

RITA Medical Systems Announces Third Quarter, Nine-Month Results

MOUNTAIN VIEW, Calif., Oct. 24 /PRNewswire/ -- RITA Medical Systems, Inc. (Nasdaq: RITA) today announced results for its third quarter and nine months ended September 30, 2001, with sales increasing 37 percent and 54 percent, respectively, when compared to the year earlier periods, and gross margins in this year's third quarter and first nine months rising to 60 percent and 54 percent, respectively, from gross margins in the same periods last year of 40 percent and 38 percent, respectively. Gross margins in the second quarter of this year were 56 percent.

Total sales for the third quarter of this year increased to \$3.7 million with a net loss of \$3.1 million, or a loss per share of \$0.21, compared to sales in the prior year's third quarter of \$2.7 million with a net loss of \$3.0 million, or a pro forma loss per share of \$0.23. Disposable sales for the third quarter of this year represented 80 percent of total sales.

Barry Cheskin, President and Chief Executive Officer, commented that the Company's domestic sales for the third quarter of this year continued to respond to its investments in the direct sales force and physician education programs, increasing 19 percent over the second quarter of this year and representing 56 percent of total sales.

For the first nine months of this year, sales grew to \$10.8 million with a net loss of \$9.2 million, or a loss per share of \$0.64, versus sales for the first nine months of last year of \$7.0 million with a net loss of \$9.7 million, or a pro forma loss per share of \$0.89.

"International sales represented 44 percent of total sales for this year's third quarter," Cheskin said, "with the decrease in international sales primarily the result of lower sales to distributors in our Asian markets. This is principally due to the fact that reimbursement is not expected to occur in Japan until late next year, as the company has previously reported. Overall results for the third quarter were also adversely affected by the loss of selling time and the disruption or cancellation of a number of training events worldwide following September 11."

The gross margin improvement in this year's third quarter was primarily due to higher average selling prices of the Company's disposable devices and an increased proportion of higher margin domestic sales. Margins also benefited from manufacturing efficiencies attained through higher volume production of the Company's disposable devices. Excluding the effect of the amortization of deferred stock-based compensation, gross margins increased to 64 percent in this year's third quarter from 50 percent in the corresponding period of 2000 and 60 percent in the previous quarter of this year.

Operating expenses for the third quarter ended September 30, 2001 were \$5.6 million compared to \$4.3 million in the third quarter of 2000 and \$5.5 million in the second quarter of 2001. Excluding the effect of the amortization of deferred stock-based compensation, operating expenses for the third quarter of this year were \$5.4 million as compared to \$3.5 million in the corresponding period of 2000 and \$5.1 million in the quarter ended June 30, 2001. The increase in spending over this year's second quarter principally reflected the Company's continued investments in its sales and marketing efforts, as well as product development and clinical studies.

The following statements are based on the company's expectations as of the date of this release. Actual results may differ materially from the company's expectations. The company undertakes no obligation to provide updates to these expectations.

The Company believes that sales for the fourth quarter of 2001 will be approximately \$3.9 million with a loss per share of between \$0.26 and \$0.28 and that sales for 2001 will be approximately \$14.7 million with a loss per share of between \$0.90 and \$0.92.

The Company believes that sales for 2002 will be between \$21 and \$23 million with a loss per share of between \$0.65 and \$0.75. The company expects strong domestic sales, which it expects will continue to represent more than 50 percent of total sales. International sales are expected to grow more slowly due to reimbursement issues in certain international markets, as previously reported. The Company expects to receive revenues from the sales of its products for non-liver applications in the fourth quarter of the year due to anticipated use of RITA for patients with metastatic bone tumors. The Company expects nominal revenue at the very end of 2002 due to the international use of RITA products for patients with unresectable lung tumors. The Company expects to achieve its first profitable quarter in the fourth quarter of 2002.

RITA will hold a conference call with the financial community today at 4:30 p.m. EDT (Eastern). The dial in number for the conference call is 877-845-5389. The dial in number for international participants is 706-634-7554. The code for the conference call is "RITA Medical." A telephonic replay of the conference call will be available through Friday, October 26th at midnight and can be accessed by dialing 800-642-1687 (domestic) or 706-645-9291 (international) and entering conference ID 2149763.

About RITA Medical Systems, Inc.

RITA Medical Systems develops, manufactures and markets innovative products for patients with solid cancerous or benign tumors. The proprietary RITA system uses radiofrequency energy to heat tissue to a high enough temperature to ablate it or cause cell death. While the Company's current focus is on liver cancer, the Company believes that its minimally invasive technology may in the future be applied to other types of tumors, including tumors of the lung, bone, breast, prostate and kidney. The Company has received regulatory clearance in major markets worldwide, including the United States. In March 2000, RITA became the first radiofrequency ablation company to receive specific FDA clearance for unresectable liver lesions in addition to its previous general FDA clearance for the ablation of soft tissue. The Company has sold over 30,000 of its disposable devices throughout the world.

