FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
SEC Accession No. 0000912057-01-526557

(HTML Version on secdatabase.com)

FILER

VISTA MEDICAL TECHNOLOGIES INC

CIK:**1035181**| IRS No.: **953645543** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-22743** | Film No.: **1697648**
SIC: **3845** Electromedical & electrotherapeutic apparatus

Business Address
5451 AVENIDA ENCINAS,
SUITE A
CARLSBAD CA 92008
7606039120

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

/x/ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 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 000-22743

VISTA MEDICAL TECHNOLOGIES, INC.

(Exact name of Registrant as Specified in Its Charter)

DELAWARE	**94-3184035**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5451 AVENIDA ENCINAS, SUITE A CARLSBAD, CA 92008
(Address of principal executive offices, including zip code)
(760) 603-9120
(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:

(1) Yes [X] No [ ]
(2) Yes [X] No [ ]

As of July 31, 2001, there were 19,636,007 shares of $.01 par value common stock outstanding.

VISTA MEDICAL TECHNOLOGIES, INC.
FORM 10-Q
TABLE OF CONTENTS

PART 1. FINANCIAL INFORMATION

PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)

Vista Medical Technologies, Inc.
Consolidated Balance Sheets

	June 30, 2001 (Unaudited)	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,318,983	$ 2,589,006

Short-term investments & securities available for sale	315,145	345,224
Accounts receivable, net	1,663,229	1,363,915
Inventories, net	1,375,105	1,701,668
Other current assets	49,619	116,868
Total current assets	4,722,081	6,116,681
Property and equipment, net	638,423	900,083
Patents and other assets	60,531	137,747
TOTAL ASSETS	$ 5,421,035	$ 7,154,511
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 406,625	$ 460,168
Accrued compensation	212,637	192,660
Deferred Revenue Payments	416,667	–
Accrued liabilities	310,358	350,521
Total current liabilities	1,346,287	1,003,349
Commitments		
Stockholders' equity:		
Convertible preferred stock, $01 par value:		
Authorized shares − 5,000,000;		
Issued and outstanding shares − none on December 31, 2000 or June 30, 2001	–	–
Common stock, $01 par value:		
Authorized shares − 35,000,000;		
Issued and outstanding shares − 19,589,386 on December 31, 2000 and 19,623,257 on June 30, 2001	196,233	195,894
Additional paid-in capital	67,873,047	67,856,614
Notes receivable from stockholders	(78,375)	(78,375)
Deferred compensation	(149,228)	(267,951)
Accumulated deficit	(63,766,929)	(61,555,020)
Total stockholders' equity	4,074,748	6,151,162
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 5,421,035	$ 7,154,511

Note: The balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See accompanying notes

Vista Medical Technologies, Inc.
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,	Six Months Ended June 30,

	2001	2000	2001	2000
Sales	$ 2,072,069	$ 1,521,997	$ 4,004,602	$ 3,318,883
Cost and expenses:				
Cost of sales	1,731,686	1,447,812	3,263,592	2,987,658
Research and development	479,533	430,600	869,433	862,138
Sales and marketing	595,676	415,972	1,083,373	829,307
General and administrative	554,747	546,095	1,050,730	973,895
Restructuring	–	(278,734)	–	(278,734)
Total cost and expenses	3,361,642	2,561,745	6,267,128	5,374,264
Loss from operations	(1,289,573)	(1,039,748)	(2,262,526)	(2,055,381)
Interest income	17,879	73,445	50,617	92,111
Net loss	$ (1,271,694)	$ (966,303)	$ (2,211,909)	$ (1,963,270)
Basic and diluted loss per share	$ (0.06)	$ (0.05)	$ (0.11)	$ (0.12)
Shares used in computing basic and diluted loss per share	19,622,575	19,144,183	19,603,497	16,420,862

See accompanying notes

Vista Medical Technologies, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2001	2000
OPERATING ACTIVITIES		
Net loss	(2,211,909)	(1,963,270)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	360,989	322,659
Amortization of deferred compensation	118,723	172,624
Changes in operating assets and liabilities,		
Accounts receivable	(299,315)	(296,982)
Inventories	326,563	613,496
Other current assets	67,250	255,711
Accounts payable	(53,543)	(583,665)
Accrued compensation	19,977	(23,988)
Deferred revenue	416,667	
Accrued liabilities	(40,163)	(484,392)
Net cash flows used for operating activities	(1,294,761)	(1,987,807)
INVESTING ACTIVITIES		
Purchases of short-term investments	30,079	(18,643)
Purchase of property and equipment	(22,113)	(33,755)

Net cash flows provided by (used for) investing activities	7,966	(52,398)
FINANCING ACTIVITIES		
Issuance of common stock	16,772	4,672,009
Net cash flows provided by financing activities	16,772	4,672,009
Net (decrease) increase in cash and cash equivalents	(1,270,023)	2,631,804
Cash and cash equivalents at beginning of period	2,589,006	1,368,910
Cash and cash equivalents at end of period	1,318,983	4,000,714

See accompanying notes.

s

VISTA MEDICAL TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Basis of Presentation

The audited consolidated financial statements of Vista Medical Technologies, Inc. (the "Company") and the notes thereto for the year ended December 31, 2000 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission contain additional information about the Company, its operations and its financial statements and accounting practices, and should be read in conjunction with this quarterly report on Form 10-Q. The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions on Form 10-Q, Article 10 of Regulation S-K. Accordingly, certain information and footnote disclosures normally contained in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

The accompanying unaudited consolidated financial statements of the Company reflect all adjustments of a normal recurring nature which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for all periods presented. The interim financial information contained herein is not necessarily indicative of results for any future interim periods or for the full fiscal year ending December 31, 2001.

2. Inventories

	June 30, 2001 (Unaudited)	December 31, 2000
Parts and materials	$ 2,212,628	$ 2,261,441
Work in process	256,722	461,269
Finished goods	1,111,741	1,224,706
	3,581,091	3,947,416

Less: reserves	(2,205,986)	(2,245,748)
Inventories, net	$ 1,375,105	$ 1,701,668

3. In June 2001, the Company entered into a Supply and Promotion Agreement with Ethicon Endo-Surgery, Inc. (EES). Under the agreement, the Company will receive payments in return for the Company's commitment to require use of EES equipment in certain training programs sponsored by the Company for the benefit of its customers. The Company is also required to provide limited compensation to EES sales representatives. The agreement grants EES with the right of first negotiation to acquire certain Company technology. EES may terminate the agreement upon 90 days notice. The Company will recognize revenue ratably over the term of the agreement. At June 30, 2001, the Company has received $500,000 under the agreement and deferred $416,667 of such payment.

4. At our Annual Meeting held on June 7, 2001, we ratified an increase of 750,000 shares of common stock to our 1997 Stock Option/Stock Issuance Plan. As of June 30, 2001, we had a total of 3,570,000 shares reserved for issuance under our 1997 Stock Option/Stock Issuance Plan.

5. Loss Per Share

	Three Months Ended June 30,	
	2001	2000
Net income (loss)	$ (1,271,695)	$ (966,303)
Weighted average common shares outstanding	19,622,575	19,117,596
Shares used in basic and diluted loss per share	19,622,575	19,117,596
Basic and diluted loss per share	$ (0.06)	$ (0.05)

6. New Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS 133, "ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES," as amended in June 2000 by SFAS 138, "ACCOUNTING FOR CERTAIN DERIVATIVE INSTRUMENTS AND CERTAIN HEDGING ACTIVITIES," which requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. As amended by SFAS 137, "ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES–DEFERRAL OF THE EFFECTIVE DATE OF FASB STATEMANT NO. 133," the provisions of SFAS 133 required adoption no later than the beginning of the Company's fiscal year ending December 31, 2001. We adopted SFAS 133 effective January 1, 2001. As we do not engage in any hedging or derivative activities, the adoption of SFAS 133, as amended by SFAS 138, did not have a material impact on the Company's financial statements.

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

THIS QUARTERLY REPORT MAY CONTAIN PREDICTIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS THAT INVOLVE A NUMBER OF RISKS AND UNCERTAINTIES, INCLUDING THOSE DISCUSSED BELOW AT "RISKS AND UNCERTAINTIES." WHILE THIS OUTLOOK REPRESENTS OUR CURRENT JUDGMENT ON THE FUTURE DIRECTION OF OUR BUSINESS, SUCH RISKS AND UNCERTAINTIES COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM ANY FUTURE PERFORMANCE SUGGESTED BELOW. WE UNDERTAKE NO OBLIGATION TO RELEASE PUBLICLY THE RESULTS OF ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES ARISING

AFTER THE DATE OF THIS QUARTERLY REPORT. THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES THERETO INCLUDED IN ITEM 1 OF THIS QUARTERLY REPORT ON FORM 10-Q AND OUR 2000 ANNUAL REPORT ON FORM 10-K, FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.

Overview of our business

We develop, manufacture and market products that provide information to doctors performing minimally invasive general surgical, cardiac surgical and other selected microsurgical procedures. We

also develop and sponsor training and support programs for medical personnel which enhance the adoption of procedures incorporating use of our visualization technology. Our products combine a head mounted display with video cameras to provide surgeons with critical visual information during these microsurgical procedures, combined with the ability to view new additional information in a voice- controlled, picture-in-picture format, to facilitate real-time decision making during surgery. Our product lines include the ORPC Advanced Visualization and Information System for general surgery and other complex endoscopic procedures and the Series 8000 Advanced Visualization and Information System, for use in cardiac surgery. In general terms, endoscopic surgery involves a telescopic viewing device which is inserted into a small incision in the body and which allows the surgeon an adequate view of the internal part of the body being repaired.

Our results of operations for three-months and six-months ended June 30, 2001 versus three-months and six-months ended June 30, 2000

Sales. We had revenue from product sales of $2,072,000 and $4,005,000 for the three-and six months ended June 30, 2001, respectively, compared to revenues from product sales of $1,522,000 and $3,319,000 for the three- and six-months ended June 30, 2000, respectively. The increase in revenue for both the three-and six-month periods was due to increased unit sales from our Laparascopic Bariatric Surgery Programs.

