

RITA MEDICAL SYSTEMS INC
Form 424B3
June 28, 2004
Table of Contents

Index to Financial Statements

Filed Pursuant to Rule 424(b)(3)

Registration Statement No. 333-116378

MERGER PROPOSAL YOUR VOTE IS IMPORTANT

The boards of directors of RITA Medical Systems, Inc. and Horizon Medical Products, Inc. have unanimously (with one Horizon director abstaining) approved a merger of the two companies. We believe the combined company will be able to create more stockholder value than could be achieved by either company individually. We ask for your support in voting in favor of the proposals to be presented at our respective stockholder meetings.

If the merger is completed, Horizon shareholders will be entitled to receive 0.4212 of a share of RITA common stock for each share of Horizon common stock they hold, plus cash in lieu of fractional shares. RITA stockholders will continue to own their existing shares of RITA common stock. Upon completion of the merger, Horizon will become a wholly-owned subsidiary of RITA and shares of RITA common stock will continue to trade on the Nasdaq National Market under the symbol RITA.

RITA stockholders are being asked to approve the issuance of the shares of RITA common stock in connection with the merger, to approve an amendment to RITA's certificate of incorporation to, among other things, increase the number of authorized shares of RITA common stock, to elect a director and to ratify the selection of independent registered public accountants at the RITA annual meeting. Horizon shareholders are being asked to approve the merger agreement and the merger and to elect seven directors and ratify the selection of independent registered public accountants at the Horizon annual meeting. If the merger is completed, the other Horizon annual meeting matters will, as a result, be superseded. The dates, times and places of the meetings are as follows:

For RITA stockholders:

July 29, 2004 at 10:00 a.m., local time

Mountain View, California

For Horizon shareholders:

July 29, 2004 at 1:00 p.m., local time

Atlanta, Georgia

We encourage you to read carefully this joint proxy statement/prospectus, including the section entitled Risk Factors beginning on page 18, before voting your shares.

We look forward to a successful combination of RITA and Horizon.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

/s/ Joseph DeVivo
Joseph DeVivo

President and Chief Executive Officer

RITA Medical Systems, Inc.

/s/ Robert J. Wenzel
Robert J. Wenzel

President, Chief Operating Officer

and Interim Chief Executive Officer

Horizon Medical Products, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger, the merger agreement or the stock to be issued pursuant to the merger or determined if this joint proxy statement/prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated June 25, 2004 and is first being mailed to the stockholders of RITA and the shareholders of Horizon on or about June 29, 2004.

Table of Contents

Index to Financial Statements

REFERENCES TO ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates important business and financial information about RITA from other documents that are not included in or delivered with this joint proxy statement/prospectus. This information is available to you without charge upon your request. You can obtain the documents incorporated by reference in this joint proxy statement/prospectus by requesting them in writing or by telephone from RITA at 967 North Shoreline Road, Mountain View, California 94013, telephone (650) 314-3400.

If you would like to request documents, RITA must receive your request by July 22, 2004 (which is at least five business days before the date of the RITA annual meeting), in order for you to receive them before your annual meeting.

See "Where You Can Find More Information" beginning on page 170.

Table of Contents

Index to Financial Statements

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To All Stockholders of RITA Medical Systems, Inc.:

NOTICE IS HEREBY GIVEN that RITA will hold its annual meeting of stockholders on Thursday, July 29, 2004, 10:00 a.m., local time, at Heller Ehrman White & McAuliffe LLP, located at 2775 Sand Hill Road, Menlo Park, California 94025 for the following purposes:

1. To consider and vote on a proposal to approve the issuance of shares of RITA common stock pursuant to the Agreement and Plan of Merger, dated as of May 12, 2004, by and among RITA, Hornet Acquisition Corp. and Horizon Medical Products, Inc, as such may be amended from time to time. A copy of the merger agreement is included as Annex A to the accompanying joint proxy statement/prospectus.
2. To approve an amendment to RITA's certificate of incorporation to increase the number of authorized shares of RITA common stock from 100,000,000 to 150,000,000 and to clarify the authority of RITA's board of directors to fix the terms of preferred stock.
3. To elect two Class I directors to serve until the 2007 annual meeting of stockholders.
4. To ratify the appointment of PricewaterhouseCoopers LLP as RITA's independent registered public accounting firm for the fiscal year ending December 31, 2004.
5. To transact such other business as may properly come before the annual meeting.

Holders of record of shares of RITA common stock at the close of business on June 22, 2004, the record date, are entitled to receive this notice and to vote their shares at the annual meeting or any adjournment or postponement of that meeting. As of the record date, there were 18,039,158 shares of RITA common stock outstanding. Each share of RITA common stock is entitled to one vote on each matter properly brought before the annual meeting. A list of the stockholders entitled to vote at RITA's annual meeting will be available at the meeting and for 10 days prior to the meeting, during regular business hours, at RITA's corporate offices located at 967 North Shoreline Blvd, Mountain View, California, 94013. You should contact the RITA corporate secretary if you wish to review this list of stockholders.

After careful consideration, RITA's board of directors has unanimously determined that the merger is in the best interests of RITA and its stockholders and has unanimously approved and adopted the merger agreement, the proposed merger and the issuance of shares of RITA common stock to holders of Horizon common stock as contemplated by the merger agreement.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

RITA's board of directors unanimously recommends that you vote to approve each of RITA's proposals listed above, all of which are described in detail in the accompanying joint proxy statement/prospectus.

June 25, 2004

Mountain View, California

By Order of the Board of Directors,

/s/ Joseph DeVivo

Joseph DeVivo

President and Chief Executive Officer

IMPORTANT

Your vote is important. Even if you plan to attend the annual meeting, please complete and mail the enclosed proxy card as promptly as possible in the enclosed postage-paid envelope.

Table of Contents

Index to Financial Statements

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To All Shareholders of Horizon Medical Products, Inc.:

NOTICE IS HEREBY GIVEN that Horizon Medical Products, Inc. will hold an annual meeting of its shareholders on Thursday, July 29, 2004, 1:00 p.m., local time, at the offices of King & Spalding LLP, 191 Peachtree Street, Atlanta, Georgia 30303 for the following purposes:

1. To consider and vote on a proposal to approve the Agreement and Plan of Merger, dated as of May 12, 2004, by and among RITA Medical Systems, Inc., Hornet Acquisition Corp. and Horizon, as such may be amended from time to time, and the merger contemplated thereby. A copy of the merger agreement is included as Annex A to the accompanying joint proxy statement/prospectus.
2. To consider and vote on a proposal to elect seven individuals to serve as members of Horizon's board of directors until Horizon's 2005 annual meeting of shareholders.
3. To consider and vote on a proposal to ratify the appointment of Grant Thornton LLP as Horizon's independent registered public accountants for the fiscal year ending December 31, 2004.
4. To transact such other business as may properly come before the annual meeting.

Holders of record of shares of Horizon common stock at the close of business on June 23, 2004, the record date, are entitled to receive this notice and to vote their shares at the annual meeting or any adjournment or postponement of that meeting. As of the record date, there were 44,313,068 shares of Horizon common stock outstanding. Each share of Horizon common stock is entitled to one vote on each matter properly brought before the annual meeting. If the merger is completed, each share of Horizon common stock will be converted into the right to receive 0.4212 of a share of RITA common stock. Horizon will make available at its annual meeting a list of shareholders entitled to vote at the meeting for examination by any shareholder, or his or her agent or attorney.

After careful consideration, Horizon's board of directors has unanimously (with one abstention) determined that the merger is in the best interests of Horizon and its shareholders, approved and adopted the merger agreement and the proposed merger, and recommends that you vote to approve the merger agreement and the merger.

In order to complete the merger, the holders of at least a majority of outstanding shares of Horizon common stock must vote to approve the merger agreement and the merger. Approval of the other Horizon annual meeting matters is not a condition to the merger. If the merger is

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

completed, the other Horizon annual meeting matters will, as a result, be superseded.

By Order of the Board of Directors,

June 25, 2004

Manchester, Georgia

/s/ Robert J. Wenzel
Robert J. Wenzel
President, Chief Operating Officer and
Interim Chief Executive Officer

IMPORTANT

Your vote is important. Even if you plan to attend the annual meeting, please complete and mail the enclosed proxy card as promptly as possible in the enclosed postage-paid envelope.

