

RITA MEDICAL SYSTEMS INC  
Form 10-Q  
November 13, 2003  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2003

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 000-30959

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**RITA MEDICAL SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-3199149**  
(I.R.S. Employer  
Identification No.)

**967 N. Shoreline Blvd.**

**Mountain View, CA 94043**

(Address of principal executive offices, including zip code)

**650-314-3400**

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

As of October 31, 2003, there were 17,966,210 shares of the registrant's Common Stock outstanding.

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**Table of Contents****PART 1. FINANCIAL INFORMATION****Item 1. Financial Statements****RITA MEDICAL SYSTEMS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, unaudited)

	September 30,	December 31,
	2003	2002
	<u>          </u>	<u>          </u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,327	\$ 6,888
Marketable securities	6,132	5,427
Accounts and note receivable, net	2,565	2,798
Inventories, net	2,392	3,521
Prepaid assets and other current assets	1,097	995
	<u>          </u>	<u>          </u>
Total current assets	15,513	19,629
Long term marketable securities	1,106	520
Long term note receivable, net	372	381
Property and equipment, net	1,268	1,565
Intangibles and other assets	5,001	2,071
	<u>          </u>	<u>          </u>
Total assets	\$ 23,260	\$ 24,166
	<u>          </u>	<u>          </u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 702	\$ 1,053
Accrued liabilities	1,594	2,510
	<u>          </u>	<u>          </u>
Total liabilities	2,296	3,563
	<u>          </u>	<u>          </u>
Stockholders' equity		
Common stock	18	15
Additional paid-in capital	97,675	88,525
Stockholder notes receivable		(50)
Accumulated other comprehensive income	3	7
Accumulated deficit	(76,732)	(67,894)
	<u>          </u>	<u>          </u>
Total stockholders' equity	20,964	20,603
	<u>          </u>	<u>          </u>

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Total liabilities and stockholders' equity	\$ 23,260	\$ 24,166
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The accompanying notes are an integral part of the condensed consolidated financial statements.

**Table of Contents****RITA MEDICAL SYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data, unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Sales	\$ 3,865	\$ 4,454	\$ 12,412	\$ 13,679
Cost of goods sold	1,253	1,730	4,530	5,773
Gross profit	2,612	2,724	7,882	7,906
Operating expenses:				
Research and development	976	1,218	3,395	3,882
Selling, general and administrative	4,182	4,311	13,482	14,837
Total operating expenses	5,158	5,529	16,877	18,719
Loss from operations	(2,546)	(2,805)	(8,995)	(10,813)
Interest income and other expense, net	32	85	157	368
Net loss	\$ (2,514)	\$ (2,720)	\$ (8,838)	\$ (10,445)
Net loss per share, basic and diluted	\$ (0.14)	\$ (0.18)	\$ (0.50)	\$ (0.70)
Shares used in computing net loss per share, basic and diluted	17,807	14,996	17,538	14,816

The accompanying notes are an integral part of the condensed consolidated financial statements.

**Table of Contents****RITA MEDICAL SYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands, unaudited)

	Nine Months Ended	
	September 30,	
	2003	2002
Cash flows from operating activities:		
Net loss	\$ (8,838)	\$ (10,445)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,228	1,052
Disposal of property and equipment	158	
Revaluation of common stock warrants for services received	(101)	(31)
Amortization of stock-based compensation		308
Allowance for doubtful accounts	56	823
Provision for obsolete inventories	393	517
Changes in operating assets and liabilities:		
Accounts and note receivable	82	(147)
Inventories	736	32
Prepaid and other current assets	(102)	77
Accounts payable and accrued liabilities	(1,267)	195
Net cash used in operating activities	(7,655)	(7,619)
Cash flows from investing activities:		
Purchase of property and equipment	(720)	(614)
Purchase of investments	(7,855)	
Sales and maturities of investments	6,560	10,420
Capitalization of patent litigation costs	(621)	(1,245)
Acquisition of intangibles	(2,650)	
Note receivable and other assets	106	4
Net cash provided by (used in) investing activities	(5,180)	8,565
Cash flows from financing activities:		
Proceeds from issuance of common stock	9,274	1,389
Payments on capital lease obligations		(148)
Net cash provided by financing activities	9,274	1,241
Net increase (decrease) in cash and cash equivalents	(3,561)	2,187
Cash and cash equivalents at beginning of period	6,888	7,297
Cash and cash equivalents at end of period	\$ 3,327	\$ 9,484

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The accompanying notes are an integral part of the condensed consolidated financial statements.

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**Table of Contents****RITA MEDICAL SYSTEMS, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## 1. Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by RITA Medical Systems, Inc. (the Company) in accordance with accounting principles generally accepted in the United States of America for interim financial information. These principles are consistent in all material respects with those applied in the Company's financial statements contained in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2002 and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission. However, interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (all of which are normal and recurring in nature, including the elimination of intercompany accounts) necessary to present fairly the financial position, results of operations and cash flows of the Company for the periods indicated. Interim results of operations are not necessarily indicative of the results to be expected for the full year or any other interim periods. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and footnotes thereto for the year ended December 31, 2002 contained in the Company's annual report on Form 10-K.

## 2. Net loss per share

Basic earnings per share figures are calculated based on the weighted-average number of common shares outstanding during the period less the weighted-average number of any common shares subject to repurchase by the Company. Diluted earnings per share further includes the dilutive effect of potentially dilutive securities consisting of stock options and warrants provided that the inclusion of such securities is not antidilutive; the Company has reported net losses and therefore has excluded such potentially dilutive securities from its calculation of diluted earnings per share.

The reconciliation of total weighted average outstanding common shares to shares used in determining net loss per share is as follows (in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Weighted average shares of common stock outstanding	17,807	15,027	17,543	14,851
Less: weighted-average shares subject to repurchase		(31)	(5)	(35)
Weighted average shares used in basic and diluted net loss per share	17,807	14,996	17,538	14,816

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The following numbers of shares represented by options and warrants (prior to application of the treasury stock method) and shares subject to repurchase were excluded from the computation of diluted net loss per share as their effect was antidilutive (in thousands):

	<u>September 30,</u>	
	<u>2003</u>	<u>2002</u>
Effect of potentially dilutive securities:		
Unvested common stock subject to repurchase		28
Options	2,307	2,862
Warrants		25