Cost of Sales. Our cost of sales were $1,732,000 and $3,264,000 for the three- and six-months ended June 30, 2001, respectively, and $1,448,000 and $2,988,000 for the three-and six-months ended June 30, 2000, respectively. Our gross margins were 16% and 19% for the three- and six-months ended June 30, 2001, respectively, and 5% and 10% for the three-and six-months ended June 30, 2000, respectively. The increase in gross margin was primarily due to increased unit sales of our higher margin Laparascopic Bariatric Surgery Program.

Research and Development Expenses. Our research and development expenses were $480,000 and $869,000 for the three-and six-months ended June 30, 2001, respectively, and $431,000 and $862,000 for the three-and six-months ended June 30, 2000, respectively. The increase in research and development expenses was primarily attributable to next generation product development. We expect our research and development expenses to increase moderately over current levels in the next several quarters as we finalize our next generation of products for the general surgery market.

Sales and Marketing Expenses. Sales and marketing expenses were $596,000 and $1,083,000 for the three-and six-months ended June 30, 2001, respectively, and $416,000 and $829,000 for the three-and six-months ended June 30, 2000, respectively. The increase in sales and marketing expense reflects a ramp up of field activities for the obesity surgery market. We expect our sales and marketing expenses to increase proportionately during the next several quarters as we continue to ramp up our field activities for the obesity surgery market.

General and Administrative Expenses. General and administrative expenses were $555,000 and $1,051,000 for the three-and six-months ended June 30, 2001, respectively, and $546,000 and $974,000 for the three-and six-months ended June 30, 2000, respectively. The slight increase in general and administrative expenses during the 2001 period reflects higher professional and legal fees. We expect

our general and administrative expenses to remain at or near current levels for the next several quarters.

Restructuring Expenses. We had no charges associated with restructuring expenses for both the three-and six-months ended June 30, 2001, and credits of $279,000 for both the three-and six-months ended June 30, 2000. The credits in 2000 related to the subletting of part of our facility in Westborough, MA. The partial recovery reported in the 2000 period represents the subletting of approximately one half of the facility space for which a $690,000 restructuring charge had been incurred in the three-months ended September 30, 1999.

Interest Income. Our net interest income was $18,000 and $51,000 for the three-and six-months ended June 30, 2001, respectively, and $73,000 and $92,000 for the three-and six-months ended June 30, 2000, respectively. This decrease was due primarily to a decrease in the investment balances of $4,800,000, resulting from a completed sale of common stock to three of our stockholders in April, 2000.

Liquidity and capital resources

Net cash used for operating activities for the six-months ended June 30, 2001 was $1,296,000 compared to net cash used of $1,988,000 for the corresponding six-month period in 2000. The decrease in net cash used in operating activities was primarily attributable to lower inventory purchases during the 2001 period and the receipt of $500,000 of deferred revenue from an agreement with Ethicon Endo-Surgery.

Net cash provided by investing activities was $8,000 for the six-months ended June 30, 2001 compared to $52,000 of net cash used in the same period in 2000. The increase in net cash provided by investing activities during the 2001 period was primarily attributable to increasing balances of short term investments reaching maturity offset by decreasing purchases of property and equipment.

Net cash provided by financing activities was $17,000 for the six-months ended June 30, 2001 compared to $4,672,000 for the same period in 2000. The decrease in net cash provided by financing activities during the 2001 period was primarily attributable to the closing of a Securities Purchase Agreement in April, 2000 with three of our stockholders netting proceeds of approximately $4,591,000, partially offset by a reduction in purchases of stock by employees through our employee stock purchase plan and a lower level of stock option exercises.

We recently announced that we are working on a strategic initiative to extend our business to become more involved in the medical treatment of severe obesity. If we decide to pursue this initiative, we will be required to raise additional funds to support our operations. In addition, even if we do not pursue this initiative, if we are unable to sustain our cash flow under our current business plan, we will be required to raise additional funds. If we are unable to raise additional funds from an offering of securities or otherwise, we may be unable to continue operations at their current level and may be unable to pursue this new objective. Even if we are successful in raising additional funds, a slow rate of market acceptance of our products or our inability to scale up manufacturing would accelerate our use of proceeds and require us to seek additional funds to support our operating requirements. We expect

to continue to incur substantial losses for at least the next 6 - 9 months. As of June 30, 2001, our accumulated deficit was approximately $63,767,000.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

At June 30, 2001, our investment portfolio included fixed-income securities of $1.1 million. These securities are subject to interest rate risk and will decline in value if interest rates increase. These investments are not held for trading or other speculative purposes. Due to the short duration of our investment portfolio, an immediate 10 percent increase in interest rates would have no material impact on our financial condition or results of operations.

We generally conduct business, including sales to foreign customers, in U.S. dollars and as a result have limited foreign currency exchange rate risk. The effect of an immediate 10 percent change in foreign exchange rates would not have a material impact on our financial condition or results of operations.

RISKS AND UNCERTAINTIES

You should consider the following risk factors carefully in evaluating an investment in our common stock in addition to the other information in this report. If any of these or other risks actually occurs, the trading price of our common stock could decline, and you may lose all or part of your investment. You are cautioned that the statements in this quarterly report that are not descriptions of historical facts may be forward-looking statements that are subject to risks and uncertainties. Our actual results could differ materially from those currently anticipated due to a number of factors, including those identified in this section and elsewhere in this quarterly report. We undertake no obligation to release publicly the results of any revisions to these forward-looking statements to reflect events or circumstances arising after the date of this quarterly report. The following discussion should be read in conjunction with our consolidated financial statements and notes thereto.

We may not be able to maintain the listing of our common stock on the Nasdaq SmallCap market.

On February 10, 2000, our common stock ceased to be quoted on the Nasdaq National Market and began to be quoted on the Nasdaq SmallCap Market as a result of Nasdaq's concern about our ability to maintain continued compliance with some of the Nasdaq National Market requirements for continued quotation. In addition, since that time, Nasdaq has placed us on probation twice for failing to maintain a minimum bid price of $1.00 per share of our common stock. Although we have successfully complied with the terms of these probations, our common stock has recently failed to maintain a consistent bid price above $1.00 per share and we cannot assure you that we will be able to remain compliant with the continued listing requirements of Nasdaq. If we are unable to remain compliant, Nasdaq may delist our common stock from the Nasdaq SmallCap Market, which would force us to to seek to have our shares listed on the OTC Bulletin Board or some other quotation medium. If we are unable to maintain our status on the Nasdaq SmallCap Market, there may not continue to be an active trading market for our common stock. If this occurs, you may not be able to sell your shares quickly or at the market price. As a result, an investor might find it more difficult to dispose of, or to obtain accurate price quotations for, our shares. Delisting might also reduce the visibility, liquidity, and price of our common stock. If our common stock was delisted from the Nasdaq

SmallCap Market and was not traded on another national securities exchange, we could become subject to penny stock regulations that impose additional sales practice disclosure and market making requirements on broker/dealers who sell or make a market in our stock. The rules of the SEC generally define "penny stock" to be common stock that has a market price of less than $5.00 per share which is not traded on a national exchange. If our stock became subject to penny stock regulations, it would adversely affect the ability and willingness of broker/dealers who sell or make a market in our common stock and of investors to purchase or sell our stock in the secondary market.

We may need additional funds to support our currently proposed operations. If we are unable to obtain them, we may have to significantly scale back our operations or forego opportunities in new market segments.

We recently announced that we are working on a strategic initiative extending our business to become more involved in the medical treatment of severe obesity. We have not yet decided to pursue this initiative, but, if we do, we will be required to raise additional funds to support our operations. In addition, if we are unable to sustain our cash flow under our current business plan, we will be required to raise additional funds. If we are unable to raise sufficient funds from an offering of securities or otherwise, we may be unable to continue operations at their current level and may be unable to pursue this new objective. Moreover, our liquidity and capital requirements will depend upon other numerous factors, including the following:

- The extent to which our products gain market acceptance;

- The progress and scope of product evaluations;

The timing and costs of filing future regulatory submissions;

The timing and costs required to receive both domestic and international governmental approvals;

The timing and costs of product introductions;

The extent of our ongoing research and development programs;

The costs of sponsorship training of the physicians to become proficient in the use of our products and procedures; and

The costs of developing marketing and distribution capabilities.

Even if we are successful in raising additional funds, a slow rate of market acceptance of our products or our inability to scale up manufacturing would accelerate our use of proceeds and require us to seek additional funds to support our operating requirements.

We have a history of losses and may not become profitable.

Since our formation in July 1993, and as of June 30, 2001, we had incurred cumulative net losses of $63.8 million. We expect to incur substantial losses for at least the next 6-9 months. We may never achieve or sustain profitability in the future. Even if we achieve profitability, we may not be able to sustain it on an ongoing basis.

We are, to a significant extent, dependent on distribution partners to sell our products.

We only have a small direct sales force and, in the past, we were primarily dependent on agreements with third parties for sales of the majority of products derived from our core three-dimensional technology. Two of our primary distribution agreements were terminated in 2000 and we just recently entered into an arrangement with Jomed N.V. to transition distribution in cardiac surgery and to continue supporting our cardiac customer base. However, this transition may not be achieved without operational disruption and unplanned cost, or at all. If we are unable to make this transition, we may be unsuccessful in distributing our cardiac surgery products and may lose revenues.

In addition, during the last year, we changed our strategic emphasis for our core three-dimensional technology for applications in general surgery, gynecology and urology. We cannot assure you that we will be successful in these areas of sales. Even if we are successful, we cannot assure you that the revenue achieved in these areas of emphasis will be sufficient to compensate for any loss of sales revenue from the termination of our previous distribution agreements for cardiac products. Either of these results could have an adverse affect on our financial condition and results of operations.

Our profitability is dependent upon the successful development and commercialization of our products based on our core three-dimensional technology.