Table of Contents**Index to Financial Statements****TABLE OF CONTENTS**

	Page
<u>QUESTIONS AND ANSWERS ABOUT THE MERGER</u>	1
<u>SUMMARY</u>	4
<u>The Companies</u>	4
<u>The Proposed Merger</u>	4
<u>What Horizon Shareholders Will Be Entitled to Receive Pursuant to the Merger</u>	5
<u>Recommendations to Stockholders</u>	5
<u>Reasons for the Merger</u>	6
<u>Opinion of RITA's Financial Advisor</u>	6
<u>Opinion of Horizon's Financial Advisor</u>	6
<u>Board of Directors and Management Following the Merger</u>	7
<u>Stockholder Votes Required</u>	7
<u>Voting Agreements</u>	8
<u>Treatment of Horizon Stock Options</u>	8
<u>Ownership of Common Stock of the Combined Company After the Merger</u>	9
<u>Conditions to Completion of the Merger</u>	9
<u>Material U.S. Federal Income Tax Consequences of the Merger</u>	9
<u>Listing of Common Stock of the Combined Company</u>	10
<u>Appraisal Rights</u>	10
<u>Interests of Certain Persons in the Merger</u>	10
<u>Restrictions on Alternative Transactions</u>	10
<u>Accounting Treatment of the Merger</u>	11
<u>Selected Historical Financial Data of RITA</u>	12
<u>Selected Historical Financial Data of Horizon</u>	13
<u>Summary Selected Unaudited Pro Forma Condensed Consolidated Financial Information</u>	14
<u>COMPARATIVE DATA</u>	16
<u>Comparative Per Share Information</u>	16
<u>Comparative Per Share Market Price and Dividend Information</u>	17
<u>Recent Closing Prices</u>	17
<u>RISK FACTORS</u>	18
<u>Risks Relating to the Merger</u>	18
<u>CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS</u>	21
<u>THE PROPOSED MERGER</u>	22
<u>General</u>	22
<u>RITA's Proposals</u>	22
<u>Horizon's Proposals</u>	22
<u>Background of the Merger</u>	23
<u>RITA's Reasons for the Merger</u>	30
<u>Opinion of RITA's Financial Advisor - Wells Fargo Securities, LLC</u>	32
<u>Horizon's Reasons for the Merger</u>	39
<u>Opinion of Horizon's Financial Advisor - Brookwood Associates, LLC</u>	42
<u>Accounting Treatment of the Merger</u>	49
<u>Material U.S. Federal Income Tax Consequences of the Merger</u>	49
<u>No Appraisal Rights</u>	50
<u>Federal Securities Laws Consequences: Stock Transfer Restriction Agreements</u>	51
<u>Stock Exchange Listing: Delisting and Deregistration of Horizon Common Stock</u>	51
<u>Interests of Executive Officers and Directors of RITA in the Merger</u>	51
<u>Interests of Executive Officers and Directors of Horizon in the Merger</u>	51

Table of Contents

Index to Financial Statements

	<u>Page</u>
<u>Compensation to Certain Non-Employee Directors</u>	51
<u>Other Interests</u>	52
<u>Employment Arrangements</u>	52
<u>Severance Plans and Agreements</u>	52
<u>Treatment of Horizon Stock Options</u>	52
<u>Indemnification; Directors and Officers Insurance</u>	52
<u>Commonwealth Advisory Services to Horizon</u>	53
<u>THE MERGER AGREEMENT</u>	54
<u>General</u>	54
<u>Closing Matters</u>	54
<u>Consideration to be Received Pursuant to the Merger; Treatment of Stock Options</u>	54
<u>Exchange of Certificates in the Merger</u>	55
<u>Fractional Shares</u>	55
<u>Listing of Common Stock of the Combined Company</u>	55
<u>Covenants</u>	55
<u>Representations and Warranties</u>	58
<u>Conditions to Completion of the Merger</u>	59
<u>Termination of the Merger Agreement</u>	59
<u>Termination Fee</u>	60
<u>Amendments, Extensions and Waivers</u>	61
<u>Other Covenants</u>	61
<u>Voting Agreements</u>	62
<u>Other Agreements</u>	63
<u>PRO FORMA FINANCIAL INFORMATION</u>	64
<u>RITA and Horizon Unaudited Pro Forma Condensed Consolidated Financial Information</u>	64
<u>Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Three Months Ended March 31, 2004</u>	65
<u>Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Year Ended December 31, 2003</u>	66
<u>Unaudited Pro Forma Condensed Consolidated Balance Sheet as of March 31, 2004</u>	67
<u>Notes to Unaudited Pro Forma Condensed Consolidated Financial Information</u>	68
<u>THE COMPANIES</u>	70
<u>About RITA</u>	70
<u>Directors and Executive Officers</u>	70
<u>Classes of Directors</u>	72
<u>Committees of the Board of Directors</u>	72
<u>Meetings of the Board and Committees of the Board</u>	73
<u>Director Nomination</u>	73
<u>Communications with Directors</u>	74
<u>Compensation Committee Interlocks and Insider Participation</u>	74
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	75
<u>Code of Ethics</u>	75
<u>Director Compensation</u>	75
<u>Executive Compensation</u>	76
<u>Compensation Committee Report on Executive Compensation</u>	78
<u>Option Grants In Last Fiscal Year</u>	81
<u>Equity Compensation Plan Information</u>	82
<u>Aggregated Option Exercises In Last Fiscal Year And Fiscal Year-End Option Values</u>	83
<u>Employment Agreements</u>	83
<u>Change of Control Agreements</u>	84

Table of Contents

Index to Financial Statements

	Page
<u>Stock Performance Graph</u>	85
<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	86
<u>Certain Relationships and Related Party Transactions</u>	87
<u>Audit Committee Report</u>	88
<u>Principal Accountant Fees and Services</u>	89
<u>Additional Information</u>	89
<u>About Horizon</u>	90
<u>Horizon Directors</u>	90
<u>Horizon Executive Officers and Key Employees</u>	92
<u>Director Compensation</u>	93
<u>Director Meetings</u>	94
<u>Committees of Horizon's Board of Directors</u>	95
<u>Executive Compensation</u>	97
<u>Option Grants During Fiscal 2003</u>	98
<u>Option Exercises and Values for Fiscal Year 2003</u>	99
<u>Employment Agreements</u>	99
<u>Equity Compensation Plan Information</u>	106
<u>Compensation Committee Interlocks and Insider Participation</u>	106
<u>Report of the Compensation Committee on Executive Compensation</u>	107
<u>Report of the Audit Committee</u>	109
<u>Performance Graph</u>	110
<u>Certain Relationships and Related Transactions</u>	110
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	111
<u>Security Ownership of Certain Beneficial Owners and Management</u>	112
<u>Business</u>	114
<u>Risks Relating to Horizon</u>	124
<u>Properties</u>	131
<u>Legal Proceedings</u>	132
<u>Horizon Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	133
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	147
<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	147
<u>INFORMATION ABOUT THE MEETINGS AND VOTING</u>	149
<u>The RITA Annual Meeting</u>	149
<u>The Horizon Annual Meeting</u>	153
<u>COMPARISON OF STOCKHOLDER RIGHTS AND CORPORATE GOVERNANCE MATTERS</u>	159
<u>DESCRIPTION OF RITA CAPITAL STOCK</u>	168
<u>Authorized Capital Stock</u>	168
<u>RITA Common Stock</u>	168
<u>RITA Preferred Stock</u>	168
<u>RITA's Rights Agreement</u>	168
<u>Transfer Agent and Registrar</u>	169
<u>LEGAL MATTERS</u>	170
<u>EXPERTS</u>	170
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	170
<u>INCORPORATION OF CERTAIN INFORMATION BY REFERENCE</u>	171

Table of Contents

Index to Financial Statements

	Page
ANNEXES	
Annex A <u>Agreement and Plan of Merger</u>	A-1
Annex B <u>Opinion of Wells Fargo Securities, LLC</u>	B-1
Annex C <u>Opinion of Brookwood Associates, LLC</u>	C-1
Annex D <u>Charter of RITA Medical Systems, Inc. Audit Committee</u>	D-1
Annex E <u>Charter of Horizon Medical Products, Inc. Audit Committee</u>	E-1
Annex F <u>Charter of RITA Medical Systems, Inc. Nominating/Corporate Governance Committee</u>	F-1

Table of Contents

Index to Financial Statements

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: Why are the companies proposing the merger?

