

## RITA Medical Systems Announces Fourth Quarter Results

MOUNTAIN VIEW, Calif., Feb. 14 /PRNewswire/ -- RITA Medical Systems, Inc. (Nasdaq: RITA) today announced the results of its fourth quarter and year ended December 31, 2000.

Fourth quarter sales doubled to \$3.0 million from \$1.5 million in the fourth quarter of 1999 and increased 12% from \$2.7 million in the third quarter of 2000. The increase in sales over the previous quarter was due to higher unit shipments of both generators and disposable devices in international markets following the traditionally slower third quarter overseas. While domestic sales were strong overall, they were slightly lower than sales in the company's third quarter due to a decrease in generator shipments. Third quarter sales had been higher than expected due to the strong response of the company's customers to the introduction of the new Model 1500 generator and StarBurst™ family of disposable devices, which included a majority of existing customers upgrading to the new system and ordering an initial supply of StarBurst electrodes.

For the year ended December 31, 2000, sales totaled \$10.0 million, an increase of 116% from \$4.6 million in 1999. The company experienced growth in both domestic and international markets, with domestic sales increasing by 136% and international sales increasing by 105% over the previous year. For the year, domestic sales represented 39% of total revenue, up from 36% in 1999. Disposable sales increased 127%, and generator sales increased 98% over the previous year. For the year, disposable sales accounted for 67% of total revenue, up from 64% in 1999.

The company's gross margin for the fourth quarter was 42% as compared to 42% in the fourth quarter of 1999. Excluding the effect of the amortization of deferred stock-based compensation, gross margins increased to 51% in the current quarter from 43% in the fourth quarter of 1999. The company's gross margin for the year ended December 31, 2000 was 40% compared to 35% in the prior year. Excluding the effect of the amortization of deferred stock-based compensation, gross margins increased to 49% in 2000 from 38% in 1999. The improvement in gross margin was due in part to an increase in average selling prices of the company's disposable devices, related to the launch of the new five-centimeter Starburst XL electrode. The improvement was also the result of the increase in higher margin disposable devices as a proportion of total sales. Gross margins also benefited from manufacturing efficiencies attained through higher volume production of the company's disposable devices.

Operating expenses for the quarter ended December 31, 2000 were \$5.0 million compared to \$3.0 million in the fourth quarter of 1999. Excluding the effect of the amortization of deferred stock-based compensation, operating expenses for the current quarter were \$4.4 million as compared to \$2.7 million in the corresponding period of 1999 and \$3.5 million in the quarter ended September 30, 2000. The increase in spending over the third quarter reflected the continued expansion of the domestic sales force, an increase in the company's marketing activities, continued new product development programs and increased administrative costs associated with being a public company.

For the year, operating expenses increased to \$17.7 million from \$9.4 million in 1999. Excluding the effect of the amortization of deferred stock-based compensation, operating expenses for the year ended December 31, 2000 were \$13.8 million as compared to \$8.5 million in 1999. The increase in spending during 2000 was primarily attributable to a major expansion of the domestic direct sales organization.

The net loss for the fourth quarter was \$3.1 million or \$0.22 per share. The net loss for the year was \$12.8 million or \$1.10 per share using the pro forma number of shares outstanding.

In July 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. During the third quarter the company repaid debt from term loans in the amount of \$3.0 million, and in the fourth quarter the company repaid \$500,000 of its \$1.3 million debt under a revolving credit facility.

"We are very pleased with our accomplishments during 2000," commented Barry Cheskin, President and CEO of RITA. "This was a year in which we met all of our major goals and objectives:

-- We received our 510(k) clearance from the FDA for unresectable liver lesions, which we added to our previous general FDA clearance for the ablation of soft tissue. This specific clearance allows us to more directly target potential customers and patient referral sources.

-- We launched our Model 1500 system and StarBurst family of disposable electrodes. The StarBurst XL is the first deployable electrode device designed to create ablations up to five-centimeters in diameter using real-time tissue temperature feedback to ensure that cell death has been achieved. Customer response to this new system has been extremely positive.

-- We expanded our domestic and international sales channels. As planned, we expanded our domestic sales team, increasing the number of sales representatives from 8 to 15 and establishing 3 regional manager positions. In addition, we increased the number of our international distribution partners from 8 to 21.

-- We made substantial progress on human feasibility studies in bone, lung and breast cancer. Data on the first ten breast patients in our feasibility study at the MD Anderson Cancer Center was presented at the RSNA meeting in November. The data indicated that 100% tumor destruction had been achieved. In addition, we initiated feasibility studies late in the year on bone and lung cancer. These efforts are important steps in validating our platform technology in applications beyond liver tumors.