Products derived from our core technology−the ORPC for general surgery and the Series 8000 for minimally invasive cardiac surgery−are expected to account for the majority of our revenues over the next several years. The demand for these products may not be sufficient to allow us to achieve profitable operations.

Our development efforts for improvements to these products may not be successful. In addition, other products under development may not be shown to be safe or effective, capable of being manufactured in commercial quantities at acceptable costs, acquire appropriate regulatory clearances or be successfully marketed.

Our success is dependent upon acceptance of a minimally invasive approach to complex procedures as a reliable, safe and cost effective alternative to existing treatments.

Complex minimally invasive procedures are only performed on a very limited basis by a relatively small number of highly skilled surgeons. We are unable to predict how quickly, if at all, minimally invasive procedures will be adopted by the medical community or, if they are adopted, the number of procedures that will be performed.

Even if the clinical safety and effectiveness of complex minimally invasive procedures is established in general surgery, cardiac and other specialties, surgeons, specialists and other physicians may choose not to recommend the procedures for any number of other reasons. Adoption of these procedures by doctors will depend, for example, upon our ability to facilitate and sponsor training of surgeons to

perform complex minimally invasive procedures and the willingness of such surgeons to perform such procedures. Doctors may also elect not to recommend the minimally invasive procedures based on possible unavailability of acceptable reimbursement from health care payors. Health care payor acceptance may require evidence of the cost effectiveness of minimally invasive procedures as compared to other currently available treatments. We believe that physician endorsements will be essential for clinical adoption of minimally invasive procedures and these endorsements may not be obtained. Patient acceptance of new procedures will depend upon doctor recommendations, as well as other factors, including the effectiveness of, and the rate and severity of complications associated with, the procedure as compared to other treatments.

Widespread use of our products will require sponsoring the training of a large number of surgeons, and the time required to institute a training program and to train such surgeons could adversely affect near term market acceptance.

Evaluations of visualization technology such as ours conducted to date have shown that there is a learning process involved for surgeons and other members of the surgery team to become proficient with the use of the systems. Based on the clinical and laboratory procedures performed to date, we cannot assure you that visualization and information system enhancements incorporated, or to be incorporated, in our products will prove suitable for use by a substantial number of surgeons. If they prove unsuitable for a large number of surgeons to use, the potential markets and applications for our products would be significantly limited.

There are significant risks associated with any scale-up of manufacturing which may be required to meet market demand and become profitable.

We have never established high-volume manufacturing operations and if we are required to do so to meet market demand or to become profitable, we may not be able to establish or maintain reliable operations at commercially reasonable costs. We may also require additional manufacturing facilities if production volumes increase. Acquisition of new manufacturing facilities would also likely involve relocation. Difficulties in scaling up manufacturing of products could result from problems involving:

Quality control and assurance;

component and service availability;

adequacy of control policies and procedures;

lack of qualified personnel;

compliance with FDA regulations and the need for further FDA approval of new manufacturing processes and facilities; and

other production constraints.

We have considered and will continue to consider as appropriate, the internal manufacture of sub-assemblies currently provided by third-party subcontractors, as well as the implementation of new production processes. Our manufacturing yields or costs may increase as a result of the transition to in-house production or to new production processes when such efforts are undertaken. In addition, costs in complying with FDA good manufacturing practices or changes in such practices may exceed our expectations.

We may face component shortages and are dependent in some instances on single sources of supply.

Any significant supply interruption, or inventory shortage or overage, would negatively impact our ability to manufacture our products. We use and rely on specific components and services used in our systems for which we have only a single source of supply. The manufacture of our products in larger commercial quantities will require a substantial increase in component supplies and will likely necessitate the replacement of current suppliers or the addition of new suppliers. The qualification of additional or replacement vendors for specified components or services is a lengthy process. In addition, the substitution of replacement vendors may entail re-engineering time and cost and could delay the supply of our products.

We expect to manufacture our products based on forecasted product orders and intend to purchase subassemblies and components prior to receipt of purchase orders from customers. Lead times for ordered materials and components vary significantly and depend on factors such as the business practices of the specific supplier, contract terms and general demand for a component at a given time. Some components used in our products have long lead times. As a result, there is a risk of excess or inadequate inventory if orders do not match forecasts.

We are subject to significant domestic and international regulation and may not be able to obtain necessary regulatory clearances to sell our products.

The manufacture and sale of medical devices intended for commercial distribution are subject to extensive governmental regulation. Our failure to comply with regulatory requirements would jeopardize our ability to market our products. Noncompliance with applicable requirements can result in failure of the regulatory agency to grant pre-market clearance or approval for devices, withdrawal or suspension of approval, total or partial suspension of production, fines, injunctions, civil penalties, refunds, recall or seizure of products and criminal prosecution.

Medical devices are regulated in the United States primarily by the FDA and, to a lesser extent, by state agencies. Sales of medical device products outside the United States are subject to foreign regulatory requirements that vary from country to country. Generally, medical devices

require pre-market clearance or pre-market approval prior to commercial distribution. A determination that information available on the medical device is not sufficient to grant the needed clearance or approval will delay market introduction of the product. In addition, material changes or modifications to, and changes in intended use of, medical devices also are subject to FDA review and clearance or approval. The FDA regulates the research, testing, manufacture, safety, effectiveness, labeling, storage, record keeping, promotion and distribution of medical devices in the United States and the export of unapproved medical devices from the United States to other countries. The time required to obtain approvals required by foreign countries may be longer or shorter than that required for FDA clearance, and requirements for licensing may differ from FDA requirements. The current regulatory environment in Europe for medical devices differs significantly from that in the United States.

We expect to encounter rapid technological change and significant competition.

The medical device market in which we compete is characterized by intensive development efforts and rapidly advancing technology. Our future success will depend, in large part, upon our ability to anticipate and keep pace with advancing technology and competing innovations. We may not be successful in identifying, developing and marketing new products or enhancing our existing products.

We believe that a number of large companies, with significantly greater financial, manufacturing, marketing, distribution and technical resources and experience than ours, are focusing on the development of visualization products for minimally invasive microsurgery. Several companies are

currently developing and marketing visualization products for minimally invasive microsurgery which could be applied to heart surgery, to general surgery or to head, neck and spine microsurgery.

Technological advances with other therapies such as drugs, interventional procedures or future innovations in surgical techniques could make such other therapies more effective or lower in cost than minimally invasive microsurgery procedures and could render minimally invasive microsurgery obsolete.

We expect fluctuations in our operating results.

Our results of operations may vary significantly from quarter to quarter depending upon numerous factors, including the following:

- timing and results of product evaluations;
- delays associated with the FDA and other regulatory approval processes;
- demand for and utilization of our products;
- changes in our pricing policies or those of our competitors;
- changes in third-party payment guidelines;

the number, timing and significance of product enhancements and new product announcements by us or our competitors;

our ability to develop, introduce and market new and enhanced versions of our products on a timely basis;

customer order deferrals in anticipation of enhancements or of new product introductions by us or our competitors;

product quality problems;

personnel changes; and

the level of international sales.

Our profitability is directly related to the level of reimbursements for surgical procedures using our products.

Our profitability is directly related to the level of payments for the surgical procedures in which our products are involved, either by Medicare or private insurance companies. We could be adversely affected by changes in payment policies of government or private health care payors, particularly to the extent any such changes affect payment for the procedure in which our products are intended to be used. It is a continuing trend in U.S. health care for such payments to be under continual scrutiny and downward pressure. We believe that reimbursement in the future will be subject to increased restrictions, both in the United States and in foreign markets and that the overall escalating cost of medical products and services has led to and will continue to lead to increased pressures on the health care industry, both foreign and domestic, to reduce the cost of products and services, including products which we offer.

We expect that our products typically will be used by hospitals and surgical centers, which bill various third-party payors, such as governmental programs and private insurance plans, for the health care services provided to their patients. Third-party payors carefully review and increasingly challenge the prices charged for medical products and services or negotiate a flat rate fee in advance. Payment rates from private companies also vary depending on the procedure performed, the third-party payor, the insurance plan and other factors. Medicare compensates hospitals at a pre determined fixed amount for the costs associated with an in-patient hospitalization based on the patient's discharge

diagnosis and compensates physicians at a pre determined fixed amount based on the procedure performed, regardless of the actual costs incurred by the hospital or physician in furnishing the care and unrelated to the specific devices or systems used in that procedure. Medicare and other third-party payors are increasingly scrutinizing whether to cover new products and the level of payment for new procedures. The flat fee reimbursement trend is causing hospitals to control costs strictly in the context of a managed care system in which health care providers contract to provide comprehensive health care for a fixed cost per person. We are unable to predict what changes will be made in the reimbursement methods utilized by such third-party payors.

If we obtain the necessary foreign regulatory registrations or approvals, market acceptance of our products in international markets would be dependent, in part, upon the acceptance by the prevailing health care financing system in each country. Health care financing systems in

international markets vary significantly by country and include both government sponsored health care programs and private insurance. There can be no assurance that these financing systems will endorse the use of our products.

We have limited experience directly marketing our products overseas and may not be successful in expanding into international markets without experienced partners.

We have limited experience in marketing our products overseas. Changes in overseas economic conditions, currency exchange rates, foreign tax laws or tariffs or other trade regulations could negatively impact our business. The anticipated international nature of our business is also expected to subject our representatives, agents and distributors to laws and regulations of the foreign jurisdictions in which they operate or in which our products are sold, including laws regulating manufacture and sale of medical devices. In addition, the laws of some foreign countries do not protect our intellectual property rights to the same extent as do the laws of the United States.

We may be subject to product liability claims and have limited insurance coverage.