A: We believe that a combination of RITA and Horizon will create a leading specialty medical device company that will capitalize on the complementary strengths of each company and produce greater stockholder value than would be expected absent the proposed merger.

Q: What will a shareholder be entitled to receive when the merger occurs?

A: Horizon shareholders will be entitled to receive 0.4212 of a share of RITA common stock for each share of Horizon common stock that they own at the time of the merger and cash in lieu of any fraction of a share. After the merger, RITA stockholders will continue to hold the shares of RITA common stock that they currently own; however, those shares will represent a smaller proportion of the outstanding shares of the combined company.

Q: Will Horizon shareholders pay tax as a result of the merger?

A: The merger is intended to be a tax-free reorganization, which means that Horizon shareholders should not pay U.S. federal income tax upon the receipt of shares of RITA common stock pursuant to the merger. Horizon shareholders may pay tax, however, on the receipt of cash paid in lieu of fractional shares that would otherwise be issued pursuant to the merger. See *The Proposed Merger* Material U.S. Federal Income Tax Consequences of the Merger on page 49.

Q: What do I need to do now?

A: After you carefully read this document, including the annexes, please vote your shares as soon as possible so that your shares will be represented at your company's annual meeting. Please follow the instructions set forth on the proxy card or on the instruction card provided by the record holder if your shares are held in the name of your broker, a bank or other nominee.

Q: Why is my vote important?

A: The merger agreement and Georgia law require that the holders of at least a majority of Horizon's outstanding shares of common stock approve the merger agreement and the merger. Although holders representing a majority of Horizon's outstanding shares of common stock have entered into voting agreements committing them to vote their shares in favor of the merger agreement and the merger, your vote is important. If you are a Horizon shareholder and you do not submit a proxy or vote in person at the Horizon annual meeting, it will have the same effect as a vote against approval of the merger agreement and the merger. If you submit a proxy and affirmatively elect to abstain from voting, your proxy will be counted as present for purposes of determining the presence of a quorum but will have the same effect as a vote against approval of the merger agreement and the merger. Horizon shareholder approval of the merger agreement and the merger is a condition to closing under the merger agreement. In addition, Horizon shareholders will be voting on the election of directors and ratification of Horizon's independent registered public accountants who will serve Horizon in the event the merger is not completed. See *Information About the Meetings and Voting* *The Horizon Annual Meeting* on page 153.

The issuance of shares of RITA common stock pursuant to the merger agreement requires the affirmative vote of a majority of shares present in person or by proxy at RITA's annual meeting and entitled to vote on the proposal. Holders of approximately 9.6% of RITA's outstanding common stock have entered into voting agreements committing them to vote their shares in favor of the issuance of stock pursuant to the merger. If you

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

are a RITA stockholder and you do not submit a proxy or vote in person at the RITA annual meeting, it will not have any effect on the proposals to be presented at the annual meeting, although it may affect the presence of a quorum at the meeting. If you submit a proxy and affirmatively elect to abstain from voting, your proxy will be counted as present for purposes of determining the presence of a quorum, but will have the same effect as a no vote for the proposals to be voted upon. In addition, RITA stockholders will be

Table of Contents

Index to Financial Statements

voting on the election of directors, the amendment of RITA's certificate of incorporation and the ratification of RITA's independent registered public accounting firm. See "Information About the Meetings and Voting The RITA Annual Meeting" on page 149.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Yes, but only if you instruct your broker as to how you want your shares voted. If you do not provide your broker with instructions on how to vote your street name shares, your broker cannot vote on the proposals relating to the merger.

Q: What if I fail to instruct my broker?

A: If you fail to instruct your broker to vote your shares and the broker submits an unvoted proxy, the resulting broker non-vote will be counted toward the quorum at the respective annual meetings, and, with the exception of the vote by Horizon shareholders to approve the merger agreement and the merger, it will have no effect on the proposals to be voted on at the meetings.

Q: Can I change my vote after I have mailed my proxy card?

A: Yes. Stockholders who hold shares in their own name can change their vote at any time before their proxy is voted at their company's annual meeting by:

RITA Stockholders:

Timely delivery by mail of a valid, subsequently dated proxy

Delivery to RITA's corporate secretary before or at the annual meeting of written notice revoking your proxy

Submitting a vote by ballot at the annual meeting

Horizon Shareholders:

Timely delivery by mail of a valid, subsequently-dated proxy

Delivery to Horizon's corporate secretary before or at the annual meeting of written notice revoking your proxy

Submitting a vote by ballot at the annual meeting

If you have instructed a broker to vote your shares, you must follow your broker's directions in order to change those instructions.

Q: When and where are the meetings?

A: RITA's annual meeting will take place on Thursday, July 29, 2004, at Heller Ehrman White & McAuliffe LLP, located at 2775 Sand Hill Road, Menlo Park, California 94025, at 10:00 a.m., local time.

Horizon's annual meeting will take place on Thursday, July 29, 2004, at the offices of King & Spalding LLP, 191 Peachtree Street, Atlanta, Georgia 30303, at 1:00 p.m., local time.

Q: Should I send in my stock certificates now?

A: No. After the merger is completed, RITA will send Horizon shareholders written instructions for exchanging their stock certificates. RITA stockholders will keep their existing stock certificates.

Q: When do you expect the merger to be completed?

A: We hope to complete the merger as soon as possible after the annual meetings occur and all closing conditions under the merger agreement are satisfied.

Table of Contents

Index to Financial Statements

Q: Who do I call if I have questions about the meetings or the merger?

A: If you have any questions about the merger, or if you need additional copies of this joint proxy statement/prospectus or the enclosed proxy, you should contact:

RITA STOCKHOLDERS:

967 N. Shoreline Blvd

Mountain View, CA 94043

(650) 314-3400

Attention: Donald Stewart

HORIZON SHAREHOLDERS:

One Horizon Way

P.O. Box 627

Manchester, GA 31816

(706) 846-3126

Attention: Corporate Secretary

Table of Contents

Index to Financial Statements

SUMMARY

*This summary highlights information from this joint proxy statement/prospectus that we believe is the most important information to be considered by the RITA stockholders and the Horizon shareholders in determining how to vote on the proposals described in this joint proxy statement/prospectus. This summary may not contain all of the information that is important to you, and we encourage you to read this joint proxy statement/prospectus in its entirety. The information contained in this summary is qualified in its entirety by, and should be read in conjunction with, the detailed information and financial statements, including the notes thereto, appearing elsewhere in this joint proxy statement/prospectus and the documents incorporated into this joint proxy statement/prospectus by reference. See *Where You Can Find More Information* on page 170. We have included references to other portions of this joint proxy statement/prospectus to direct you to a more complete description of the topics presented in this summary.*

The Companies (see page 70)

RITA Medical Systems, Inc.

RITA Medical Systems, Inc., or RITA, develops, manufactures and markets devices used by physicians to treat patients with solid cancerous or benign tumors. Founded in 1994, RITA is a publicly held company listed on the Nasdaq National Market under the symbol RITA. RITA's proprietary system, the RITA System, is a minimally invasive treatment option for cancer patients with unresectable, or inoperable, tumors. The system delivers controlled thermal energy to targeted tissue at a temperature high enough to ablate the tumor, or cause cell death. RITA's portfolio of products includes disposable electrosurgical devices, radiofrequency generators, introducers and software. RITA is a Delaware corporation and is headquartered in Mountain View, California. RITA's offices are located at 967 North Shoreline Blvd, Mountain View, California 94013, and RITA's telephone number is (650) 314-3400. RITA's internet website is www.ritamedical.com. Information set forth on RITA's website is not incorporated by reference into this joint proxy statement/prospectus.

Hornet Acquisition Corp.

Hornet Acquisition Corp. is a Delaware corporation and a wholly-owned subsidiary of RITA. Hornet Acquisition Corp. was organized solely for the purpose of entering into the merger agreement with Horizon and completing the merger. It has not conducted any business operations and has no assets. If the merger is completed, Hornet Acquisition Corp. will cease to exist following its merger with and into Horizon.

Horizon Medical Products, Inc.

