays, batteries, capacitors, cables and transformers. There are relatively few alternative sources of supply for some of these components. While these vendors have generally produced our components with acceptable quality, quantity and cost in the past, they have experienced periodic problems that have caused us delays in production. To date, these problems have had little impact. These suppliers may be unable to meet our future demands or may experience quality and specification problems, which might cause us to experience delays, incur additional costs and possibly miss customer deliveries. Establishing additional or replacement suppliers for these components may take a substantial amount of time. If we have to switch to a replacement vendor, the manufacture and delivery of our products could be interrupted.

Our future success could be impaired if the perception of our products is based on any early performance problems.

We will not succeed unless the marketplace is confident that we can provide high-quality products and deliver them in a timely manner. We have a limited history of product sales. If these early product shipments or new product releases fail to perform as expected or if they are perceived as being difficult to use or causing discomfort to patients, the public image of our products may be impaired. Public perception may also be impaired if we fail to deliver our products in a timely manner due to difficulties with our suppliers and vendors or due to our inability to efficiently manufacture, assemble and service our products in-house. A tarnished reputation could result in the failure of our products to gain market acceptance even after any quality or delivery problems are resolved.

We may be unable to manage our growth, which could strain our resources and impair our ability to deliver our products.

We expect significant growth in all areas of operations as we develop and market our products. We will need to add personnel and expand our capabilities, which may strain our existing management, operational, financial and other resources. To compete effectively and manage future growth, we must:

- accurately forecast demand for our products;
- effectively and efficiently manufacture and service our products;
- manage our order fulfillment process;
- manage our inventory;
- train, manage and motivate a growing employee base;
- mitigate our receivables risk; and
- improve existing operational, financial and management information systems.

We may be unable to complete necessary improvements to our systems, procedures and controls to support our future operations in a timely manner. In addition, we may be unable to attract or retain required personnel and our management may be unable to develop the additional expertise required to manage any future growth.

Our quarterly operating results are uncertain and may fluctuate significantly, which could impair the value of your investment.

Our future operating results will depend on numerous factors, many of which we do not control. Changes in any or all of these factors could cause our operating results to fluctuate and increase the volatility of our stock. Some of these factors are:

- demand for our products;
- product and price competition;
- global economic conditions;
- changes in the component costs;
- success of our direct sales and distribution channels;
- successful development and commercialization of new and enhanced products;
- timing of new product introductions and product enhancements by us or our competitors; and
- timing and magnitude of our expenditures.

In addition, we manufacture our products and determine product mix based on forecasts of sales in future periods. Our forecast in any particular period may prove inaccurate, which could cause fluctuations in our manufacturing costs and our operating results. Our future operating results could fall below the expectations of securities analysts or investors and reduce the market price of our stock. We believe that there may be some fluctuations caused by year-end budgetary pressures on our customers, customer buying patterns and the efforts of our direct sales and distribution network to meet or exceed annual sales quotas. These factors make it difficult to forecast our revenues and operating

results.

The market for ultrasound imaging products is highly competitive and we may be unable to compete.

The existing market for ultrasound imaging products is well established and intensely competitive. In addition, we are seeking to develop new markets for our hand-carried ultrasound imaging products. In response, we expect competition to increase as potential and existing competitors begin to enter these new markets or modify their existing products to compete directly with ours. Our primary competitors have:

- better name recognition;
- significantly greater financial resources; and
- existing relationships with some of our potential customers.

Our competitors may be able to use their existing relationships to discourage customers from purchasing our products. In addition, our competitors may be able to devote greater resources to the development, promotion and sale of new or existing products, thereby allowing them to respond more quickly to new or emerging technologies and changes in customer requirements.

We are changing the way we sell our products internationally.