We face an inherent and significant business risk of exposure to product liability claims in the event that the use of our products results in personal injury or death. Also, in the event that any of our products proves to be defective, we may be required to recall or redesign such products. Our current product liability insurance coverage limit is $10.0 million per occurrence and in the aggregate. Our coverage limits may not be adequate to protect us from any liabilities we might incur in connection with the development, manufacture and sale of our products. In addition, increased product liability coverage may be required if additional products are used in clinical evaluations or successfully commercialized. Product liability insurance is expensive and in the future may not be available to us on acceptable terms, if at all. A successful product liability claim or series of claims brought against us in excess of our insurance coverage or a product recall would negatively impact our business.

If we are unable to protect our intellectual property, we may be unable to prevent other companies from using our technology in competitive products.

Our future success will depend, in part, on our ability to continue to develop patentable products, enforce our patents and obtain patent protection for our products both in the United States and in other countries. The patent positions of medical device companies, however, are generally uncertain and involve complex legal and factual questions. Patents may never issue from any patent applications owned by or licensed to us. Even if patents do issue, the claims allowed may not be sufficiently broad to protect our technology. In addition, issued patents owned by or licensed to us may be challenged, invalidated or circumvented, or the rights granted thereunder may not provide us with competitive advantages.

The medical device industry has been characterized by extensive litigation regarding patents and other intellectual property rights. Litigation, which would result in substantial expense, may be necessary to enforce any patents issued or licensed to us and/or to determine the scope and validity of proprietary rights of third parties or whether our products, processes or procedures infringe any such third-party proprietary rights. We may also have to participate in interference proceedings declared by the United States Patent and Trademark Office, which could result in substantial expense, to determine the priority of inventions covered by our issued United States patents or pending patent applications. Furthermore, we may have to participate at substantial cost in International Trade Commission proceedings to enjoin importation of products which would compete unfairly with our products. Any adverse outcome of any patent litigation, including interference proceedings, could subject us to significant liabilities to third parties, require disputed rights to be licensed from or to third parties or require us to cease using the technology in dispute. Any such licenses may not be available on acceptable terms, if at all. Furthermore, parties making such claims may be able to obtain injunctive or other equitable relief that could effectively block our ability to make, use, sell or otherwise practice our intellectual property, whether or not patented or described in pending patent applications, or to further develop or commercialize our products in the United States and abroad and could result in the award of substantial damages. Defense of any lawsuit or failure to obtain any such license could damage our business.

We rely on unpatented trade secrets to protect our proprietary technology. Others may independently develop or otherwise acquire the same or substantially equivalent technologies or otherwise gain access to our proprietary technology or disclose such technology. It is difficult to

protect rights to such unpatented proprietary technology. Third parties may obtain patent rights to such unpatented trade secrets, which patent rights could be used to assert infringement claims against us. We also rely on confidentiality agreements with our collaborators, employees, advisors, vendors and consultants to protect our proprietary technology. These agreements may be breached, we may not have adequate remedies for any breach and our trade secrets may otherwise become known or be independently developed by competitors. In addition, our agreements with employees and consultants require disclosure of ideas, developments, discoveries or inventions conceived during employment or consulting, as the case may be, and assignment to us of proprietary rights to such matters related to our business and technology. The extent to which efforts by others will result in patents and the effect on us of the issuance of such patents is unknown.

We have licensed some aspects of our products from third parties and may lose the rights to these essential aspects under the agreements which govern those relationships.

We have licensed some aspects of our technology from third parties. The rights under the governing agreements may be terminated if we breach our obligations or in other circumstances. Our failure to retain rights to these licensed rights could negatively impact our business.

If we are not able to attract and retain key technical and senior management personnel and doctors to participate in our advisory boards, it may adversely affect our ability to obtain financing or develop our products.

Our future business and operating results depend in significant part upon the continued contributions of our key technical and senior management personnel, many of whom would be difficult to replace and some of whom perform important functions beyond those suggested by their job titles or descriptions. Our business and future operating results also depend in significant part upon our ability to attract and retain qualified management, manufacturing, technical, marketing and sales and support personnel for our operations. Competition for such personnel is intense, and we may not be successful in attracting or retaining such personnel.

Members of our clinical advisory boards consult with us exclusively in the field of visualization, but are free to consult with other non-competing instrumentation companies and are employed elsewhere on a full-time basis. As a result, they only spend a limited amount of time on our business. Although we have entered into consulting agreements, including confidentiality provisions with each of the members of our clinical advisory boards, the consulting and confidentiality agreements between us and each of the members of our clinical advisory boards may be terminated or breached.

Our stock price could continue to be volatile and your investment in our common stock could suffer a decline in value, adversely affecting our ability to raise additional capital.

The market prices and trading volumes for securities of emerging companies, like ours, have historically been highly volatile and have experienced significant fluctuations unrelated to the operating performance. The market price of our common stock has historically been highly volatile and may be significantly affected by factors such as:

- actual or anticipated fluctuations in our operating results;
- changes in financial estimates by securities analysts;
- announcements of technological innovations;
- new products or new contracts by us or our competitors;

regulatory announcements;

developments with respect to patents or proprietary rights;

conditions and trends in the medical device and other technology industries;

adoption of new accounting standards affecting the medical device industry; and

general market conditions.

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have particularly affected the market prices for shares of early stage companies. These broad market fluctuations may adversely affect the market price of our common stock. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. Such litigation, if brought against us, could result in substantial costs and a diversion of management's attention and resources.

Our use of hazardous materials may result in unexpected and substantial claims against us for which we do not have sufficient financial resources.

Our research and development activities may involve the controlled use of hazardous materials and chemicals. The risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, we could be held liable for any resultant damages, and any such liability could exceed our resources. We may incur substantial cost to comply with environmental regulations.

We do not anticipate paying any dividends and any gains from your investment in our stock will have to come from increases in the price of such stock.

We currently intend to retain any future earnings for use in our business and do not anticipate paying any cash dividends in the foreseeable future.

Our charter documents may prevent us from participating in transactions that could be beneficial to you.

Our charter documents contain provisions that may make it more difficult or discourage a change in control. This may adversely affect the market price of our common stock.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We are currently not a party to any litigation that could have a material adverse effect on our results of operations or the financial position of our business.

Item 2. Changes in Securities and Use of Proceeds

a.

Not applicable

b.

Not applicable

c.

Not applicable

Item 3. Defaults upon Senior Securities

None.

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

I. 2001 Annual Meeting of Stockholders held on June 7, 2001.

a.

The 2001 Annual Meeting of Stockholders of Vista Medical Technologies, Inc. (the "Annual Meeting") was held on June 7, 2001. The holders of 18,062,959 of the 19,620,468 shares of our Common Stock outstanding on April 13, 2001, the record date for the Annual Meeting (approximately 92.07%), were present at the Annual Meeting in person or by proxy.

b.

At the Annual Meeting, James C. Blair and John R. Lyon were duly nominated and properly elected as Directors of our company to serve until the 2004 Annual Meeting of stockholders or until their respective successors are elected and qualified. The number of votes cast for and

withheld with respect to each nominee for office, as well as broker non-votes are indicated below:

	For	Against/ Withheld	Broker Non-Votes
James C. Blair	17,472,267	590,692	0
John R. Lyon	17,467,667	595,292	0

Nicholas B. Binkley and Larry M. Osterink, whose terms as Directors of our company expire at our 2002 Annual Meeting of Stockholders, and Daniel J. Holland, whose term as Director of our company expires at our 2003 Annual Meeting of Stockholders, continue to serve as Directors of our company until their respective terms expire and were not voted upon at the Annual Meeting, Olav B. Bergheim, a former Director of our company whose term was set to expire at our 2003 Annual Meeting of Stockholders, resigned from our Board of Directors effective June 7, 2001. This resignation was amicable and the Board of Directors, in accordance with our Bylaws, appointed George B. DeHuff III to fill the vacancy created by Mr. Bergheim's resignation.

c.

At the Annual Meeting, a proposal to amend the Company's 1997 Stock Option/Stock Issuance Plan ("The Plan") to increase the number of shares of Common Stock reserved for issuance under the Plan by an additional 750,000 shares was approved.

The number of votes cast for and against, as well as the number of abstentions and broker non-votes relating to such proposal, are indicated below:

For	Against	Abstentions	Broker Non-Votes
13,605,312	4,443,602	14,045	0

d.

At the Annual Meeting, a proposal to ratify the appointment of Ernst & Young LLP as our independent auditors for fiscal 2001 was approved. The number of votes cast for and against, as well as the number of abstentions and broker non-votes relating to such proposal, are indicated below:

For	Against	Abstentions	Broker Non-Votes
18,050,074	4,120	8,765	0

Item 5. Other Information

See Item 4Ib above.

Item 6. Exhibits and Reports on Form 8-K

A) Exhibits

10.1 Supply and Promotion Agreement with Ethicon Endo-Surgery, Inc.*

*

Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed separately with the Securities and Exchange Commission.

B) Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the three months ended June 30, 2001.

SIGNATURES

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

VISTA MEDICAL TECHNOLOGIES, INC.

/s/ JOHN R. LYON

John R. Lyon
President, Chief Executive Officer and Director

Date: August 3, 2001

Date: August 3, 2001

/s/ STEPHEN A. GORGOL

Stephen A. Gorgol
Vice President of Finance, Chief Financial Officer and Secretary

QuickLinks

<Page>

EXHIBIT 10.1

EXECUTION COPY

EXCLUSIVE SUPPLY AND PROMOTION AGREEMENT

THIS EXCLUSIVE SUPPLY AND PROMOTION AGREEMENT (as such may be modified or amended, the "AGREEMENT"), dated and effective as of June 22, 2001 (the "EFFECTIVE DATE"), is made by and between Ethicon Endo-Surgery, Inc., a corporation organized under the laws of the State of Ohio with a business address at 4545 Creek Road, Cincinnati, OH 45242 ("EES"), and Vista Medical Technologies, Inc., a corporation organized under the laws of the State of Delaware with a business address at 5451 Avenida Encinas, Suite A, Carlsbad, CA 92008 ("VISTA").