Founded in 1990, Horizon Medical Products, Inc., or Horizon, is a specialty medical device company focused on developing, manufacturing, marketing and distributing vascular access products, including implantable ports, hemodialysis catheters, central venous catheters, needle infusion sets, peripherally inserted central venous catheters and other accessories used in vascular medical procedures. Horizon also markets a line of acute and chronic dialysis catheters used for kidney failure patients. Horizon is a Georgia corporation and is headquartered in Manchester, Georgia. Horizon's offices are located at One Horizon Way, Manchester, Georgia 31816, and Horizon's telephone number is (706) 846-3126. Horizon's internet website is www.hmpvascular.com. Information set forth on Horizon's website is not incorporated by reference into

this joint proxy statement/prospectus.

The Proposed Merger (see page 22)

Under the terms of the proposed merger, Hornet Acquisition Corp., a wholly-owned subsidiary of RITA formed solely for the purpose of the merger, will merge with and into Horizon. As a result, Horizon will survive the merger and will become a wholly-owned subsidiary of RITA upon completion of the merger.

Table of Contents

Index to Financial Statements

The merger agreement is included as Annex A to this joint proxy statement/prospectus. We encourage you to read the merger agreement in its entirety, as it is the legal document that governs the merger.

What Horizon Shareholders Will Be Entitled to Receive Pursuant to the Merger

Horizon shareholders will be entitled to receive 0.4212 of a share of RITA common stock for each share of Horizon common stock they hold. The exchange ratio is fixed and will not be adjusted for changes in the market value of the common stock of Horizon or RITA. RITA will not issue fractional shares in the merger. Therefore, the total number of shares of RITA common stock that each Horizon shareholder will be entitled to receive pursuant to the merger agreement will be rounded down to the nearest whole number, and each Horizon shareholder will be entitled to receive a cash payment for the remaining fraction of a share of RITA common stock that such shareholder would otherwise receive, if any, based on the closing price of RITA common stock the trading day preceding the date of the merger. See *The Merger Agreement* *Consideration to be Received Pursuant to the Merger; Treatment of Stock Options* on page 54.

Recommendations to Stockholders

To RITA Stockholders:

RITA's board of directors believes that the merger is in the best interests of RITA and its stockholders and unanimously recommends that RITA stockholders vote FOR the proposal to issue shares of RITA common stock pursuant to the merger agreement. See *The Proposed Merger* *RITA's Reasons for the Merger* on page 30.

RITA's board of directors also unanimously recommends that RITA stockholders vote FOR the proposal to amend RITA's certificate of incorporation to increase the number of authorized shares of RITA common stock from 100,000,000 to 150,000,000 and to clarify the authority of RITA's board of directors to fix the terms of preferred stock.

RITA's board of directors recommends that RITA stockholders vote FOR the Class I director nominee named in this joint proxy statement/prospectus and FOR the ratification of the selection of PricewaterhouseCoopers LLP as RITA's independent registered public accounting firm for the fiscal year ending December 31, 2004.

To Horizon Shareholders:

Horizon's board of directors believes that the merger is in the best interests of Horizon shareholders and recommends that Horizon shareholders vote FOR the proposal to approve the merger agreement and the merger. See *The Proposed Merger* *Horizon's Reasons for the Merger* on page 39.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Horizon's board of directors recommends that Horizon shareholders vote FOR the election of the seven director nominees. Horizon's board of directors recommends a vote FOR the ratification of the appointment of Grant Thornton LLP to serve as Horizon's independent registered public accountants for the fiscal year ending December 31, 2004.

The merger agreement and Georgia law require that the holders of at least a majority of Horizon's outstanding shares of common stock approve the merger agreement and the merger. Approval of the other Horizon annual meeting matters is not a condition to the merger. If the merger is completed, the other annual meeting matters will, as a result, be superseded.

Table of Contents

Index to Financial Statements

Reasons for the Merger (see pages 30 and 39)

The boards of directors of RITA and Horizon believe that the merger will accelerate both companies' strategic plans and create a leading specialty medical device company. The boards of directors of both companies believe that the combined company will benefit from:

The complementary nature of the products, research and development skills and manufacturing resources of the two companies;

A larger sales force that is expected to provide deeper penetration into U.S. markets;

The diversification of product portfolios and revenue bases;

Synergies and cost savings that the combined company hopes to achieve, including by minimizing duplicative facilities and other infrastructure; and

A larger market capitalization, which is expected to increase interest in the combined company from institutional investors and research analysts.

The boards of directors of both companies also recognize that there are risks associated with the merger, including:

The challenges of combining the assets and workforces of the two companies;

The limitations imposed by the merger agreement on the parties' conduct of business prior to the merger;

The uncertainty created by the fixed exchange ratio as to the value of the shares of RITA common stock that Horizon shareholders will receive pursuant to the merger;

The satisfaction of specified closing conditions that could delay or prevent completion of the merger; and

The termination fee and related provisions of the merger agreement which could deter a third party from proposing an alternative transaction to the merger.

See **Risk Factors** beginning on page 18 for a more complete discussion of the risks associated with the merger.

Opinion of RITA's Financial Advisor (see page 32)

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

In connection with the proposed merger, RITA's financial advisor, Wells Fargo Securities, LLC, or Wells Fargo, delivered a written opinion dated May 12, 2004, that, as of that date and based on the assumptions made, matters considered and the limitations on the review undertaken described in the written opinion, the exchange ratio of 0.4212 of a share of RITA common stock for each share of Horizon common stock was fair from a financial point of view to RITA. See Annex B for a copy of the full opinion. We encourage you to read this opinion and the section of this joint proxy statement/prospectus entitled "Opinions of Financial Advisors" Opinion of RITA's Financial Advisor Wells Fargo Securities, LLC in their entirety for a description of the assumptions made, matters considered and limitations on the review undertaken. Wells Fargo's opinion was directed to RITA's board of directors and does not constitute a recommendation to any stockholder on how to vote with respect to the proposed merger.

Opinion of Horizon's Financial Advisor (see page 42)

In connection with the proposed merger, the board of directors of Horizon received the opinion of Brookwood Associates, LLC, or Brookwood, financial advisor to Horizon, that, as of April 29, 2004 and subject

Table of Contents**Index to Financial Statements**

to the assumptions, qualifications and limitations set forth in the opinion, and based upon such other matters as Brookwood considered relevant, the exchange ratio was fair to holders of Horizon common stock from a financial point of view. For purposes of its opinion, Brookwood assumed that the exchange ratio would be 0.417 of a share of RITA common stock to be received for each share of Horizon common stock. However, the merger agreement as signed on May 12, 2004 specifies an exchange ratio of 0.4212, which is slightly more favorable to holders of Horizon common stock than that assumed by Brookwood in its opinion. The full text of Brookwood's written opinion, which sets forth the assumptions made, procedures followed, matters considered, and limitations on the review undertaken in connection with the opinion is included as Annex C to this joint proxy statement/prospectus. We encourage you to read this opinion in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. Brookwood provided its opinion for the information and assistance of Horizon's board of directors in connection with its consideration of the transaction contemplated by the merger agreement. Brookwood's opinion is not a recommendation as to how any Horizon shareholder should vote at the Horizon annual meeting.

Board of Directors and Management Following the Merger

Upon completion of the merger, the following individuals are expected to serve as officers of RITA in the capacities set forth below:

Name	Current Position(s) and Company Affiliation	Position(s) with RITA following the merger
Vincent Bucci	Chairman of the Board (RITA)	Chairman of the Board
Joseph DeVivo	President and Chief Executive Officer (RITA)	President and Chief Executive Officer
Robert J. Wenzel	President, Chief Operating Officer and Interim Chief Executive Officer (Horizon)	Chief Operating Officer
Donald Stewart	Chief Financial Officer (RITA)	Chief Financial Officer
Darrin Uecker	Chief Technology Officer (RITA)	Chief Technology Officer

RITA and Horizon have agreed that the board of directors of the combined company after the merger will consist of nine directors. Initially, the board will be comprised of RITA's Chief Executive Officer, five directors selected by RITA and three directors selected by Horizon. The current board composition and the proposed board composition after the merger is set forth below.

	Class I	Class II	Class III
Current RITA directors	Scott Halsted Vincent Bucci	John Gilbert Wesley Johnson	Joseph DeVivo Randy Lindholm
Proposed RITA directors following the merger	Scott Halsted Vincent Bucci Harold Blue	John Gilbert Wesley Johnson James Brands	Joseph DeVivo Randy Lindholm Robert Tucker

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

See Interests of Executive Officers and Directors of RITA in the Merger on page 51, Interests of Executive Officers and Directors of Horizon in the Merger on page 51, The Merger Agreement Other Covenants on page 61, The Merger Agreement Voting Agreements on page 62, and The Merger Agreement Other Agreements on page 63.