We have historically relied on an indirect sales and distribution network internationally to sell our products. In the first quarter of 2001, we established a subsidiary in the United Kingdom, SonoSite, Ltd., which sells directly in the United Kingdom. We expect to expand our direct distribution efforts in other key European markets, including Germany, France and Spain in the fourth quarter. Our future revenue growth will depend in part on our success in maintaining and expanding our indirect sales and distribution channels in our current overseas markets while simultaneously managing the transition to direct sales in certain European markets. This transition may include the revision of exclusivity provisions within existing distributor agreements in certain European markets. We currently depend on these foreign distributors to help promote market acceptance and demand for our products in countries where we do not have a direct sales force. Many of our foreign distributors are in the business of distributing other, sometimes competing, medical products. As a result, our products may not receive the resources

and support required within these countries to meet our sales objectives. Our success is tied closely to the success of these distributors and their ability to market and sell our products. Inherent in these international markets are certain risks, including:

- the costs of localizing products for foreign markets;
- longer receivables collection periods and greater difficulty in receivables collection, as compared to those experienced in the United States;
- reduced protection for intellectual property rights in some countries;
- fluctuations in the value and economic strength of the United States dollar relative to other currencies; and

. delays or failures in obtaining necessary regulatory approvals.

If the distribution channels are negatively impacted by local economies, unforeseen management issues, political issues, legal issues, or any number of adverse circumstances, our distributors' willingness to promote and sell our products may decrease.

As mentioned, we began direct selling of our products in the United Kingdom in the first quarter of 2001, and we expect to expand our direct selling efforts to targeted European markets, including Germany, France and Spain, in the fourth quarter. This expansion requires extensive training and management as well as increasing administrative activities. We may be unable to train qualified sales personnel to meet our objectives and they nevertheless may be ultimately unsuccessful. In addition, costs associated with maintaining and growing a sales force are difficult to control and manage and consequently may adversely affect our results. Finally, our direct sales force will face the international market risks identified above. If we are unable to manage the transition from indirect to direct distribution in those European markets, our business will suffer.

Our domestic direct selling force is new and efforts to maintain and expand a qualified sales force at a reasonable cost may not be successful.

We began direct sales of our products in the United States in February 2000 with a contract sales force comprised of sonographers with little direct sales experience. We nearly doubled the size of our direct sales force in the United States by supplementing our sonographers with trained professional sales people and began direct selling in the United Kingdom in the first quarter of 2001. This expansion requires extensive training and management as well as increasing administrative activities. We may be unable to train qualified sales personnel to meet our objectives. Further, they may be ultimately unsuccessful. In addition, costs associated with maintaining and growing a sales force are difficult to control and manage and consequently may adversely affect our results.

We have limited marketing experience.

As we market our products as a new platform within the established ultrasound market and promote our products for new users, marketing will be critical to generate awareness and consequently product sales. To be successful, our marketing efforts need to identify the potential markets and also identify the methods to reach and develop these markets. We must also be successful in generating sales leads and processing these leads effectively to generate product sales. We may be unsuccessful in creating brand awareness sufficient to positively impact product sales. In addition, we may be unsuccessful in our marketing efforts throughout the world. Our marketing efforts also must be successful in removing barriers in the marketplace, including the efforts of our competitors to discredit us, the availability and ease of educating users in the use of our product and the resistance that may be shown by existing ultrasound users.

If we do not retain key employees and attract additional highly skilled employees, we will be unsuccessful.

Our future performance will depend largely on the efforts and abilities of our key technical, marketing, selling and managerial personnel and our ability to retain them. In particular, we may be unable to attract qualified, highly skilled personnel into key positions. Our success depends on our ability to attract and retain additional key personnel in the future. While we do not have any employment agreements with any of our employees, we do have change in control agreements with certain management personnel, which prevent them from working for a competitor within a

designated period of time after leaving us. Nevertheless, the loss of any of our key employees could harm our business, particularly the loss of any of our key engineering, management or sales personnel. We do not maintain key-person insurance on any of our employees.

We may be unable to adequately protect our intellectual property rights, which could harm our business.