WHEREAS, Vista (A) develops, manufactures and markets medical products, including a 3-D head mounted visualization display device for surgeons performing surgical procedures; (B) organizes and sponsors laparoscopic bariatric surgery (i.e., gastric bypass surgery) training programs (the "CLINICS") to promote the use of Vista's visualization display devices among surgeons performing laparoscopic bariatric surgery ("LBS") on morbidly obese persons; (C) organizes and sponsors for Clinic participants post-proctoring mentorship programs (the "PROGRAMS"); and (D) is developing visualization technology including "Visi-Tools" technology.

WHEREAS, EES develops, manufactures and markets medical products, including the products identified by product code on EXHIBIT A hereto and on any and all amendments to such Exhibit A (the products (whether non-sterile or sterile) listed on Exhibit A, as such may be amended from time to time hereafter, are collectively referred to herein as, the "PRODUCTS").

WHEREAS, Vista desires to promote its Clinics and Programs and to use the non-sterile Products ***.

WHEREAS, EES desires to promote the Products and acquire rights to certain of Vista's visualization technology.

NOW THEREFORE, in consideration of the foregoing and the mutual covenants and undertakings contained herein, the parties hereby agree as follows.

SECTION 1. DEFINITIONS

The following terms, when used with initial capital letters in this Agreement, shall have the following meanings:

"Affiliate" is any entity that directly or indirectly controls, is controlled by, or is under common control with a party hereto, and for such purpose "control" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the entity, whether through the ownership of voting securities, by contract or otherwise.

"Visi-Tools IP" shall mean the intellectual property, trade secrets, know-how, technology and information, whether or not protected by patents, owned or otherwise controlled by Vista that are required in order to implement, utilize or commercialize Vista's "Visi-Tools Technology.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

<Page>

"Visi-Tools Technology" shall mean Vista's visual instrument concepts that involve, and technologies for, *** for purposes of normal and magnified visualization, as well as `picture in picture' display in Vista's head-mounted or other viewing technology.

SECTION 2. RIGHTS AND RESPONSIBILITIES OF THE PARTIES

2.1 RIGHTS AND RESPONSIBILITIES OF EES.

(a) SUPPLY OBLIGATIONS. EES shall manufacture for Vista's Clinics

the Products in accordance with its product specifications; PROVIDED, THAT, such Products shall be, and shall be labeled, "non-sterile". EES shall deliver the non-sterile Products to the location(s) mutually agreed upon by the parties. EES's designated local account representative, after consulting with Vista and after reviewing the schedule of planned Clinics and the number of registered participants, will order non-sterile Products in an amount, as determined in the sole discretion of such representative, necessary to support upcoming Clinics. The non-sterile Products will be ordered through EES's Training Institute's Remote Education Support Organization. The quantity of non-sterile Products to be delivered shall be determined at the sole discretion of EES after reviewing the submitted order form, the schedule of planned Clinics and the number of registered participants. EES will pack the non-sterile Products in a manner to enable such Products to withstand the effects of shipping and handling. Costs incurred to manufacture the non-sterile Products and to ship such Products utilizing carriers chosen by EES will be borne by EES.

(b) PAYMENT OBLIGATIONS. During the term of this Agreement and unless otherwise provided for in Section 10 hereof, EES shall pay to Vista *** which fee shall be payable as follows:

(i) During the initial 12-month term of this Agreement, *** shall be paid on the Effective Date and *** shall be paid on or, at the sole discretion of EES, prior to January 15, 2002;

(ii) During each subsequent 12-month term, if any, of this Agreement, *** shall be paid within 10 days after such additional term commences and *** shall be paid on or, at the sole discretion of EES, prior to January 15th of the calendar year following the calendar year in which the current term commenced.

(c) DESIGNATION OF SALES REPRESENTATIVES. As promptly as practicable after the Effective Date, and from time to time thereafter, EES will designate sales training representatives (the "REPRESENTATIVES") to attend, at EES's cost and expense, the Clinics and Programs and to provide support necessary to familiarize Clinic and Program participants with the use of the Products. EES will notify its designated divisional sales management and the designated local account representatives that are responsible for servicing the Clinics and Programs of the names of the designated Representatives. Unless authorized by Vista the

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

Representatives will not act as Vista's agents.

(d) FINANCIAL ASSISTANCE. EES will use reasonable efforts to investigate the possible access by financially qualified Clinic and Program participants to financing programs, sponsored by Johnson & Johnson Finance Corporation, that support deferral of start-up acquisition costs necessary to undertake institutionalization of an LBS program by such participants.

(e) INSPECTION RIGHTS. In the event EES provides reasonable notice to Vista of its desire to inspect and audit the Clinics and Programs to assure compliance by Vista of the provisions of this Agreement and applicable laws and regulations, Vista shall cooperate in good faith with EES to provide such access to EES and its representatives. EES acknowledges that Vista does not control the facilities (e.g., hospitals) or access to the facilities where the Clinics and Programs are held. Vista shall, within 30 days, remedy or cause the remedy of any deficiencies which may be noted in any such audit or, if any such deficiencies can not reasonably be remedied within such 30-day period, present to EES a written plan to remedy such deficiencies as soon as possible. The failure by Vista to remedy or cause the remedy of any such deficiencies within such 30-day period or to present such a plan within such 30-day period and then use its reasonable and diligent efforts to remedy or cause the remedy of such deficiencies in accordance with such written plan, as the case may be, shall be deemed a breach of this Agreement. Vista acknowledges that the provisions herein granting EES certain audit rights shall in no way relieve Vista of any of its obligations under this Agreement, nor shall such provisions require EES to conduct any such audits.

2.2 RIGHTS AND RESPONSIBILITIES OF VISTA.

(a) EXCLUSIVITY. During the term of this Agreement and solely with respect to the specific functions and applications addressed by the Products, Vista will exclusively use in the Clinics the non-sterile Products and Vista will exclusively promote in the Programs the sterile Products; provided, that Vista shall not be required to exclusively use or promote any additional product that is added by EES to Exhibit A and becomes a "Product" after the Effective Date if, and only for as long as, such new Product (i) directly competes with an existing product manufactured by Vista that is (at the time EES adds such additional product to Exhibit A) used in the Clinics or Programs or (ii) is substantially similar to a third party's product which Vista is (at the time EES adds such additional product to Exhibit A) contractually obligated to a third party to use in the Clinics or promote in the Programs. Subject to Section 3.1, Vista shall not use, and shall cause its Affiliates, Medical Directors (as defined hereinafter in Section 5.1(d)), and Clinic and Program participants to not use, in the Clinics and Programs products manufactured and/or distributed by third-parties that compete with the Products or are substantially similar to the Products. ***

(b) RESPONSIBILITY TO HOLD CLINICS AND PROGRAMS. During each 12-month period

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

during the term of this Agreement beginning on the Effective Date and each anniversary thereof, Vista agrees to conduct, without any payments (other than payments specified in Section 2.1(b)) from EES, for the benefit of qualified physicians and their operating room supporting personnel (collectively, the "O.R. TEAM"), *** . Vista shall provide EES's designated mechanical device marketing management and designated divisional sales management with notice of such Clinics and Programs. Each such notice shall be delivered within 10 days after a Clinic or Program is scheduled, but in no event less than 10 days before the Clinic or Program is to occur, and shall include a good faith estimate of the number of anticipated Clinic and/or Program participants. The Clinics and Programs will only be operated under the direction of the physicians (the "MEDICAL DIRECTORS") named on EXHIBIT B (as such may be amended pursuant to Section 11.6) and each such Medical Director identified on Exhibit B will be a party to a clinical consulting agreement with Vista at all times that such Medical Director directs the operations of a Clinic or Program. Each Clinic will meet the guidelines established in the "Framework for Post-Residency Surgical Education and Training".

If the actual number of Clinics conducted in any 12-month period shall be *** , the difference shall be referred to herein as the "CLINIC SHORTFALL". If the actual number of Programs conducted in any 12-month period shall be *** , the difference shall be referred to herein as the "PROGRAM SHORTFALL". In the event EES exercises its right to extend any term of this Agreement, any Clinics and Programs conducted by Vista during such subsequent term will not be counted in determining whether Vista has satisfied its obligation to conduct *** Clinics and *** Programs in a given 12-month period until the Clinic Shortfall or Program Shortfall, as the case may be, has been satisfied. In the event the Agreement is terminated by EES or expires, Vista's exclusivity obligation under Section 2.2(a) shall survive termination or expiration of this Agreement with respect to Clinics and Programs conducted in subsequent periods but only to the extent the number of subsequent Clinics satisfies the Clinic Shortfall and the number of subsequent Programs satisfies the Program Shortfall.

(c) RESPONSIBILITY TO PRODUCE TRAINING AND PROMOTIONAL LITERATURE. Vista will provide, at its sole cost and expense, all the necessary and appropriate (i) training materials (both CME and non-CME) for the Clinics and Programs, and (ii) promotional materials for LBS, the Clinics and Programs for use by the Representatives. Vista will deliver to EES a sample of the training and promotional materials prepared by Vista and such materials will be subject to EES's copy review procedures and comments prior to their distribution.

(d) RESPONSIBILITY TO TRAIN EES'S REPRESENTATIVES. Vista will admit, at EES's sole cost and expense, the Representatives into the Clinics and Programs. In addition, Vista will provide semi-annually, at EES's request, at least 4 hours of additional education and training on the features and benefits of LBS, the Clinic and the Program to the Representatives.

*** Portions of this page have been omitted pursuant to a request for

Confidential Treatment and filed separately with the Commission.

(e) RESPONSIBILITY TO COMPENSATE EES'S REPRESENTATIVES. *** for each O.R. Team that participates in a Clinic as a direct result of the promotional efforts undertaken by such Representative.

(f) RESPONSIBILITY TO ADHERE TO LAWS AND REGULATIONS. Vista will not, and will use its reasonable and diligent efforts to ensure that Medical Directors and Clinic and Program participants do not, submit for Medicare reimbursement the cost of any Product provided by EES hereunder. Vista further agrees to demonstrate each Product only in accordance with such Product's labeled indications and instructions for use.