Stockholder Votes Required

For RITA Stockholders (see page 149):

Approval of the proposal to issue shares of RITA common stock to Horizon shareholders pursuant to the merger agreement requires the affirmative vote of a majority of the shares present in person or by proxy at

Table of Contents

Index to Financial Statements

RITA's annual meeting and entitled to vote on the proposal. Approval of the proposal to amend RITA's certificate of incorporation to increase the number of authorized shares of RITA common stock from 100,000,000 to 150,000,000 and to clarify the authority of RITA's board of directors to fix the terms of preferred stock requires the affirmative vote of a majority of the outstanding shares entitled to vote on the proposal. Two directors will be elected at the RITA annual meeting by a plurality of the votes cast by the shares entitled to vote, with the nominees who receive the most votes being elected. Approval of the proposal to ratify the selection of PricewaterhouseCoopers LLP as RITA's independent registered public accounting firm for the fiscal year ending December 31, 2004 will be by a majority of the shares present in person or by proxy at the annual meeting and entitled to vote on the proposal.

On the record date, directors and executive officers of RITA and their affiliates beneficially owned or had the right to vote approximately 1.7 million outstanding shares of RITA common stock, representing approximately 9.6% of the shares of RITA common stock outstanding on the record date. All of these individuals have entered into voting agreements pursuant to which they have agreed to vote all of their shares of RITA common stock in favor of the issuance of shares of RITA common stock in connection with the merger.

For Horizon Shareholders (see page 153):

The merger agreement and Georgia law require that the holders of at least a majority of Horizon's outstanding shares of common stock vote to approve the merger agreement and the merger. Approval of the merger agreement and the merger is a condition to the completion of the merger. The affirmative vote of a plurality of the votes cast by the shares entitled to vote at the Horizon annual meeting is required for the election of directors. Approval of the proposal to ratify the appointment of Grant Thornton LLP as Horizon's independent registered public accountants for the fiscal year ending December 31, 2004 will require the affirmative vote of a majority of the shares present in person or by proxy. If the merger is completed, the other Horizon annual meeting matters will, as a result, be superseded.

On the record date, directors and executive officers of Horizon and their affiliates beneficially owned or had the right to vote approximately 6,348,532 outstanding shares of Horizon common stock, representing approximately 44,313,068 of the shares of Horizon common stock outstanding on the record date. All of these individuals and their affiliates have entered into voting agreements pursuant to which they have agreed to vote all of their shares of Horizon common stock in favor of the merger.

Voting Agreements

As a result of voting agreements entered into with certain officers, directors and a stockholder affiliated with a director, approximately 9.6% of RITA's outstanding shares of common stock have committed to vote in favor of the issuance of shares in the merger. Pursuant to similar voting agreements, certain officers, directors and shareholders of Horizon have committed to vote approximately 53% of Horizon's outstanding shares of common stock in favor of the merger agreement and the merger. See "The Merger Agreement Voting Agreements" on page 62.

Treatment of Horizon Stock Options

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Each outstanding Horizon stock option will be assumed by RITA upon completion of the merger and, after such date, will be exercisable for shares of RITA common stock on the same terms and conditions that currently govern such options, except that: (a) the number of shares of RITA common stock underlying the new option will equal the number of shares of Horizon common stock for which the corresponding Horizon option was exercisable, multiplied by 0.4212 and rounded down to the nearest whole share, (b) the per share exercise price of each new option will equal the exercise price of the corresponding Horizon option, divided by 0.4212 and

Table of Contents

Index to Financial Statements

rounded up to the nearest whole cent, and (c) the exercisability of all Horizon options shall accelerate such that these options will become exercisable and fully vested upon completion of the merger. See The Merger Agreement Consideration to be Received Pursuant to the Merger; Treatment of Stock Options on page 54.

Ownership of Common Stock of the Combined Company After the Merger

RITA stockholders will own approximately 47.5% of the combined company and Horizon shareholders will own approximately 52.5% of the combined company, measured on a fully-diluted basis. As used in the calculation of RITA stockholder and Horizon shareholder ownership, fully-diluted means that the number of shares of common stock issuable upon conversion or exercise, as applicable, of outstanding convertible securities and stock options with conversion prices or exercise prices, as applicable, that are less than the market price of the applicable company's common stock. The ownership percentages are based on the number of shares of RITA and Horizon common stock, stock options, warrants and other convertible securities outstanding as of May 12, 2004 and the market prices of RITA and Horizon common stock prior to the signing of the merger agreement.

Conditions to Completion of the Merger (see page 59)

Completion of the merger depends upon the satisfaction of a number of specified conditions, including the following:

Approval of the merger agreement and the merger by Horizon shareholders;

Approval by RITA stockholders of the issuance of shares of RITA common stock pursuant to the merger agreement; and

Absence of any law, regulation or court order prohibiting the merger.

Completion of the merger also depends upon the satisfaction, or waiver, of the following conditions:

Approval of the listing on the Nasdaq National Market of the shares of RITA common stock to be issued in the merger;

Receipt of opinions of counsel to RITA and to Horizon that the merger will qualify as a tax-free reorganization, which condition cannot be waived following the receipt of Horizon shareholder approval of the merger without further Horizon shareholder approval of the merger agreement and the merger;

Accuracy of the representations and warranties in the merger agreement made by a party, except for inaccuracies which in the aggregate, have had and are not reasonably likely to have a material adverse effect on that party;

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

The material compliance by the parties with their obligations under the merger agreement; and

Neither party having suffered any change that is reasonably likely to have a material adverse effect on that party.

Material U.S. Federal Income Tax Consequences of the Merger (see page 49)

Assuming the merger qualifies as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, or the Code, for U.S. federal income tax purposes, which RITA and Horizon anticipate, holders of Horizon common stock whose shares of Horizon common stock are exchanged in the merger for shares of common stock of RITA will not recognize gain or loss, except to the extent of cash, if any, received in lieu of a fractional share of common stock of RITA.

The discussion of material U.S. federal income tax consequences of the merger contained in this joint proxy statement/prospectus is intended to provide only a general summary and is not a complete analysis or description

Table of Contents

Index to Financial Statements

of all potential U.S. federal income tax consequences of the merger. The discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. In addition, it does not address any foreign, state or local taxes. RITA and Horizon strongly urge each holder of Horizon common stock to consult his or her tax advisor to determine the particular U.S. federal, state, or local or foreign income or other tax consequences to that shareholder of the merger.

It is a condition to the completion of the merger that RITA receive a written opinion from Heller Ehrman White & McAuliffe LLP and Horizon receive a written opinion from King & Spalding LLP, in each case dated as of the effective date of the merger, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. Neither RITA nor Horizon intends to waive this closing condition; however, in the event that either RITA or Horizon waives receipt of such written opinion from its counsel, RITA and Horizon will file a new joint proxy statement/prospectus which will include disclosure that does not characterize the merger as a reorganization within the meaning of Section 368(a) of the Code.

Listing of Common Stock of the Combined Company (see page 55)

The shares of RITA common stock to be issued pursuant to the merger will be listed on the Nasdaq National Market under the ticker symbol RITA. Following the merger, shares of Horizon common stock will no longer be traded on the American Stock Exchange.

Appraisal Rights (see page 50)

RITA is incorporated under the laws of the State of Delaware and Horizon is incorporated under the laws of the State of Georgia. Under both Delaware and Georgia law, RITA and Horizon stockholders will not have appraisal or dissenters' rights in connection with the issuance of shares of common stock of RITA in the merger or in connection with the merger.

Interests of Certain Persons in the Merger (see page 51)

When RITA and Horizon stockholders consider their respective board of directors' recommendation that they vote in favor of the proposals relating to the merger, they should be aware that certain executive officers of RITA and Horizon and the members of each of RITA's and Horizon's boards of directors have interests in the merger that may be different from, or in addition to, the interests of stockholders generally. In particular, all executive officers have interests in the combined company as employees in terms of job responsibilities, working environment and compensation that are in addition to and different from their interests as stockholders. All continuing directors will have the responsibility for being directors of a new and larger company after the merger. The vesting of all outstanding Horizon stock options will accelerate so that these options will be fully exercisable upon completion of the merger. Additionally, RITA has agreed for a period of time to maintain directors' and officers' liability insurance for the current Horizon directors and officers to insure them against claims relating to actions or omissions occurring before the merger. Each of RITA's and Horizon's board of directors was aware of and considered these potentially conflicting interests when they approved the proposals relating to the merger.