Our success and ability to compete depend on our licensed and internally developed technology. We seek to protect our proprietary technology through a combination of patent, copyright, trade secret and trademark laws. We also enter into confidentiality or license agreements with our employees, consultants and corporate partners, and generally control access to, and the distribution of, our product designs, documentation and other proprietary information, as well as the designs, documentation and other information that we license from others. Despite our efforts to protect these proprietary rights, unauthorized parties may copy, develop independently or otherwise obtain and use our products or technology.

We cannot be sure that our pending patent applications will result in issued patents. In addition, our issued patents or pending applications may be challenged or circumvented by our competitors. Policing unauthorized use of our intellectual property will be difficult and we cannot be certain that we will be able to prevent misappropriation of our technology, particularly in countries where the laws may not protect our proprietary rights as fully as in the United States. In addition, the cost of policing or defending our patent, copyright or trademarks may be prohibitive.

Our products may infringe on the intellectual property rights of others, which could subject us to significant liability.

Many of our competitors in the ultrasound imaging business hold issued patents and have filed, or may file, patent applications. Any claim, with or without merit, that our technology or products infringe upon the technology covered by these patents or patent applications could:

- be time-consuming to defend;
- result in costly litigation;
- divert management's attention and resources;
- cause product shipment delays;
- require us to enter into royalty or licensing agreements;
- prevent us from manufacturing or selling some or all of our products; or
- result in a liability to one or more of these competitors.

If a third party makes a successful claim of patent infringement against us, we may be unable to license the infringed or similar technology on acceptable terms, if at all.

Our products may become obsolete.

Our competitors may develop and market ultrasound products that render our products obsolete or noncompetitive. In addition, although diagnostic ultrasound imaging products may have price and performance advantages over competing medical imaging equipment, such as computed tomography and magnetic resonance imaging (MRI), any price or performance advantages may not continue. Our products could become obsolete or unmarketable if other products utilizing new technologies are introduced or new industry standards emerge. As a result, the life cycles of our products are difficult to estimate. To be successful, we will need to continually enhance our products and to design, develop and market new products that successfully respond to any competitive developments. In addition, because our products are based on a single platform, we may be more vulnerable to adverse events affecting the healthcare industry generally and the medical ultrasound market specifically, than we would be if we offered products based on more than one platform.

We may incur tax liability in connection with our spin-off from ATL.

Our spin-off was treated by ATL as a tax-free spin-off under Section 355 of the Internal Revenue Code of 1986. However, if ATL were to recognize taxable gain from the spin-off, the Internal Revenue Service could impose that liability on any member of the ATL consolidated group as constituted prior to the spin-off, including us. ATL agreed to cover 85% of any such liability, unless the tax is imposed due to our actions solely or by ATL solely; in which case, we have agreed with ATL that the party who is solely at fault shall bear all of the tax liability. We cannot guarantee that ATL would indemnify us or agree that it caused the liability to be imposed. If we were required to pay all or a portion of any taxes related to the spin-off, our business would be adversely affected.

Governmental regulation of our business could prevent us from introducing new products in a timely manner.

All of our planned products and our manufacturing activities and the manufacturing activities of our third-party medical device manufacturers are subject to extensive regulation by a number of governmental agencies, including the Food and Drug Administration and comparable international agencies. Our third-party manufacturers and we are or will be required to:

- undergo rigorous inspections by domestic and international agencies;
- obtain prior approval of these agencies before we can market and sell our products; and
- satisfy content requirements for all of our sales and promotional materials.

Compliance with the regulations of these agencies may delay or prevent us from introducing new or improved products. We may be subject to sanctions, including the temporary or permanent suspension of operations, product recalls and marketing restrictions, if we fail to comply with the laws and regulations pertaining to our business. Our third-party medical device manufacturers may also be subject to the same sanctions and, as a result, may be unable to supply components required to manufacture our products.

We may face product liability and warranty claims, which could result in significant costs.

