

RITA Medical Systems Announces Third Quarter Results

MOUNTAIN VIEW, Calif., Oct. 25 /PRNewswire/ -- RITA Medical Systems, Inc. (Nasdaq: RITA) today announced the results of its third quarter ended September 30, 2000.

Third quarter sales increased to \$2.7 million, up 127% from \$1.2 million in the third quarter of 1999 and up 12% from \$2.4 million in the second quarter of 2000. The increase in sales over the second quarter was due to higher unit shipments and higher selling prices of both generators and disposable devices in the United States. As anticipated by the company, international sales did not increase from the second quarter to the third.

"We are very pleased by the strong customer response to our new Model 1500 generator and StarBurst™ family of disposable devices which we commercially launched during the second quarter," commented Barry Cheskin, President and Chief Executive Officer of RITA Medical Systems. "These new products utilize our proprietary tissue temperature monitoring and control technology and our unique electrode array design to destroy up to a 5 centimeter volume of tissue, 4 to 5 times as large as our previous generation products. In order to capitalize on the momentum provided by these new products as well as the positive response to our technology overall, we are continuing to increase the size of our domestic direct sales force and adding distribution partners overseas," Mr. Cheskin added.

The company's gross margin for the third quarter was 40% as compared to 33% in the third quarter of 1999. Excluding the effect of the amortization of deferred stock-based compensation, gross margins increased to 50% in the current quarter from 36% in the third quarter of 1999. The increase in margins was due partly to the increased proportion of overall sales represented by domestic sales, which were 48% in the third quarter of 2000 compared to 36% in the third quarter of last year. Domestic sales produce higher gross margins since they do not involve distributor discounts related to sales through international distribution partners. The improvement in margins is also the result of the increase in higher margin disposable devices as a proportion of total sales to 69% this quarter compared to 60% in the third quarter of last year as well as manufacturing efficiencies attained through higher volume production of these disposable devices.

The net loss for the third quarter was \$3.0 million compared to a net loss of \$1.7 million in the third quarter of 1999. Excluding the effect of the amortization of deferred stock-based compensation, the net loss for the quarter ended September 30, 2000 was \$1.9 million as compared to \$1.5 million in the corresponding period of 1999. The increase in the net loss was largely the result of spending related to the expansion of the domestic direct sales organization as well as increased clinical activities related to the application of the RITA technology to the ablation of tumors in organs beyond the liver.

For the nine-month period ended September 30, 2000, sales totaled \$7.0 million, an increase of 125% from \$3.1 million in the first nine months of 1999. The company reported a net loss of \$9.7 million in the nine-month period ended September 30, 2000 compared to a net loss of \$5.2 million in the same period of 1999. Excluding the effect of the amortization of deferred stock-based compensation, the net loss for the nine months ended September 30, 2000 was \$5.7 million as compared to \$4.5 million in the corresponding period of 1999.

During the third quarter, the company achieved several milestones related to the extension of the RITA technology to applications beyond the liver. Specifically, the company received FDA approval to expand the breast feasibility study being conducted at the MD Anderson Cancer Center to two additional sites. The company also received FDA approval to begin feasibility studies on the ablation of lung and bone tumors. These studies are planned to take place at a number of top institutions including the Mayo Clinic, MD Anderson Cancer Center and Stanford University. The company has completed the enrollment of the first ten patients in the breast feasibility study and plans to enroll its first patients in the lung and bone studies during the fourth quarter.

In the third quarter of 2000, the company sold 3.6 million shares of common stock at a price of \$12.00 per share in connection with its initial public offering, generating net proceeds of approximately \$39 million. Also during the third quarter, the company repaid debt from term loans in the amount of \$3.0 million.

RITA will hold a conference call with the financial community today at 5:30 p.m. Eastern time. The dial in number for the conference call is 800-606-8940. The dial in number for international participants is 952-556-2833. The code for the conference call is "RITA Medical." A telephonic replay of the conference call will be available through October 27, 2000 at midnight and can be accessed by dialing 800-615-3210 (domestic) or 703-326-3020 (international) and entering passcode number 4704178.

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 15,000 of its disposable devices throughout the world.

The statements in this news release related to the company's plans to increase its domestic sales force and relationships with distribution partners 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 company's history of operating losses and expectation that it will continue to incur significant operating expenses over the next several years, the company's lack of long-term clinical data, significant competition in the company's industry, alternative therapies which could prove to be superior to the RITA system, the outcome of current patent actions, the company's inability to protect its intellectual property, potential intellectual property lawsuits, the company's limited operating history, the company's dependence on international revenues, the company's dependence on third-party distributors including two primary international distributors, any failure to build and manage the company's direct sales organization, the company's dependence on key employees in a competitive labor market, the need to establish reimbursement from payors, 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, any inability on the part of the company to meet customer demand for its products, the company's dependence on one sole-source supplier, the company's dependence on third-party contractors for the supply of generators, the requirement that the company comply with applicable FDA and other regulations, any failure of the public market to support the company's valuation and potentially significant costs related to any potential class action lawsuit due to the likely volatility of the company's stock. Further information regarding these and other risks is included in the company's S-1 registration statement and other recent filings with the Securities and Exchange Commission, including the company's Report on Form 10-Q for the quarter ended June 30, 2000.

NOTE: 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		Nine Months Ended	
	September 30,		September 30,	
	2000	1999	2000	1999
Sales	\$2,712	\$1,197	\$6,980	\$3,096
Cost of goods sold	1,622	797	4,298	2,105
Gross profit	1,090	400	2,682	991
Operating expenses:				
Research and development	1,262	928	4,335	2,478
Selling, general and administrative	3,023	1,188	8,347	3,860
Total operating expenses	4,285	2,116	12,682	6,338
Loss from operations	(3,195)	(1,716)	(10,000)	(5,347)
Interest and other expense, net	239	38	259	148
Net loss	\$(2,956)	\$(1,678)	\$(9,741)	\$(5,199)
Net loss per share, basic and diluted	\$(0.31)	\$(2.09)	\$(2.47)	\$(6.58)
Shares used in computing basic and diluted net loss per share	9,607	803	3,945	790
Proforma net loss per share, basic and diluted	\$(0.23)	\$(0.19)	\$(0.89)	\$(0.65)

Shares used in computing pro forma net loss per share, basic and diluted	12,617	8,786	10,891	7,980
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Financial data exclusive of
amortization of deferred
stock-based compensation:

Sales	\$2,712	\$1,197	\$6,980	\$3,096
Gross Profit	1,369	432	3,337	1,078
Net Loss	(1,884)	(1,472)	(5,731)	(4,537)

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

	September 30, 2000	December 31, 1999
Assets		
Current assets:		
Cash and cash equivalents	\$29,084	\$7,067
Marketable securities	13,889	5,086
Accounts receivable, net	2,274	1,149
Inventories, net	1,459	845
Prepaid assets and other current assets	921	616
Total current assets	47,627	14,763
Property, plant and equipment, net	974	875
Other assets	62	67
Total assets	\$48,663	\$15,705
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$2,034	\$1,848
Current portion of long term obligations	1,583	478
Total current liabilities	3,617	2,326
Long term portion of debt	254	1,854
Convertible preferred stock and stockholders' equity	44,792	11,525
Total liabilities, convertible preferred stock and stockholders' equity	\$48,663	\$15,705

SOURCE RITA Medical Systems, Inc.

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

CONTACT: Marilynne Solloway, Chief Financial Officer of RITA Medical Systems, Inc., 650-390-8500, ext. 205, or
msolloway@ritamed.com