Restrictions on Alternative Transactions

The merger agreement contains restrictions on the ability of each of RITA and Horizon to solicit or engage in discussions or negotiations with a third party with respect to a proposal to acquire a significant interest in the applicable company. Notwithstanding these restrictions, the merger agreement provides that under specified circumstances, if either party receives an acquisition proposal from a third party that would reasonably be expected to result in a superior offer, as defined in the merger agreement, it may furnish nonpublic information to

Table of Contents

Index to Financial Statements

that third party and engage in negotiations or enter into a definitive agreement regarding the superior offer with that third party. Prior to withdrawing its recommendation in favor of the applicable merger-related proposal in light of a superior offer or entering into a definitive agreement regarding a superior offer, RITA or Horizon, as applicable, must, if requested by the other party, negotiate with the other party to amend the merger agreement so that the third party proposal is no longer a superior offer. See *The Merger Agreement - Covenants; No Solicitation* on page 56.

Under certain circumstances, if the merger agreement is terminated by a party in connection with the existence of a superior offer, a termination fee of up to \$3.5 million may be payable by the party that received the superior offer. In addition, such party may also be responsible for an expense reimbursement of up to \$1.5 million. See *The Merger Agreement - Termination Fee* on page 60.

Accounting Treatment of the Merger (see page 49)

RITA will account for the merger under the purchase method of accounting for business combinations under accounting principles generally accepted in the United States, which means that the assets and liabilities of Horizon will be recorded, as of the completion of the merger, at their fair values and added to those of RITA. Any difference between the fair value of the RITA shares being issued in the merger and the net value of Horizon's assets and liabilities will be recorded as goodwill by RITA. Such goodwill is expected to be approximately \$88.5 million.

Table of ContentsIndex to Financial Statements**SELECTED HISTORICAL FINANCIAL DATA OF RITA**

The following information sets forth selected historical financial data for RITA. The following consolidated statement of operations data for the fiscal years ended December 31, 2003, 2002, 2001, 2000 and 1999 and the consolidated balance sheet data as of December 31, 2003, 2002, 2001, 2000 and 1999 have been derived from the audited consolidated financial statements of RITA. The consolidated statement of operations data for the three months ended March 31, 2004 and 2003, and the consolidated balance sheet data as of March 31, 2004 have been derived from the unaudited interim condensed consolidated financial statements of RITA. You should read the following information together with RITA's consolidated financial statements, the notes related thereto and RITA's Management's Discussion and Analysis of Financial Condition and Results of Operations, each of which is contained in documents incorporated by reference into this joint proxy statement/prospectus.

	Years ended December 31,					Three months ended March 31,	
	1999	2000	2001	2002	2003	2003	2004
Consolidated Statement of Operations Data:							
	(in thousands, except per share amounts)						
Net Sales	\$ 4,629	\$ 10,010	\$ 14,791	\$ 17,393	\$ 16,607	\$ 4,497	\$ 4,644
Cost of goods sold	2,994	6,048	6,132	6,908	6,166	1,574	1,615
Gross profit	1,635	3,962	8,659	10,485	10,441	2,923	3,029
Operating expenses:							
Research and development	3,931	5,615	6,489	5,052	4,294	1,358	843
Selling, general and administrative	5,452	12,052	16,646	19,366	17,418	4,564	4,366
Total operating expenses	9,383	17,667	23,135	24,418	21,712	5,922	5,209
Loss from operations	(7,748)	(13,705)	(14,476)	(13,933)	(11,271)	(2,999)	(2,180)
Interest and other income / expense, net	238	898	1,516	434	192	75	10
Net loss	\$ (7,510)	\$ (12,807)	\$ (12,960)	\$ (13,499)	\$ (11,079)	\$ (2,924)	\$ (2,170)
Net loss per common share, basic and diluted	\$ (9.33)	\$ (1.99)	\$ (0.90)	\$ (0.91)	\$ (0.63)	\$ (0.17)	\$ (0.12)
Shares used in computing net loss per common share, basic and diluted	805	6,440	14,353	14,890	17,647	17,223	17,998

	December 31,					March 31,
	1999	2000	2001	2002	2003	2004
(in thousands)						
Consolidated Balance Sheet Data (end of period):	\$ 12,153	\$ 40,057	\$ 23,537	\$ 12,835	\$ 9,535	\$ 8,112

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Cash, cash equivalents and marketable securities, current and long term						
Working capital	12,437	41,512	25,478	16,066	11,886	10,940
Total assets	15,705	46,270	35,834	24,166	22,033	19,631
Long-term obligations, net of current portion	1,854	180			23	25
Convertible preferred stock and preferred stock warrants	38,516					
Common stock and additional paid-in capital	3,652	88,435	88,474	88,540	98,055	98,259
Total shareholders' equity (deficit)	(26,991)	42,647	32,145	20,603	19,084	17,119

Table of Contents**Index to Financial Statements****SELECTED HISTORICAL FINANCIAL DATA OF HORIZON**

The following information sets forth selected historical financial data for Horizon. The following consolidated statement of operations data for the fiscal years ended December 31, 2001, 2002 and 2003 and the consolidated balance sheet data as of December 31, 2002 and 2003 have been derived from the audited consolidated financial statements of Horizon which are contained in this joint proxy statement/prospectus. The consolidated statement of operations data for the fiscal years ended December 31, 1999 and 2000 and the consolidated balance sheet data as of December 31, 1999, 2000 and 2001 have been derived from the audited consolidated financial statements of Horizon not included in this joint proxy statement/prospectus. The consolidated statement of operations data for the three months ended March 31, 2004 and 2003, and the consolidated balance sheet data as of March 31, 2004 and 2003 have been derived from the unaudited interim condensed consolidated financial statements of Horizon. You should read the following information together with Horizon's consolidated financial statements, the notes related thereto and the section entitled "Horizon Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Years ended December 31,					Three months ended March 31,	
	1999	2000	2001	2002	2003	2003	2004
Consolidated Statement of Operations Data:							
	(in thousands, except per share amounts)						
Net sales	\$ 32,661	\$ 25,717	\$ 24,701	\$ 21,712	\$ 27,975	\$ 6,087	\$ 7,086
Cost of goods sold	15,092	17,467	11,410	9,343	11,248	2,453	2,863
Gross profit	17,569	8,250	13,291	12,369	16,727	3,634	4,223
Operating expenses	13,781	14,030	16,043	16,110	15,096	3,645	4,641
Impairment charge		12,086					
Income (loss) from operations	3,788	(17,866)	(2,752)	(3,741)	1,631	(11)	(418)
Loss on early extinguishment of debt				(6,641)			
Interest expense, net	(2,063)	(2,345)	(2,208)	(2,846)	(2,373)	(628)	(570)
Other income (expense)	99	115	68	(15)	(45)	(14)	(8)
Income (loss) before income taxes	1,824	(20,096)	(4,892)	(13,243)	(787)	(653)	(996)
Income tax provision (benefit)	820	(1,006)					
Income (loss) from continuing operations	1,004	(19,090)	(4,892)	(13,243)	(787)	(653)	(996)
Discontinued operations:							
Income (loss) from operations of discontinued distribution segment (including gain on disposal)	661	(671)	(231)	3,175			
Effect of a change in accounting principle pursuant to adoption of SFAS 142				(16,102)			
Net income (loss)	\$ 1,665	\$ (19,761)	\$ (5,123)	\$ (26,170)	\$ (787)	\$ (653)	\$ (996)
Income (loss) from continuing operations per common share, basic and diluted	\$ 0.08	\$ (1.43)	\$ (0.37)	\$ (0.64)	\$ (0.02)	\$ (0.02)	\$ (0.02)
Income (loss) from operations of discontinued distribution segment (including gain on disposal) per common share, basic and diluted	0.04	(0.05)	(0.01)	0.15			