The statements in this news release related to the Company's sales and earnings guidance for 2001 and 2002, including the Company's expectation that it will have sales from non-liver applications in 2002, international sales expectations, sales expectations for Japan, reimbursement approvals in Japan as well as statements related to the Company's plan to extend the technology to applications beyond the liver are forward-looking statements involving risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. Potential risks and uncertainties could include, but are not limited to, the Company's dependence on timely market acceptance of the RITA system, the outcome of current patent actions, the Company's history of operating losses and expectation that it will continue to incur significant operating expenses over the next several years, significant competition in the Company's industry, alternative therapies which could prove to be superior to the RITA system, the Company's lack of long-term clinical data, the Company's inability to protect its intellectual property, potential intellectual property lawsuits, the company's dependence on international revenues, the Company's dependence on third-party distributors including two primary international distributors, relationships with third-party distributors that could negatively affect the Company's sales, the need to establish reimbursement from payors in the United States and internationally, the Company's limited operating history, any failure to manage the Company's direct sales organization, the Company's dependence on key employees in a competitive labor market, potentially costly and time-consuming product liability actions, the Company's need to train physicians, the Company's need to support anticipated growth in operations, the Company's limited experience manufacturing its disposable devices in substantial quantities, the Company's dependence on one sole-source supplier, the Company's dependence on third-party contractors for the supply of generators and the requirement that the Company comply with applicable FDA and other regulations. Further information regarding these and other risks is included in the Company's periodic filings with the Securities and Exchange Commission, including the Company's Report on Form 10-K for the year ended December 31, 2000 and the Company's Report on Form 10-Q for the quarter ended June 30, 2001.

RITA and StarBurst are trademarks of RITA Medical Systems, Inc.

RITA MEDICAL SYSTEMS, INC.
CONDENSED STATEMENTS OF OPERATIONS

(In thousands, except per share data, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Sales	\$3,707	\$2,712	\$10,780	\$6,980
Cost of goods sold	1,472	1,622	4,912	4,298
Gross profit	2,235	1,090	5,868	2,682
Operating expenses				
Research and development	1,627	1,262	4,837	4,335
Selling, general and administrative	4,016	3,023	11,539	8,347
Total operating expenses	5,643	4,285	16,376	12,682
Loss from operations	(3,408)	(3,195)	(10,508)	(10,000)
Interest income and other expense, net	324	239	1,309	259
Net loss	\$(3,084)	\$(2,956)	\$(9,199)	\$(9,741)

Net loss per share, basic and diluted	\$(0.21)	\$(0.31)	\$(0.64)	\$(2.47)
Shares used in computing basic and diluted net loss per share	14,406	9,607	14,299	3,945
Pro-forma net loss per share, basic and diluted*	\$(0.21)	\$(0.23)	\$(0.64)	\$(0.89)
Shares used in computing pro-forma net loss per share, basic and diluted, including conversion of preferred shares	14,406	12,617	14,299	10,891
Financial data exclusive of amortization of deferred stock-based compensation:				
Sales	\$3,707	\$2,712	\$10,780	\$6,980
Gross Profit	2,377	1,369	6,386	3,336
Net Loss	(2,687)	(1,884)	(7,782)	(5,732)

* The computation of pro-forma net loss per share includes shares issued

upon the conversion of outstanding shares of convertible preferred stock (using the as-if-converted method) from the date of original issuance.

RITA MEDICAL SYSTEMS, INC.
CONDENSED BALANCE SHEETS
(In thousands, unaudited)

	September 30, 2001	December 31, 2000
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,927	\$ 12,676
Marketable securities	15,027	27,381
Accounts receivable, net	4,364	2,437
Inventories, net	2,504	1,638
Prepaid assets and other current assets	1,111	823
Total current assets	34,933	44,955
Investments	1,579	--
Property and equipment, net	1,923	1,255
Other assets	144	60
Total Assets	\$ 38,579	\$ 46,270
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$2,690	\$2,320
Current portion of long term obligations	224	1,123
Total current liabilities	2,914	3,443
Long term obligations	42	180
Stockholders' equity	35,623	42,647
Total liabilities and stockholders' equity	\$ 38,579	\$ 46,270

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SOURCE RITA Medical Systems, Inc.

Web site: <http://www.ritamedical.com>

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