-- We demonstrated proof of concept for our next-generation products. This technology advancement is one that will dramatically improve the ablation process. Our next-generation ablation products are currently under development with a planned market launch in the latter part of 2001.

"2001 will be another important year for RITA, both for continuing our efforts to penetrate the liver market and for demonstrating the safety and effectiveness of the RITA<sup>®</sup> system in additional applications," added Mr. Cheskin. "We plan to launch our next-generation ablation products, expand training programs for physicians and develop a new Internet site to educate patients on treatment alternatives for liver cancer and refer them to physicians using the RITA system. We also plan to complete our feasibility work in bone and lung cancer and initiate follow-on safety and efficacy studies later this year."

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 during the year.

The company expects that essentially all of its sales for 2001 will be derived from use of the company's products to address unresectable liver lesions. The company believes that sales for the year and the first quarter will be within the range of current analysts' estimates, between \$17.1 and \$17.6 million for the year and approximately \$3.3 million in the first quarter. The company is continuing to invest in the long-term strength of the business and plans to increase spending for sales and marketing programs, clinical research and other key elements of the business. The company expects its loss per share for the year and first quarter to be within the range of current analysts' estimates, between \$0.69 and \$0.75 for the year and between \$0.21 and \$0.23 for the first quarter.

Marilynne Solloway, the company's CFO, has announced her intention to retire later this year, and the company has initiated a search for her replacement. Marilynne has built a strong finance, accounting and human resources organization, and the company expects a smooth transition to a new CFO.

RITA will hold a conference call with the financial community today at 4:30 p.m. Eastern time. The dial in number for the conference call is 877-679-9055. The dial in number for international participants is 952-556-2808. The code for the conference call is "RITA Medical". A telephonic replay of the conference call will be available through February 16, 2001 at midnight and can be accessed by dialing 800-615-3210 (domestic) or 703-326-3020 (international) and entering passcode number 4976286.

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 20,000 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 the first quarter of 2001, the introduction of next-generation ablation products, the expansion of physician training programs, the development of a patient information and referral Internet site, the completion of feasibility studies, the initiation of safety and efficacy studies, the hiring and transition of the company's finance organization to a new CFO, 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, volatility of the company's stock price, 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 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. 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 September 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		Year Ended	
	Dec. 31,		Dec. 31,	
	2000	1999	2000	1999
Sales	\$3,030	\$1,533	\$10,010	\$4,629
Cost of goods sold	1,750	889	6,048	2,994
Gross profit	1,279	644	3,962	1,635
Operating expenses:				
Research and development	1,279	1,453	5,615	3,931
Selling, general and administrative	3,705	1,592	12,052	5,452
Total operating expenses	4,984	3,045	17,667	9,383
Loss from operations	(3,705)	(2,401)	(13,705)	(7,748)
Interest and other income, net	638	90	898	238
Net loss	\$(3,067)	\$(2,311)	\$(12,807)	\$(7,510)
Net loss per share, basic and diluted	\$(0.22)	\$(2.73)	\$(1.99)	\$(9.33)
Shares used in computing basic and diluted net loss per share	13,869	848	6,440	805
Pro forma net loss per share, basic and diluted	\$(0.22)	\$(0.24)	\$(1.10)	\$(0.90)
Shares used in computing pro forma net loss per share, basic and diluted, including conversion of preferred shares	13,869	9,782	11,639	8,355
Financial data exclusive of amortization of deferred stock-based compensation:				
Sales	\$3,030	\$1,533	\$10,010	\$4,629
Gross Profit	1,551	664	4,888	1,742
Net Loss	(2,254)	(1,982)	(7,985)	(6,519)

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

	Dec. 31, 2000	Dec. 31, 1999
Assets		
Current assets:		
Cash and cash equivalents	\$12,676	\$7,067
Marketable securities	27,381	5,086
Accounts receivable, net	2,437	1,149
Inventories, net	1,638	845
Prepaid assets and other current assets	823	616
Total current assets	44,955	14,763
Property, plant and equipment, net	1,255	875
Other assets	60	67
Total assets	\$46,270	\$15,705
 Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$2,320	\$1,848
Current portion of long term obligations	1,123	478
Total current liabilities	3,443	2,326
Long term portion of debt	180	1,854
Convertible preferred stock and stockholders' equity	42,647	11,525
Total liabilities, convertible preferred stock and stockholders' equity	\$46,270	\$15,705

SOURCE RITA Medical Systems, Inc.

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

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