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Effect of a change in accounting principle pursuant to adoption of SFAS 142 per common share, basic and diluted				(0.78)			
Net loss per common share, basic and diluted	\$ 0.12	\$ (1.48)	\$ (0.38)	\$ (1.27)	\$ (0.02)	\$ (0.02)	\$ (0.02)
Shares used in computing net loss per common share, basic	13,366	13,366	13,366	20,685	36,656	33,905	43,888
Shares used in computing net loss per common share, diluted	13,373	13,366	13,366	20,685	36,656	33,905	43,888

Table of Contents**Index to Financial Statements**

	December 31,					March 31,	
	1999	2000	2001	2002	2003	2003	2004
Consolidated Balance Sheet Data							
(end of period):							
(in thousands)							
Cash and cash equivalents	\$ 1,991	\$ 164	\$ 2,749	\$ 3,712	\$ 1,806	\$ 3,095	\$ 1,538
Working capital	29,927	15,259	(21,359)	9,460	8,801	(6,117)	7,944
Total assets	102,397	86,038	71,348	37,190	35,186	36,127	34,647
Long-term debt, net of current maturities	44,999	40,598	1,355	18,342	16,999	18,078	16,661
Total shareholders' equity	43,069	22,332	18,282	15,330	14,752	14,705	13,861

Summary Selected Unaudited Pro Forma Condensed Consolidated Financial Information

The merger will be accounted for under the purchase method of accounting, which means that the assets and liabilities of Horizon will be recorded, as of completion of the merger, at their fair values and added to those of RITA. For a more detailed description of purchase accounting, see "The Proposed Merger Accounting Treatment of the Merger" on page 49.

We have presented below selected unaudited pro forma condensed consolidated financial information that is intended to provide you with a better picture of what the businesses might have looked like had RITA and Horizon actually been combined. The unaudited pro forma condensed consolidated balance sheet combines the historical consolidated balance sheets of RITA and Horizon as of March 31, 2004, giving effect to the merger as if it occurred on March 31, 2004. The unaudited pro forma condensed consolidated statements of operations combine the historical consolidated statements of operations of RITA and Horizon for the year ended December 31, 2003 and the three months ended March 31, 2004, giving effect to the merger as if it occurred on January 1, 2003. The condensed consolidated financial information would have been different, perhaps materially, had the companies actually been combined as of that date. The selected unaudited pro forma condensed consolidated financial information does not reflect the effect of asset dispositions, if any, or cost savings that may result from the merger or any non-recurring charges directly attributable to the merger. You should not rely on the selected unaudited pro forma condensed consolidated financial information as being indicative of the historical results that would have occurred had the companies been combined or the future results that may be achieved after the merger. The following selected unaudited pro forma condensed consolidated financial information has been derived from, and should be read in conjunction with, the section entitled "Pro Forma Financial Information" and related notes included elsewhere in this joint proxy statement/prospectus.

Table of Contents**Index to Financial Statements**

	Year ended December 31, 2003				Three months ended March 31, 2004			
	Historical	Historical	Pro forma	Pro	Historical	Historical	Pro	Pro
				forma			forma	forma
				combined			combined	combined
RITA	Horizon	adjustments	combined	RITA	Horizon	adjustments	combined	
Statement of Operations Data:								
(in thousands, except per share amounts)								
Sales	\$ 16,607	\$ 27,975	\$	\$ 44,582	\$ 4,644	\$ 7,086	\$	\$ 11,730
Cost of goods sold	6,166	11,248	575	17,989	1,615	2,863	144	4,622
Gross profit	10,441	16,727	(575)	26,593	3,029	4,223	(144)	7,108
Operating expenses:								
Research and development	4,294	973		5,267	843	172		1,015
Selling, general and administrative	17,418	14,123	892	32,433	4,366	4,469	221	9,056
Total operating expenses	21,712	15,096	892	37,700	5,209	4,641	221	10,071
Income (loss) from operations	(11,271)	1,631	(1,467)	(11,107)	(2,180)	(418)	(365)	(2,963)
Interest income	201			201	25			25
Interest expense		(2,373)		(2,373)		(570)		(570)
Other expense, net	(9)	(45)		(54)	(15)	(8)		(23)
Net loss	\$ (11,079)	\$ (787)	\$ (1,467)	\$ (13,333)	\$ (2,170)	\$ (996)	\$ (365)	\$ (3,531)
Net loss per common share, basic and diluted	\$ (0.63)	\$ (0.02)		\$ (0.37)	\$ (0.12)	\$ (0.02)		\$ (0.10)
Shares used in computing net loss per common share, basic and diluted	17,647	36,656		36,291	17,998	43,888		36,642

As of March 31, 2004

	Historical	Historical	Pro forma	Pro forma
	RITA	Horizon	adjustments	combined
(in thousands)				
Balance Sheet Data:				
Cash, cash equivalents and marketable securities	\$ 7,848	\$ 1,538	\$ (2,450)	\$ 6,936
Total assets	19,631	34,647	92,994	147,272
Long term debt, less current portion		16,661		16,661
Accumulated deficit	(81,143)	(61,155)	61,155	(81,143)
Total shareholders equity	17,119	13,861	92,994	123,974

Table of Contents**Index to Financial Statements****COMPARATIVE DATA*****Comparative Per Share Information***

The following table sets forth selected historical share, net loss per share and book value per share information of RITA and Horizon and unaudited pro forma combined share, net loss per share and book value per share information after giving effect to the merger between RITA and Horizon, assuming that 0.4212 of a share of RITA common stock had been issued in exchange for each outstanding share of Horizon common stock. The pro forma equivalent information of RITA was derived using the historical share, net loss per share and book value per share information assuming that 0.4212 of a share of RITA common stock had been issued in exchange for each outstanding share of Horizon common stock. You should read this information in conjunction with the selected historical financial information included elsewhere in this joint proxy statement/prospectus and the historical financial statements of RITA and Horizon and related notes that are incorporated in this joint proxy statement/prospectus by reference. The unaudited pro forma, net loss per common share and book value per common share information is derived from, and should be read in conjunction with, the Pro Forma Financial Information and related notes included elsewhere in this joint proxy statement/prospectus. The historical, net loss per common share and book value per common share information as of and for the three months ended March 31, 2004 is derived from unaudited condensed consolidated financial statements of RITA and Horizon. The historical and net loss per common share information as of and for the year ended December 31, 2003 is derived from audited consolidated financial statements of RITA and Horizon.

	Year ended and as of December 31, 2003	Three months ended and as of March 31, 2004
RITA Historical		
Net loss per common share, basic and diluted	\$ (0.63)	\$ (0.12)
Book value per common share, basic and diluted (1)	\$ 1.06	\$ 0.95
Horizon Historical		
Net loss per common share, basic and diluted	\$ (0.02)	\$ (0.02)
Book value per common share, basic and diluted (1)	\$ 0.34	\$ 0.32
RITA Pro forma combined		
Net loss per common share, basic and diluted	\$ (0.37)	\$ (0.10)
Book value per common share, basic and diluted (1)	\$ 3.46	\$ 3.38
Horizon Pro forma equivalent (2)		
Net loss per common share, basic and diluted	\$ (0.15)	\$ (0.04)
Book value per common share, basic and diluted	\$ 1.46	\$ 1.42

- (1) Book value per common stock, basic and diluted, is calculated by dividing the total stockholders' equity at period end by the number of shares outstanding at period end.
- (2) The Horizon equivalent pro forma per share values are calculated by multiplying the RITA pro forma amount by the exchange ratio of 0.4212.

Table of Contents**Index to Financial Statements*****Comparative Per Share Market Price and Dividend Information***

RITA common stock is listed on the Nasdaq National Market and Horizon's common stock is listed on the American Stock Exchange. RITA's ticker symbol is RITA and Horizon's ticker symbol is HMP. The following table sets forth, for the calendar quarters indicated, based on published financial sources, the high and low sales prices per share of RITA common stock and Horizon common stock as reported on the Nasdaq National Market and American Stock Exchange, respectively.

