

SONOSITE INC
Form 10-Q
May 10, 2005

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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 March 31, 2005

OR

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

For the transition period from to _____ to _____

Commission file number 0-23791

SONOSITE, INC.

(Exact name of registrant as specified in its charter)

Washington
(State or Other Jurisdiction
of Incorporation or Organization)

21919 30th Drive SE, Bothell, WA
(Address of Principal Executive Offices)

91-1405022
(I.R.S. Employer
Identification Number)

98021-3904
(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 by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). 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
(Class)

15,409,079
(Outstanding as of May 5, 2005)

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SonoSite, Inc.

**Quarterly Report on Form 10-Q
For the Quarter Ended March 31, 2005**

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PART I: FINANCIAL INFORMATION**Item 1. Financial Statements**

SonoSite, Inc.

**Condensed Consolidated Balance Sheets
(unaudited)**

(In thousands, except share data)	Assets	March 31, 2005	December 31, 2004
		_____	_____
Current assets:			
Cash and cash equivalents		\$ 15,356	\$ 17,272
Short-term investment securities		15,539	14,319
Accounts receivable, less allowances of \$923 and \$942		34,851	33,586
Inventories		20,608	17,990
Deferred income taxes		4,665	3,596
Prepaid expenses and other current assets		2,070	2,476
		_____	_____

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Total current assets	93,089	89,239
Property and equipment, net	7,655	7,632
Investment securities	30,557	32,490
Deferred income taxes	20,135	21,189
Goodwill	972	972
Identifiable intangible assets, net	1,660	1,768
Other assets	1,171	1,802
Total assets	\$ 155,239	\$ 155,092
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 6,075	\$ 6,360
Accrued expenses	7,918	10,747
Deferred revenue	4,747	4,522
Total current liabilities	18,740	21,629
Deferred rent	254	228
Total liabilities	18,994	21,857
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 March 31, 2005--15,392,556		
As of December 31, 2004--15,250,783	154	152
Additional paid-in-capital	199,394	196,318
Deferred stock compensation	(374)	--
Accumulated deficit	(63,719)	(64,444)
Accumulated other comprehensive income	790	1,209
Total shareholders' equity	136,245	133,235
Total liabilities and shareholders' equity	\$ 155,239	\$ 155,092

See accompanying notes to condensed consolidated financial statements.

SonoSite, Inc.

Condensed Consolidated Statements of Operations
(unaudited)

Three Months Ended
March 31,

(In thousands, except per share amounts)

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	2005	2004
Revenue	\$ 33,965	\$ 23,514
Cost of revenue	10,120	8,285
Gross margin	23,845	15,229
Operating expenses:		
Research and development	3,782	3,073
Sales and marketing	15,702	11,585
General and administrative	2,748	2,232
Total operating expenses	22,232	16,890
Other income (loss):		
Interest income	327	218
Interest expense	--	(1)
Other	(551)	44
Total other income (loss)	(224)	261
Income (loss) before income taxes	1,389	(1,400)
Provision for income taxes	664	--
Net income (loss)	\$ 725	\$ (1,400)
Basic net income (loss) per share	\$ 0.05	\$ (0.10)
Diluted net income (loss) per share	\$ 0.05	\$ (0.10)
Weighted average common shares used in computing:		
Basic net income (loss) per share	15,318	14,631
Diluted net income (loss) per share	15,961	14,631

See accompanying notes to condensed consolidated financial statements.

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SonoSite, Inc.

**Condensed Consolidated Statements of Cash Flows
(unaudited)**

(In thousands)	Three Months Ended March 31,	
	2005	2004
Operating activities:		

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Net income (loss)	\$	725	\$	(1,400)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization		771		670
Equity in losses of affiliates		49		57
Net loss (gain) on investments		10		(52)
Amortization of premiums on investment securities		163		148
Stock-based compensation		(83)		19
Deferred income taxes		617		--
Changes in operating assets and liabilities:				
Accounts receivable		(1,721)		3,025
Inventories		(2,757)		1,044
Prepaid expenses and other assets		962		(1,269)
Accounts payable		(273)		239
Accrued expenses		(2,755)		309
Deferred liabilities		265		(26)
Net cash provided by (used in) operating activities		(4,027)		2,764
Investing activities:				
Purchases of investment securities		(6,413)		(16,868)
Proceeds from sales/maturities of investment securities		6,831		14,248
Purchases of property and equipment		(710)		(1,106)
Net cash used in investing activities		(292)		(3,726)
Financing activities:				
Exercise of stock options		2,155		1,690
Repayment of long-term obligations		--		(37)
Net cash provided by financing activities		2,155		1,653
Effect of exchange rate changes on cash and cash equivalents		248		(171)
Net change in cash and cash equivalents		(1,916)		520
Cash and cash equivalents at beginning of period		17,272		13,683
Cash and cash equivalents at end of period	\$	15,356	\$	14,203
Supplemental disclosure of cash flow information:				
Cash paid for income taxes	\$	127	\$	--

See accompanying notes to condensed consolidated financial statements.

Interim Financial Information

Basis of Presentation

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, Inc. 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 three months ended March 31, 2005 are not necessarily indicative of expected results for the entire year ending December 31, 2005 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, 2004, included in our Annual Report on Form 10-K.

Stock-based compensation

At March 31, 2005, we had five stock-based employee compensation plans. We account for those plans under the intrinsic value method in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation cost related to stock option grants to employees has been recognized only to the extent that the fair market value of the stock exceeds the exercise price of the stock option at the date of the grant. We recognize compensation expense for restricted stock unit grants over the applicable vesting period.

The following table illustrates the effect on net income (loss) and net income (loss) per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation (in thousands, except per share data):

	Three Months Ended March 31,	
	2005	2004
Net income (loss), as reported	\$ 725	