(g) RESPONSIBILITY TO MAINTAIN INSURANCE: Vista shall obtain, pay for and maintain product liability insurance covering bodily injury and property damage arising out of the use of the Products with limits of not less than *** per occurrence and *** as an aggregate per year.

2.3 MUTUAL RESPONSIBILITIES. During the term of this Agreement, the parties in good faith will collaborate with each other for the following purposes: (a) to devise marketing and market development strategies which focus on, without limitation, the promotion of LBS, Vista's LBS training and the Products at conventions, through professional organizations and through advertising campaigns; (b) to assess cooperative technology opportunities to incorporate the Visi-Tools IP and Visi-Tools Technology into EES's instruments and systems; (c) to identify additional surgical procedure opportunities amenable to the type and level of service being provided in the Clinics and Programs and, if appropriate, expand the scope of this exclusive relationship to incorporate such additional identified and approved procedures.

SECTION 3. FAILURES TO SUPPLY

3.1 FAILURE TO SUPPLY. In the event that EES shall fail to supply any non-sterile Product in such quantities as Vista shall reasonably require for the Clinics, then Vista shall be permitted to obtain a substitute product from another supplier but only for so long as EES shall fail to supply such Product.

SECTION 4. RIGHT OF FIRST NEGOTIATION

During the term of this Agreement and in consideration for the fees payable by EES hereunder, Vista hereby grants EES the right of first negotiation to acquire from Vista title to or the right to use, offer for sale, sell, market and/or distribute the Visi-Tools Technology and the Visi-Tools IP. EES shall have 30 days from the time it receives from Vista material written information about any Visi-Tools Technology or Visi-Tools IP to notify Vista in writing if it is interested in discussing terms for EES to purchase, license or otherwise have access to such. If EES so notifies Vista of its interest in the Visi-Tools Technology or Visi-Tools IP, then the parties shall for a period of 45 days negotiate, in good faith, the terms of such transaction. In no event shall

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

Vista enter into an agreement with a third party to sell, assign, license, transfer or otherwise make available the Visi-Tools Technology or Visi-Tools IP to such third party upon material terms and conditions which are materially more favorable to such third party than such material terms and conditions which EES offered to Vista in connection therewith. Vista hereby covenants that only for so long as this right of first negotiation survives neither Vista (nor any of its Affiliates) shall enter into any of the agreements, contracts, understandings or arrangements described in Section 5.1(e) without the consent of EES; provided, that such consent shall not be required with respect to any Visi-Tools Technology or Visi-Tools IP that, in accordance with this section, was first presented to EES and thereafter either EES failed to notify Vista of its interest therein or access to such was negotiated between the parties. This right of first negotiation shall survive any termination of this Agreement, whether occurring during the initial term or any extended term, but such right shall survive in the case of the initial term, until June 22, 2002 and in the

case of each extended term, until the 6-month anniversary of the commencement of such extended term.

SECTION 5. REPRESENTATIONS AND WARRANTIES

5.1 REPRESENTATIONS AND WARRANTIES OF VISTA. Vista represents and warrants to EES as of the date hereof as follows:

(a) DUE ORGANIZATION AND AUTHORIZATION. Vista is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite corporate power and authority to enter into and perform its obligations under this Agreement. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby by Vista have been duly authorized by all necessary corporate action on the part of Vista and this Agreement has been duly executed and delivered by a duly authorized officer of Vista and constitutes a valid and legally binding obligation of Vista in accordance with its terms.

(b) NO VIOLATION. That the performance of Vista's obligations under this Agreement will not result in a violation or breach of, and will not conflict with or constitute a default under any agreement, contract, commitment or obligation to which such party or any of its Affiliates is bound. Neither the execution and delivery of this Agreement by Vista nor the consummation by Vista of the transactions contemplated hereby nor compliance by Vista with any of the provisions hereof shall: (i) conflict with or result in any breach of any provisions of the Certificate of Incorporation or By-laws of Vista; (ii) require any consent, approval, authorization or permit of, or filing with or notification to, any governmental or regulatory authority; (iii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Vista; or (iv) require any consent, approval, authorization, or permit under any contract, agreement or commitment.

(c) INVESTIGATIONS; LITIGATION. There have been no, and there are no pending or threatened, actions, suits, proceedings, claims or investigations concerning Vista or any of its

Affiliates with respect to the Clinics or Programs or the transactions contemplated hereby.

(d) CONDUCT OF THE BUSINESS. Vista operates only the Clinics specified on Exhibit B and only at the locations specified on Exhibit B. The Clinics and Programs are operated under the direction of the physicians (the "MEDICAL DIRECTORS") named on Exhibit B. Each Medical Director identified on Exhibit B is party to a clinical consulting agreement with Vista. Each Clinic meets the guidelines as established in the "Framework for Post-Residency Surgical Education and Training" and is endorsed by The Society of American Gastrointestinal Endoscopic Surgeons (SAGES).

(e) AUTHORITY TO GRANT RIGHT OF FIRST NEGOTIATION. Vista is empowered to grant EES the right of first negotiation set forth in Section 4. There are no outstanding encumbrances and there are no agreements, contracts, understandings or arrangements of any kind pursuant to which any third-party may acquire from Vista, or has the right to use, offer for sale, sell, market or distribute, any of the Visi-Tools IP or Visi-Tools Technology.

5.2 REPRESENTATIONS AND WARRANTIES OF EES. EES represents and warrants to Vista, as of the date hereof, as follows:

(a) DUE ORGANIZATION AND AUTHORIZATION. EES is a corporation duly organized, validly existing and in good standing under the laws of the State of Ohio, and has all requisite corporate power and authority to enter into and perform its obligations under this Agreement. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby by EES have been duly authorized by all necessary corporate action on the part of EES and this Agreement has been duly executed and delivered by a duly authorized officer of EES and constitutes a valid and legally binding obligation of Buyer in accordance with its terms.

(b) NO VIOLATION. That the performance of EES's obligations under this Agreement will not result in a violation or breach of, and will not conflict with or constitute a default under any agreement, contract, commitment or obligation to which such party is bound.

(c) SUPPLY OF PRODUCT. EES expressly warrants and represents that it owns all of the right, title and interest in and to the Products and it is empowered to supply the Products.

SECTION 6. WARRANTY DISCLAIMER

The Products are being provided to Vista AS IS. Except for the warranty provided in Section 5.2(c) above, EES DISCLAIMS ALL OTHER WARRANTIES WITH RESPECT TO THE PRODUCTS, EXPRESS OR IMPLIED, INCLUDING (i) ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE (ii) ANY WARRANTY WITH RESPECT TO THE DESIGN, MATERIAL OR WORKMANSHIP OF THE PRODUCTS, AND (iii) ANY WARRANTY AS TO COMPLIANCE BY THE

PRODUCTS WITH ANY APPLICABLE LAW CONCERNING SAFETY IN DESIGN OR OPERATION, and Vista hereby acknowledges and agrees that EES shall have no liability to Vista with respect to the foregoing.

SECTION 7. INDEMNIFICATION

7.1 INDEMNIFICATION BY VISTA. Vista shall indemnify and hold EES (and its Affiliates) harmless from and against all liabilities, claims, demands, damages, expenses and losses (including reasonable attorneys' fees) (collectively "DAMAGES") that may be sustained, suffered or incurred by EES (or its Affiliates) arising directly from or by reason of (a) the breach by Vista of any of the warranties, representations, covenants and agreements made by Vista herein, (b) claims of trademark or copyright infringement made with respect to use of Vista's training and promotional materials and (c) personal injury claims by third parties arising from the use or application of any Product provided to Vista pursuant to this Agreement (other than personal injury claims by O.R. team members arising from the use of any non-sterile Product during the Clinics). In the case of Damages arising directly from or by reason of Section 7.1(a) or 7.1(b), Vista's indemnification obligations for such Damages shall be limited to the fees paid by EES to Vista hereunder.

7.2 INDEMNIFICATION BY EES. EES shall indemnify and hold Vista harmless from and against all Damages that may be sustained, suffered or incurred by Vista arising directly from or by reason of (a) the breach by EES of any of the warranties, representations, covenants and agreements made by EES herein, (b) claims of patent infringement made with respect to the use of any Product in accordance with this Agreement and (c) personal injury claims by third parties arising from the use or application of any sterile product (similar in form and function to the Products) distributed by EES. In the case of Damages arising directly from or by reason of Section 7.2(a) or 7.2(b), EES's indemnification obligations for such Damages shall be limited to the fees paid by EES to Vista hereunder.

7.3 PROCEDURES. Each indemnified party agrees to give the indemnifying party prompt written notice of any matter upon which such indemnified party intends to base a claim for indemnification (an "INDEMNITY CLAIM") under this section. The indemnifying party shall have the right, with counsel reasonably satisfactory to the indemnified party, to participate jointly with the indemnified party in the indemnified party's defense, settlement or other disposition of any Indemnity Claim. With respect to any Indemnity Claim relating solely to the payment of money damages and which could not result in the indemnified party's becoming subject to injunctive or other equitable relief or otherwise adversely affect the business of the indemnified party in any manner, and as to which the indemnifying party shall have acknowledged in writing the obligation to indemnify the indemnified party hereunder, the indemnifying party shall have the sole right to defend, settle or otherwise dispose of such Indemnity Claim, on such terms as the indemnifying party, in its sole discretion, shall deem appropriate; provided that the indemnifying party shall provide reasonable evidence of its ability to pay any damages claimed and with respect to any such settlement shall obtain the written release of the indemnified party from the Indemnity Claim. The indemnifying party shall obtain the written consent of the indemnified party prior to ceasing to defend, settling or otherwise

disposing of any Indemnity Claim if as a result thereof the indemnified party would become subject to injunctive or other equitable relief or the business of

the indemnified party would be adversely affected in any manner.

