

RITA MEDICAL SYSTEMS INC
Form 10-Q
November 14, 2002
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

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, 2002

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

RITA MEDICAL SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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)

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

As of November 8, 2002, there were 15,143,708 shares of the registrant's Common Stock outstanding.

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RITA MEDICAL SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts, unaudited)

	<u>September 30, 2002</u>	<u>December 31, 2001</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,484	\$ 7,297
Marketable securities	5,766	11,887
Accounts and note receivable, net of allowance for doubtful accounts of \$1,308 at September 30, 2002 and \$629 at December 31, 2001	3,966	5,056
Inventories, net	3,096	3,645
Prepaid assets and other current assets	1,205	1,282
	<u>23,517</u>	<u>29,167</u>
Long term securities		4,353
Long term note receivable, net	414	
Property and equipment, net	1,586	1,934
Intangibles and other assets	1,562	380
	<u>\$27,079</u>	<u>\$ 35,834</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 955	\$ 822
Accrued liabilities	2,737	2,675
Capital lease obligations	45	192
	<u>3,737</u>	<u>3,689</u>
Contingencies (Note 5)		
Stockholders' equity		
Common stock, \$0.001 par value	15	15
Additional paid-in capital	88,359	88,459
Deferred stock compensation	(159)	(1,905)
Receivable from stockholders	(49)	(99)
Accumulated other comprehensive income	16	70
Accumulated deficit	(64,840)	(54,395)
	<u>23,342</u>	<u>32,145</u>
Total liabilities and stockholders' equity	<u>\$27,079</u>	<u>\$ 35,834</u>

See accompanying notes

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RITA MEDICAL SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Sales	\$ 4,454	\$ 3,707	\$ 13,679	\$ 10,780
Cost of goods sold	1,730	1,472	5,773	4,912
Gross profit	2,724	2,235	7,906	5,868
Operating expenses				
Research and development	1,218	1,627	3,882	4,837
Selling, general and administrative	4,311	4,016	14,837	11,539
Total operating expenses	5,529	5,643	18,719	16,376
Loss from operations	(2,805)	(3,408)	(10,813)	(10,508)
Interest income and other expense, net	85	324	368	1,309
Net loss	\$ (2,720)	\$ (3,084)	\$ (10,445)	\$ (9,199)
Net loss per share, basic and diluted	\$ (0.18)	\$ (0.21)	\$ (0.70)	\$ (0.64)
Shares used in computing basic and diluted net loss per share	14,996	14,406	14,816	14,299

See accompanying notes

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

(In thousands, unaudited)

	Nine Months Ended September 30,	
	2002	2001
Operating activities:		
Net loss	\$ (10,445)	\$ (9,199)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,021	704
Stock-based compensation	308	1,417
Allowance for doubtful accounts	823	389
Allowance for inventory reserve	517	223
Changes in operating assets and liabilities		
Accounts and note receivable	(147)	(2,316)
Inventories	32	(1,090)
Prepaid and other current assets	77	(289)
Accounts payable and accrued liabilities	195	370
Net cash used in operating activities	(7,619)	(9,791)
Cash flows from investing activities:		
Purchase of property and equipment	(614)	(1,364)
Purchases of short term investments		(16,647)
Maturities of investments	10,420	27,499
Capitalization of patent litigation costs	(1,245)	(88)
Other assets	4	5
Net cash provided by investing activities	8,565	9,405
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,389	682
Proceeds from revolving term loan		25
Payments on revolving term loan		(858)
Payments on capital lease obligations	(148)	(212)
Net cash provided by (used in) financing activities	1,241	(363)
Net increase (decrease) in cash and cash equivalents	2,187	(749)
Cash and cash equivalents at beginning of period	7,297	12,676
Cash and cash equivalents at end of period	\$ 9,484	\$ 11,927

See accompanying notes

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, 2001 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, 2001 contained in the Company's annual report on Form 10-K.

2. Net loss per share

Basic earnings (loss) per share figures are calculated based on the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share figures include the dilutive effect of common stock equivalents consisting of stock options, warrants and shares subject to repurchase, provided that the inclusion of such common stock equivalents is not antidilutive. For the three-month and nine-month periods ended September 30, 2002 and 2001 respectively, the Company has excluded the following period end potentially dilutive securities (in thousands) from earnings per share computations because their inclusion would have the effect of reducing our loss per share:

Three and Nine Months with the Securities and Exchange Commission on October 6, 2000). 10(f) Share Purchase Agreement, dated as of December 6, 2000, by and among the Company, Ameriduct Worldwide, Inc. and the shareholders of Ameriduct Worldwide, Inc. (incorporated by reference to Exhibit 2 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 2, 2001). 40 10(g) Amended and Restated Credit Agreement, dated as of December 15, 2000, among the Company, the Guarantors party thereto, the Lenders party thereto, National City Bank, as Syndication Agent, Bank of America, N.A., as Documentation Agent and Harris Trust and Savings Bank as Administrative Agent (incorporated by reference to Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2001 (the "third quarter 2001 Form 10-Q")). 10(h) First Amendment to the Amended and Restated Credit Agreement, entered into as of August 1, 2001, among the Company, the Guarantors party thereto, the Lenders party thereto and Harris Trust and Savings Bank, as Administrative Agent for the Lenders (incorporated by reference to Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001). 10(i) Second Amendment to the Amended and Restated Credit Agreement, entered into as of October 31, 2001, among the Company, the Guarantors party thereto, the Lenders party thereto and Harris Trust and Savings Bank, as Administrative Agent for the Lenders (incorporated by reference to Exhibit 10(b) to the third quarter 2001 Form 10-Q). 10(j) Mortgage and Security Agreement, dated October 29, 1993, between The Lamson & Sessions Co. and PFL Life Insurance Company (incorporated by reference to Exhibit 10(j) to the Company's Annual Report on Form 10-K for the year ended January 1, 1994). *10(k) Form of Amended and Restated Supplemental Executive Retirement Agreement dated as of March 20, 1990 between the Company and certain of its executive officers (incorporated by reference to Exhibit 10(e) to the Company's Annual Report on Form 10-K for the year ended December 30, 1995). *10(l) First Amendment to The Lamson & Sessions Co. Amended and Restated Supplemental Retirement Agreement, effective January 1, 2000 (incorporated by reference to Exhibit 10(ak) to the Company's Annual Report on Form 10-K for the year ended January 1, 2000). *10(m) 1988 Incentive Equity Performance Plan (as amended and restated as of February 26, 1998) (incorporated by reference to Exhibit 4(c) of the Company's Registration Statement on Form S-3 (Registration No. 333-65795) filed with the Securities and Exchange Commission on October 16, 1998). *10(n) Amendment No. 3 to The Lamson & Sessions Co. 1988 Incentive Equity Performance Plan (as amended and restated as of February

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26, 1998) (incorporated by reference to Exhibit 10(am) to the Company's Annual Report on Form 10-K for the year ended January 1, 2000). *10(o) Amendment No. 4 to The Lamson & Sessions Co. 1988 Incentive Equity Performance Plan (as amended and restated as of February 26, 1998), dated as of October 19, 2000 (incorporated by reference to Exhibit 10(d) to the first quarter 2001 Form 10-Q). *10(p) Form of two-year non-qualified stock option agreement under the Company's 1988 Incentive Equity Performance Plan (incorporated by reference to Exhibit 10(e) to the third quarter 2001 Form 10-Q). *10(q) Form of three-year non-qualified stock option agreement under the Company's 1988 Incentive Equity Performance Plan (incorporated by reference to Exhibit 10(f) to the third quarter 2001 Form 10-Q). *10(r) 1998 Incentive Equity Plan (as amended and restated as of April 27, 2001) (incorporated by reference to Appendix A of the Company's Proxy Statement dated March 23, 2001). 41 *10(s) Form of two-year non-qualified stock option agreement under the Company's 1998 Incentive Equity Plan (incorporated by reference to Exhibit 10(c) to the third quarter 2001 Form 10-Q). *10(t) Form of three-year non-qualified stock option agreement under the Company's 1998 Incentive Equity Plan (incorporated by reference to Exhibit 10(d) to the third quarter 2001 Form 10-Q). *10(u) The Company's Long-Term Incentive Plan (incorporated by reference to Exhibit 10(h) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996). *10(v) Amendment No. 1 to The Lamson & Sessions Co. Long-Term Incentive Plan, effective January 1, 2000 (incorporated by reference to Exhibit 10(an) to the Company's Annual Report on Form 10-K for the year ended January 1, 2000). *10(w) The Lamson & Sessions Co. Deferred Savings Plan (as amended and restated as of February 17, 1998 by Amendments 1-6) (incorporated by reference to Exhibit 4(c) to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on February 26, 1998 (Registration No. 333-46953). *10(x) Amendment No. 7 to The Lamson & Sessions Co. Deferred Savings Plan (incorporated by reference to Exhibit 10(a) to the first quarter 2001 Form 10-Q). *10(y) Amendment No. 8 to The Lamson & Sessions Co. Deferred Savings Plan (incorporated by reference to Exhibit 10(b) to the first quarter 2001 Form 10-Q). *10(z) Amendment No. 9 to The Lamson & Sessions Co. Deferred Savings Plan (incorporated by reference to Exhibit 10(c) to the first quarter 2001 Form 10-Q). *10(aa) The Lamson & Sessions Co. Nonemployee Directors Stock Option Plan, as amended and restated as of July 19, 2001 (incorporated by reference to Exhibit 10(g) to the third quarter 2001 Form 10-Q). *10(bb) Form of non-qualified stock option agreement under the Company's Nonemployee Directors Stock Option Plan (incorporated by reference to Exhibit 10(h) to the third quarter 2001 Form 10-Q). *10(cc) The Lamson & Sessions Co. Deferred Compensation Plan for Nonemployee Directors, as amended and restated as of October 18, 2001 (incorporated by reference to Exhibit 10(i) to the third quarter 2001 Form 10-Q). *10(dd) The Lamson & Sessions Co. Deferred Compensation Plan for Executive Officers, as amended and restated as of October 18, 2001 (incorporated by reference to Exhibit 10(j) to the third quarter 2001 Form 10-Q). 21 Subsidiaries of the Registrant, filed herewith. 23 Consent of Independent Auditors, filed herewith. 24 Powers of Attorney, filed herewith. 42