The sale and support of our products entail the risk of product liability,

malpractice or warranty claims, including those based on claims that the failure of one of our products, or our failure to properly train the users of our products, resulted in a misdiagnosis. The medical instrument industry in general has been subject to significant medical malpractice and product liability litigation. We may incur significant liability in the event of such litigation. Although we maintain product liability and incidental medical malpractice insurance, we cannot be sure that this coverage is adequate or that it will continue to be available on acceptable terms, if at all.

We also may face warranty exposure, which could adversely affect our operating results. Our products generally carry a one-year warranty against defects in materials and workmanship. We will be responsible for all claims, actions, damages, liens, liabilities, costs and expenses for all product recalls, returns and defects attributable to manufacturing. We established reserves for the liability associated with product warranties. However, any unforeseen warranty exposure could harm our operating results.

We may require additional funding to satisfy our future capital expenditure needs and our prospects of obtaining such funding are uncertain.

Our future revenues may not be sufficient to support the expenses of our operations and the expansion of our business. We may therefore need additional equity or debt capital to finance our operations as we develop our products and expand our sales. To date, our capital requirements have been met primarily by the sale of equity, sales revenue and contributions by ATL in connection with our spin-off. ATL's funding obligations have been met. As such, if we need additional financing, we would need to explore other sources of financing, including public equity or debt offerings, private placements of equity or debt and collaborative or other arrangements with corporate partners. Financing may be unavailable when needed or may not be available on acceptable terms. If we are unable to obtain financing, we may be required to delay, reduce or eliminate some or all of our research and development and sales and marketing efforts.

Our stock price has been and is likely to continue to be volatile.

The market price for our common stock and for securities of medical technology companies generally has been volatile in the past and is likely to continue to be volatile in the future. If you decide to purchase our shares, you may not be able to resell them at or above the price you paid due to a number of factors, including:

- actual or anticipated variations in quarterly operating results;
- the loss of significant orders;
- changes in earnings estimates by analysts;
- announcements of technological innovations or new products by our competitors;
- changes in the structure of the healthcare financing and payment systems;
- general conditions in the medical industry or global economy; and
- significant sales of our common stock by one or more of our

principal shareholders.

There may be risks associated with the concentration of ownership of our common stock.

As of November 8, 2001, the State of Wisconsin Investment Board, or SWIB, owned approximately 17% of the outstanding shares of our common stock. As a result, SWIB or any other concentrated owner may be able to exert significant influence over all matters requiring shareholder approval, including the election of directors, attraction and retention of employees, and approval of significant corporate transactions that could include certain matters relating to future financing arrangements or unsolicited tender offers.

Our restated articles of incorporation, our bylaws, Washington law and some of our agreements contain provisions that could discourage a takeover that may be beneficial to shareholders.

There are provisions in our restated articles of incorporation, our bylaws and Washington law that make it more difficult for a third party to obtain control of us, even if doing so would be beneficial to our shareholders. Additionally, our acquisition may be made more difficult or expensive by the following:

- a provision in our license agreement with ATL requiring a significant cash payment to ATL upon a change in control of SonoSite;
- a shareholder rights agreement; and
- acceleration provisions in benefit plans and change-in-control agreements with our employees.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk relating to changes in interest rates, which could adversely affect the value of our investments in marketable securities or increase interest expense on outstanding obligations.

As of September 30, 2001, our portfolio consisted of $36.8 million of interest bearing securities with maturities of less than one year. Our intent is to hold these securities until maturity, but we have classified them as available-for-sale in the event of liquidation or unanticipated cash needs. The interest bearing securities are subject to interest rate risk and will fall in value if market interest rates increase. We believe that the impact on the fair market value of our securities and related earnings for the remainder of 2001 from a hypothetical 10% increase in market interest rates would not have a material impact on either the investment portfolio or our obligations.