SECTION 8. TRADEMARKS; CONFIDENTIAL INFORMATION AND PUBLICITY

8.1 TRADEMARKS AND COPYRIGHTS. Nothing herein shall be deemed to give one party any right to trademarks or copyrights of the other party or to their use except that each party shall have the right to use the other party's trademarks and copyrights promoting the Clinics and Programs during the term of this Agreement if it chooses to do so, but such use shall require the consent of such other party.

8.2 CONFIDENTIAL INFORMATION. All written information exchanged between the parties while this Agreement is in effect that is either clearly designated by the disclosing party as "confidential" or may be reasonably understood from the notices or legends affixed to it that it is proprietary to the disclosing party, shall be treated as confidential information. Each party agrees that such confidential information received from the other party under this Agreement shall be maintained in confidence for three years after such exchange, and the receiving party agrees not to use (other than in the performance of its obligations hereunder) or disclose such information to any third party without the prior written approval of the other party, unless such information (a) has become public knowledge through no fault of the party receiving such information, or (b) comes to such receiving party from a third party under no obligation of confidentiality with respect to such information, or (c) was in the possession of such receiving party prior to the date of disclosure or is independently developed by or on behalf of such party without reliance on the confidential information received hereunder, or (d) is requested to be disclosed in compliance with applicable laws or regulations or is otherwise required to be disclosed in compliance with an order by a court or other regulatory body having competent jurisdiction; provided however that a party may disclose the existence of this Agreement and the material terms of this Agreement to prospective financing sources and acquirors who are under an obligation of confidentiality to such party; and provided, further, that the disclosing party shall comply with Section 8.3.

8.3 PUBLICITY. The parties hereto covenant and agree that each will not make any public announcement, press release or statement of the existence of, or reveal publicly the terms, conditions and status of, the transactions contemplated herein, without the prior written consent (which shall not be unreasonably withheld) of the other party as to the content of, time and manner of the release of such announcement, release or statement. In the event that Vista determines that it is required to file this Agreement as an exhibit to a periodic filing required under the Securities and Exchange Act of 1934, as amended, it shall notify Vista of such proposed filing and EES shall have the right to require EES to redact certain sensitive terms of this Agreement prior to the filing. The parties hereby agree to the release of a press release attached hereto as EXHIBIT C promptly following the execution of this Agreement.

SECTION 9. TERM

The initial term of this Agreement shall be for a period of *** from the Effective Date unless earlier terminated as expressly provided under the terms of this Agreement. EES, at its sole election, may extend the term of this Agreement for up to four additional *** periods by giving Vista, at least 60 days prior to the end of the then current term, written notice of each such election.

SECTION 10. TERMINATION

10.1 TERMINATION FOR BREACH. This Agreement may be terminated, prior to the expiration of its initial or any additional term, by either party by giving written notice of its intent to terminate and stating the grounds therefor if the other party shall materially breach or materially fail in the observance or performance of any representation, warranty, covenant or obligation under this Agreement (i.e., a termination for "CAUSE"). The party receiving such notice shall have 30 days from the date of receipt thereof to cure the purported breach or failure. In the event such breach or failure is cured to the satisfaction of the non-defaulting party, the notice of termination shall be of no effect. In the event EES delivers such a notice of termination, EES's payment obligations under Section 2.1(b)hereof automatically shall be suspended until the purported breach or failure is timely cured in accordance with this Section 10.1. If the purported breach or failure is not timely cured and the Agreement terminated, EES shall be relieved from its payment obligations under Section 2.1(b) hereof

and shall have no liability to Vista therefor.

10.2 TERMINATION BY EES WITHOUT "CAUSE". Notwithstanding anything to the contrary in this Agreement, EES may terminate this Agreement without Cause at any time during the initial or any additional term upon 90 days' prior written notice. The giving of such notice during any additional term will automatically relieve EES of its obligation under Section 2.1(b) hereof to pay the second *** of the annual fee for such additional term and EES shall have no liability to Vista therefor.

10.3 EFFECT OF TERMINATION. Other than as provided in Sections 10.1 and 10.2 above, termination of this Agreement for any reason shall not release either party from any liability which at such time has already accrued or which thereafter accrues from a breach or default prior to such termination, nor affect in any way the survival of any other right, duty or obligation of either party hereto which under the terms of this Agreement survives such termination including, without limitation, Sections 7, 8.2 and 11.3.

SECTION 11. MISCELLANEOUS

11.1 NOTICES. All communications and notices required or called for under this Agreement shall be in writing and shall be transmitted by (a) first class US mail, postage prepaid, and shall be deemed delivered three business days after mailing, or (b) national overnight delivery service, and shall be deemed delivered on the next business day after mailing or (c) by facsimile, and

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

shall be deemed delivered on the next business day after transmission provided the sender has confirmation of the transmission. Unless a change of address notice is provided by a party to the other party, notices to EES shall be sent to the address set forth in the beginning of this Agreement or to facsimile number (513) 337-3392 and to the attention of *** and notices to Vista shall be sent to the address set forth in the beginning of this Agreement or to facsimile number (760) 603-9170 and to the attention of John Lyon.

11.2 GOVERNING LAW. This Agreement shall be governed by the internal law (and not the law pertaining to conflicts or choice of laws) of the State of New York in all respects, including all matters of validity, construction and performance of this Agreement.

11.3 ARBITRATION. All controversies and claims arising out of or relating to this Agreement or the validity, inducement, or breach thereof, shall be settled by arbitration before a single arbitrator in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("AAA") then pertaining, except where those rules conflict with this provision, in which case this provision controls. The parties hereby consent to the jurisdiction of the federal district court for the district in which the arbitration is held for the enforcement of this provision and the entry of judgment on any award rendered hereunder. Should such court for any reason lack jurisdiction, any court with jurisdiction shall enforce this clause and enter judgment on any award. The arbitrator shall be an attorney who has at least 15 years of experience with a law firm or corporate law department of over 25 lawyers or was a judge of a court of general jurisdiction. The arbitration shall be held in California if initiated by Vista and Ohio if initiated by EES and in rendering the award the arbitrator must apply the substantive law of New York (except where that law conflicts with this clause), except that the interpretation and enforcement of this arbitration provision shall be governed by the Federal Arbitration Act. The arbitrator shall be neutral, independent, disinterested, impartial and shall abide by The Code of Ethics for Arbitrators in Commercial Disputes approved by the AAA. The arbitrator (a) shall not have any power or authority to add to, alter, amend or modify the terms of this Agreement; (b) shall establish and enforce appropriate rules to ensure that the proceedings, including the decision, be kept confidential and that all confidential information of the parties be kept confidential and be used for no purpose other than the arbitration and (c) shall have the power to enforce specifically this Agreement and the terms and conditions hereof in addition to any other remedies at law or in equity. Within 45 days of initiation of arbitration, the parties shall reach agreement upon and thereafter follow procedures assuring that the arbitration will be concluded and the award rendered within no more than six months from

selection of the arbitrator. Failing such agreement, the AAA will design and the parties will follow procedures that meet such a time schedule. Each party has the right before or, if the arbitrator cannot hear the matter within an acceptable period, during the arbitration to seek and obtain from the appropriate court provisional remedies such as attachment, preliminary injunction, replevin, etc., to avoid irreparable harm, maintain the status quo or preserve the subject matter of the arbitration. THE ARBITRATOR SHALL NOT AWARD ANY PARTY PUNITIVE, EXEMPLARY, MULTIPLIED OR CONSEQUENTIAL DAMAGES, AND EACH PARTY

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

<Page>

HEREBY IRREVOCABLY WAIVES ANY RIGHT TO SEEK SUCH DAMAGES. NO PARTY MAY SEEK OR OBTAIN PREJUDGMENT INTEREST OR ATTORNEYS' FEES OR COSTS.

11.4 RELATIONSHIP OF THE PARTIES. The parties hereto are entering into this Agreement as independent contractors, and nothing herein is intended or shall be construed to create between the parties a relationship of principal and agent, partners, joint venturers or employer and employee. Neither party shall hold itself out to others or seek to bind or commit the other party in any manner inconsistent with the foregoing provision.

11.5 ENTIRE AGREEMENT. The parties have, in this Agreement, incorporated all representations, warranties, covenants, and agreements on which they have relied in entering into this Agreement, and, except as provided for herein, neither party makes any commitment to the other concerning its future action. Accordingly, this Agreement (a) constitutes the entire agreement and understanding between the parties with respect to the subject matter hereof and there are no promises, representations, conditions, provisions or terms related thereto other than those set forth in this Agreement and (b) supersedes all previous understandings, agreements and representations between the parties, written or oral. VISTA AGREES THAT THE REPRESENTATIONS AND WARRANTIES GIVEN HEREIN BY EES ARE IN LIEU OF, AND VISTA HEREBY EXPRESSLY WAIVES ALL RIGHTS TO, ANY IMPLIED WARRANTIES WHICH MAY OTHERWISE BE APPLICABLE BECAUSE OF THE PROVISIONS OF THE UNIFORM COMMERCIAL CODE OR ANY OTHER STATUTE, INCLUDING, WITHOUT LIMITATION, THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

11.6 MODIFICATIONS AND AMENDMENTS. No modification, change or amendment to this Agreement shall be effective unless in writing signed by each of the parties hereto; provided, that, EES in its sole discretion can modify, change or amend Exhibit A hereto to delete or add products; and provided; further, that Vista can modify, change or amend Exhibit B subject to the consent of EES, which cannot be unreasonably withheld or delayed.

11.7 WAIVER. The failure of either party to enforce at any time for any period the provisions of this Agreement shall not be construed to be a waiver of such provisions or of the right of such party thereafter to enforce each such provision.

11.8 ASSIGNMENT. This Agreement may not be transferred or assigned by either party without the prior written consent (which shall not be unreasonably withheld) of the other, except that (a) EES may assign its rights and/or obligations hereunder to any of its Affiliates or to a successor to its business and (b) Vista may assign, in whole not in part, its rights and obligations hereunder to a successor to substantially all of its business (including the Visi-Tools IP and Visi-Tools Technology). Subject to the foregoing sentence, this Agreement shall bind and inure to the benefit of the parties hereto and their respective successors and assigns.