We distribute much of our product internationally through international distributors. Although virtually all transactions currently are transacted using United States dollars, economic and political risk exist within these international markets, which we cannot control. In addition, we have an affiliate in Hong Kong and a subsidiary in the United Kingdom that maintain certain accounts in a foreign currency. If the United States dollar were to uniformly increase in strength by 10% in 2001 relative to the currency of our affiliate, we believe the impact on our financial results would not be significant.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

On July 24, 2001, a complaint was filed against us in U.S. District Court, Southern District of Texas, Houston Division, by Neutrino Development Corporation (Neutrino), alleging infringement of U.S. Patent 6,221,021 by SonoSite as a result of our use, sale and manufacture of the SonoSite 180, SonoSite 180 PLUS, SonoHeart and SonoHeart PLUS portable ultrasound imaging devices. The complaint asserts claims for preliminary and permanent injunctive relief enjoining all alleged acts of infringement, compensatory and enhanced damages, attorneys' fees and costs, and pre- and post-judgment interest. On August 14, 2001, we filed an answer asserting defenses of both non-infringement and patent invalidity, and including a counterclaim seeking a declaratory judgment of non-infringement and invalidity regarding the patent. On October 4, 2001, the court denied a request by Neutrino for preliminary injunctive relief to prevent us from manufacturing and selling our products for the duration of the litigation. We believe that we have good and sufficient defenses to the claims of patent infringement asserted against us by Neutrino and we are vigorously defending ourselves in this matter.

Item 2. Changes in Securities and Use of Proceeds

(c) Recent Sales of Unregistered Securities

On August 8, 2001, we sold 1,666,667 shares of common stock at a price of $15.00 per share to selected institutional and other accredited investors. Gross proceeds from this private placement were $25.0 million. In connection with this sale, we incurred total expenses of approximately $1.9 million, including a sales commission of $1.75 million to our placement agent for this transaction, UBS Warburg LLC. This transaction was exempt from Securities Act registration under Section 4(2) of the Securities Act and Regulation D promulgated under the Securities Act, on the basis that the transaction did not involve a public offering and each purchaser was an accredited or sophisticated investor.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

3.1. Amended and Restated Bylaws of SonoSite, Inc.

4.1 Rights Agreement between First Chicago Trust Company and SonoSite, Inc., dated April 6, 1998 (Incorporated herein by reference to the designated exhibit included in the Company's Registration Statement on Form S-1 (Registration No. 333-71457).

4.2 Amendment to Rights Agreement between First Chicago Trust Company and SonoSite, Inc., dated August 8, 2001.

10.1 SonoSite, Inc. 1998 Option, Stock Appreciation Right, Restricted Stock, Stock Grant and Performance Unit Plan, as amended and restated on September 6, 2001.

10.2 SonoSite, Inc. 1998 Nonofficer Employee Stock Option Plan, as amended and restated on September 6, 2001.

10.3 SonoSite, Inc. Nonemployee Director Stock Option Plan, as amended and restated on September 6, 2001.

(b) Reports on Form 8-K

We filed a current report on Form 8-K on August 9, 2001 to announce the

completion on August 8, 2001 of our private placement of $25 million of our common stock.

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SonoSite, Inc.
(Registrant)

Dated: November 13, 2001

By: /s/ MICHAEL J. SCHUH
Michael J. Schuh
Vice President, Finance and
Chief Financial Officer
(Authorized Officer and Principal
Financial Officer)

INDEX TO EXHIBITS

3.1. Amended and Restated Bylaws of SonoSite, Inc.

4.1 Rights Agreement between First Chicago Trust Company and SonoSite, Inc., dated April 6, 1998 (Incorporated herein by reference to the designated exhibit included in the Company's Registration Statement on Form S-1 (Registration No. 333-71457).

4.2 Amendment to Rights Agreement between First Chicago Trust Company and SonoSite, Inc., dated August 8, 2001.

10.1 SonoSite, Inc. 1998 Option, Stock Appreciation Right, Restricted Stock, Stock Grant and Performance Unit Plan, as amended and restated on September 6, 2001.

10.2 SonoSite, Inc. 1998 Nonofficer Employee Stock Option Plan, as amended and restated on September 6, 2001.

10.3 SonoSite, Inc. Nonemployee Director Stock Option Plan, as amended and restated on September 6, 2001.