<Page>

11.9 SEVERABILITY. In the event that any one or more of the provisions (or any part thereof) contained in this Agreement or in any other instrument referred to herein, shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, then to the maximum extent permitted by law, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or any other such instrument. Any term or provision of this Agreement which is invalid, illegal or unenforceable in any jurisdiction shall, to the extent the economic benefits conferred by this Agreement to both parties

remain substantially unimpaired, not affect the validity, legality or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction.

11.10 BANKRUPTCY All rights to intellectual property granted under or pursuant to this Agreement by Vista to EES are for all purposes of Section 365(n) of Title 11, U.S. Code (the "BANKRUPTCY CODE"), licenses of rights to "intellectual property" as defined in the Bankruptcy Code. The parties agree that EES, as a beneficiary of such rights under this Agreement, shall retain and may fully exercise all of its rights and elections under the Bankruptcy Code. Vista agrees during the term of this Agreement to create and maintain current copies or, if not amenable to copying, detailed descriptions or other appropriate embodiments, of all such intellectual property. If a case is commenced by or against Vista under the Bankruptcy Code, then, unless and until this Agreement is rejected as provided in the Bankruptcy Code, Vista (in any capacity, including debtor-in-possession) and its successors and assigns (including, without limitation, a Bankruptcy Code trustee) shall either perform all of the obligations provided in this Agreement to be performed by Vista or provide to EES all such intellectual property (including all embodiments thereof) held by Vista and such successors and assigns, as EES may elect in a written request, immediately upon such request. If a Bankruptcy Code case is commenced by or against Vista, this Agreement is rejected as provided in the Bankruptcy Code and EES elects to retain its rights hereunder as provided in the Bankruptcy Code, then Vista (in any capacity, including debtor-in-possession) and its successors and assigns (including, without limitation, a Bankruptcy Code trustee) shall provide to EES all such intellectual property (including all embodiments thereof) held by Vista and such successors and assigns immediately upon EES's written request therefor. All rights, powers and remedies of EES provided herein are in addition to and not in substitution for any and all other rights, powers and remedies now or hereafter existing at law or in equity (including, without limitation, the Bankruptcy Code) in the event of any such commencement of a bankruptcy proceeding by or against Vista. EES, in addition to the rights, powers and remedies expressly provided herein, shall be entitled to exercise all other such rights and powers and resort to all other such remedies as may now or hereafter exist at law or in equity (including the Bankruptcy Code) in such event.

11.11 FORCE MAJEURE EVENTS. If either party is prevented from performing any of its obligations hereunder due to any cause which is beyond its reasonable control, including: fire, explosion, flood, or other acts of God; acts, regulations, or laws of any government; war or civil commotion; strike, lock-out or labor disturbances; or failure of public utilities or common carriers (a "FORCE MAJEURE EVENT"), such party shall not be liable for breach of this Agreement

with respect to such non-performance to the extent any such non-performance is due to a Force Majeure Event. Such non-performance will be excused as long as such event shall be continuing, provided that such party gives immediate written notice to the other party of the Force Majeure Event. Each party experiencing the Force Majeure Event shall exercise reasonable efforts to eliminate the Force Majeure Event and to resume performance of its affected obligations as soon as practicable.

11.12 EXPENSES. Each party shall pay all of its own fees and expenses (including all legal, accounting and other advisory fees) incurred in connection with the negotiation and execution of this Agreement and the arrangements contemplated hereby.

11.13 HEADINGS. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning and interpretation of this Agreement.

11.14 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which shall be deemed to constitute the same Agreement.

[signature page follows]

The parties agree to the terms of this EXCLUSIVE SUPPLY AND PROMOTION AGREEMENT, as indicated by the signatures of their respective corporate officers, duly authorized as of the Effective Date.

ETHICON ENDO-SURGERY, INC.	VISTA MEDICAL TECHNOLOGIES, INC.
By: /s/ KAREN LICITRA	By: /s/ JOHN LYON, PRESIDENT & CEO
Print Name and Title: Karen Licitra President	Print Name and Title:

EXHIBIT A - PRODUCT LIST

NON-ESI ACCREDITED FIELD ACTIVITY NEEDS ASSESSMENT FORM
NON-STERILE PRODUCT

PRODUCT REQUESTS MUST BE FILLED OUT COMPLETELY, ACCURATELY, LEGIBLY, AND RECEIVED 30 DAYS PRIOR TO EVENT.

Coordinator's Name: _____ Date of Lab: _____

Coordinator's Phone #: _____ Cost Center: _____

Product Code	Quantity (Single Unit)	Product Code	Quantity (Single Unit)	Product Code	Quantity (Single Unit)
<S>	<C>	<C>	<C>	<C>	<C>
***		***			
***		***			
***		***			
***		***			
***		***			
***		***			
***		***			
***		***			
***		***			
***		***			
***		***			
***					
***					
***					
***					
***					
***					
***					

SUTURE PRODUCT CODES

Product Code	Quantity (Box)	Product Code	Quantity (Box)	Product Code	Quantity (Box)
<S>	<C>	<C>	<C>	<C>	<C>
***		***		***	
***		***			

If PRODUCT ordered is not available, are substitutions acceptable?

Yes / / No / /

FAX THIS FORM TO REGISTRATION 513-337-2000 OR E-MAIL contactesi@eesus.jnj.com

NOTE: ALL ORDERS MUST BE APPROVED BY IACUC COMPLIANCE PRIOR TO SHIPPING. ONCE COURSE IS APPROVED, FORM WILL BE FORWARDED FOR PROCESSING.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

EXHIBIT B - CLINIC AND PHYSICIAN INFORMATION

<Table>
<Caption>

CLINICS	MEDICAL DIRECTORS UNDER CONTRACT
<S>	<C>
***	***
***	***
***	***

</Table>

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

EXHIBIT C-- PRESS RELEASE

[LOGO]
THE FINANCIAL RELATIONS BOARD
BSMG WORLDWIDE

5451 Avenida Encinas, Suite A
Carlsbad, CA 92008
(760) 603-9120
NASDAQ: VMTI

FOR FURTHER INFORMATION:

AT THE COMPANY	AT THE FINANCIAL RELATIONS BOARD/BSMG WORLDWIDE
John R. Lyon	Haris Tajyar
President	Investor and Media Contact
(760) 603-9120	(310) 996-7462

FOR IMMEDIATE RELEASE
JUNE 25, 2001 DRAFT

VISTA MEDICAL AND ETHICON ENDO-SURGERY
FORM STRATEGIC ALLIANCE TO ADVANCE
ADOPTION OF MINIMALLY INVASIVE WEIGHT REDUCTION SURGERY

CARLSBAD, CA, JUNE 25, 2001 - Vista Medical Technologies, Inc. (NASDAQ: VMTI), and Ethicon Endo-Surgery today announced that they have formed a strategic alliance primarily in support of the Vista Medical Laparoscopic Bariatric Surgery (LBS) Program and Vista's activities and services related to developing the surgical weight reduction market. This alliance affirms the focus of both

companies on sponsoring the highest quality surgical training, in conjunction with associated products and programs, as keys to addressing the needs of physicians and patients in minimally invasive bariatric surgery.

The alliance agreement also provides that the companies will evaluate other complex minimally invasive surgical procedures which may benefit from the type of combined training and technology involved in the LBS Program and will assess opportunities to co-develop products incorporating Vista's proprietary visualization technology. Specific terms of the agreement, including financial terms, were not disclosed.

John R. Lyon, President and CEO of Vista Medical, said, "this strategic alliance strengthens and extends the collaboration which Vista and Ethicon Endo-Surgery established last year. It reflects recognition of the potential represented by the option of minimally invasive gastric bypass surgery as a proven solution for morbid obesity and its co-morbidities. It also emphasizes our joint commitment to offer the highest level of training, products and services to this rapidly evolving market. The financial, product and marketing support provided by Ethicon Endo-Surgery reinforces Vista's ability to develop and deliver comprehensive programs to service accelerated growth of the market."

-MORE-

Karen Licitra, President of Ethicon Endo-Surgery, Inc. said, "We are excited about our continued relationship with Vista Medical and the opportunity to further develop this important treatment for morbid obesity."

VISTA MEDICAL TECHNOLOGIES, INC.

Vista Medical Technologies, Inc. develops, manufactures and markets products that provide information to doctors performing minimally invasive general surgical, cardiac surgical and other selected microsurgical procedures. The Company also develops and manages training and support programs which enhance the adoption of procedures incorporating use of our visualization technology, including the Laparoscopic Bariatric Surgery Program whereby we are working to establish a national network of centers performing minimally invasive gastric bypass surgery, to assist weight reduction in the morbidly obese. The Company's products combine a head mounted display with video cameras to provide surgeons with critical visual information during these microsurgical procedures, combined with the ability to view additional information in a voice-controlled, picture-in-picture format, to facilitate real-time decision making during surgery. The Company also manufactures compact, high-resolution endoscopic cameras for original equipment manufacturer customers and strategic partners. Vista Medical Technologies is traded on the NASDAQ SmallCap Market under the stock symbol VMTI. The Company's Internet Website is www.vistamt.com. For more information on Vista Medical Technologies, Inc. via facsimile at no cost, call 1-800-PRO-INFO and dial code VMTI.

FORWARD LOOKING STATEMENTS

This news release may contain forward-looking statements concerning the business and products of the Company. Actual results may differ materially depending on a number of risk factors, including, but not limited to the following: the Company's ability to raise additional capital to fund its operations and execute its business plan, development, manufacturing, shipment, global economic and distribution risks and customer acceptance. Other risks inherent in the business of the Company are described in Securities and Exchange Commission filings, including the Annual Report on Form 10-K for the year ended December 31, 2000, and the Company's most recent quarterly report on Form 10-Q. The Company undertakes no obligation to revise or update any forward-looking statements to reflect events or circumstances after the date of this release.

# # #