	RITA Common Stock		Horizon Common Stock	
	High	Low	High	Low
2002				
First quarter	\$ 10.05	\$ 5.38	\$ 1.75	\$ 0.45
Second quarter	\$ 10.70	\$ 7.10	\$ 1.45	\$ 0.70
Third quarter	\$ 10.35	\$ 3.76	\$ 1.18	\$ 0.60
Fourth quarter	\$ 7.25	\$ 4.61	\$ 1.00	\$ 0.45
2003				
First quarter	\$ 5.80	\$ 4.00	\$ 0.67	\$ 0.35
Second quarter	\$ 4.51	\$ 2.59	\$ 0.65	\$ 0.37
Third quarter	\$ 3.66	\$ 2.40	\$ 1.15	\$ 0.53
Fourth quarter	\$ 5.40	\$ 2.90	\$ 2.10	\$ 0.77
2004				
First quarter	\$ 6.30	\$ 4.02	\$ 2.32	\$ 1.41
Second quarter (through June 22, 2004)	\$ 7.15	\$ 3.69	\$ 2.80	\$ 1.57

As of June 22, 2004, there were 81 record holders of RITA's common stock and 126 record holders of Horizon's common stock.

Neither RITA nor Horizon have paid or declared any cash dividends on their capital stock since inception. Both companies currently intend to retain all future earnings for use in the expansion and operation of their respective businesses. Accordingly, neither company anticipates paying cash dividends on its common stock in the foreseeable future. Certain covenants in Horizon's debt instruments and credit facility currently prohibit the payment of cash dividends on its capital stock.

Recent Closing Prices

The following table sets forth the high, low and closing sales prices per share of RITA common stock and Horizon common stock as reported on the Nasdaq National Market and the American Stock Exchange, respectively, on May 12, 2004, the last full trading day prior to the announcement of the signing of the merger agreement, and June 22, 2004, the most recent practicable date prior to the mailing of this joint proxy statement/prospectus to RITA stockholders and Horizon shareholders.

RITA Common Stock

Horizon Common Stock

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

<u>Date</u>							<u>Equivalent Per Share Data(1)</u>
	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	
May 12, 2004	\$ 5.75	\$ 5.03	\$ 5.32	\$ 1.79	\$ 1.70	\$ 1.73	\$ 2.27
June 22, 2004	\$ 4.63	\$ 4.40	\$ 4.51	\$ 1.93	\$ 1.83	\$ 1.84	\$ 1.90

(1) Based on the closing price of RITA common stock on the dates presented above, by multiplying the closing price of a share of RITA common stock on each such date by 0.4212, the exchange ratio for the merger.

Table of Contents

Index to Financial Statements

RISK FACTORS

*In addition to the other information included in this joint proxy statement/prospectus, including the matters addressed in **Cautionary Statement Concerning Forward-Looking Statements**, you should consider carefully the following risks related to the proposed merger before voting at your annual meeting. Further, you should read and consider the risks and uncertainties associated with the businesses of RITA and Horizon because these risks also will affect the combined company. These risks and uncertainties can be found in the sections entitled **Item 1-Business** and **Item 7A-Quantitative and Qualitative Disclosures About Market Risk** of RITA's annual report on Form 10-K for the year ended December 31, 2003 and the portion of **Management's Discussion and Analysis of Financial Condition and Results of Operations** entitled **Factors That May Affect Future Results** of RITA's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2004, which are incorporated herein by reference, and the risks related to the business of Horizon, which are set forth in the section entitled **The Companies About Horizon Risks Relating to Horizon** in this joint proxy statement/prospectus. Although we believe that the risks herein and in RITA's Form 10-K and Form 10-Q represent all material risks currently applicable to the companies, additional risks and uncertainties not presently known to RITA and Horizon or that currently are not believed to be important to RITA and Horizon also may affect adversely the merger and the combined company following the merger.*

RISKS RELATING TO THE MERGER

The value of common stock of the combined company will fluctuate.

The number of shares of common stock of the combined company issued pursuant to the merger for each share of Horizon common stock is fixed. The market price of RITA common stock and Horizon common stock when the merger is completed may vary from their market prices at the date of this joint proxy statement/prospectus and at the date of the annual shareholder meetings of RITA and Horizon. For example, during the 12-month period ended on June 22, 2004, the most recent practicable date prior to the mailing of this joint proxy statement/prospectus, the high and low sales prices for RITA common stock ranged from \$7.15 to \$2.40, and the high and low sales prices for Horizon common stock ranged from \$2.80 to \$1.53. See **Comparative Data Comparative Per Share Market Price and Dividend Information** on page 17 for more detailed share price information.

Future variations may be the result of various factors including:

Changes in the business, operations or prospects of RITA or Horizon;

Any issues or difficulties arising with respect to the companies' products or programs;

Governmental and/or litigation developments and/or regulatory considerations;

Market assessments as to whether and when the merger will be completed;

Uncertainty caused by intellectual property disputes and the impact of competition on the sales of the companies' products; and

General market and economic conditions.

The merger consideration will not be adjusted for any increase or decrease in the market price of RITA common stock or Horizon common stock. If the market value of RITA common stock declines prior to the time the merger is completed, the value of the merger consideration to be received by Horizon shareholders will decline. At the time of their meetings, RITA and Horizon stockholders will not know the exact value of the shares of common stock of RITA that will be issued in the merger.

Stockholders of RITA and Horizon are urged to obtain current market quotations for RITA common stock and Horizon common stock before voting their shares at the meetings.

Table of Contents

Index to Financial Statements

We may be unable to integrate our operations successfully and realize all of the anticipated benefits of the merger.

The merger involves the integration of two companies that previously have operated independently, which is a complex, costly and time-consuming process. The difficulties of combining the companies' operations include, among other things:

Coordinating geographically disparate organizations, systems and facilities;

Integrating personnel with diverse business backgrounds;

Consolidating corporate and administrative functions;

Consolidating research and development, and manufacturing operations;

Coordinating sales and marketing functions;

Retaining key employees; and

Preserving the research and development, collaboration, distribution, marketing, promotion and other important relationships of RITA and Horizon.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of the combined company's business and the loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with the merger and the integration of the two companies' operations could harm the business, results of operations, financial condition or prospects of the combined company after the merger.

Among the factors considered by RITA's and Horizon's boards of directors in connection with their approvals of the merger agreement were the opportunities for cost savings from operating efficiencies that could result from the merger. There can be no assurance that these savings will be realized within the time periods contemplated or that they will be realized at all. We cannot be certain that the integration of RITA and Horizon will result in the realization of the full benefits anticipated by the companies to result from the merger.

We expect that the combined company will need to raise additional capital to execute on its business plan. If the combined company is successful in raising capital through the sale of common stock, it will dilute the combined company's existing stockholders, and if we are unsuccessful in raising additional capital, we may not be able to execute on our business plan and our results of operations may suffer.

If the merger is completed, RITA may seek to raise additional capital through the sale of its securities. It is expected that the offering proceeds, if raised, would be used, among other things, to retire debt assumed in the merger, including \$14.7 million of outstanding senior subordinated notes of Horizon, and to execute on the business plan of the combined company. Any such sale of stock will reduce the proportionate ownership

and voting power of stockholders of the combined company and may result in a reduction of the market price of RITA's common stock. If RITA is unable to raise additional capital on acceptable terms, or at all, RITA's liquidity may suffer as assumed debts mature and the combined company may be limited in its ability to execute its business plan, negatively affecting both results of operations and RITA's stock price.

All outstanding Horizon stock options will accelerate and become fully exercisable upon closing. This may dilute the merger consideration payable to other Horizon shareholders and may require additional dilution after closing to incentivize retained employees.

The vesting of all outstanding Horizon stock options will accelerate upon the completion of the merger, thereby making these options fully exercisable. The acceleration of these options, to the extent they are in the money, effectively dilutes the merger consideration that may otherwise have been paid to all other Horizon shareholders in the transaction. Further, should the holders of options so accelerated terminate their employment prior to the original full-vesting date of the options, RITA will be required to record additional stock

Table of Contents

Index to Financial Statements

compensation expense. Also, because time-based or performance-based vesting of stock options create incentives for employees, and because these incentives will effectively be removed once the remaining unvested Horizon options are accelerated, RITA may need to grant new stock options to Horizon employees after the merger in order to create new incentives. These additional option grants, to the extent exercised, will be dilutive to the stockholders of the combined company.

Additionally, the acceleration of certain Horizon equity compensation arrangements present a potential conflict of interest for the Horizon directors. The Horizon directors who approved the merger agreement and the merger and who now recommend shareholder approval of the merger agreement and the merger will benefit to varying degrees from this option acceleration, which may influence these directors in making their recommendation that you vote in favor of approval of the merger agreement and the merger.

The merger agreement requires payment of a termination fee of up to \$3.5 million in certain instances, which could deter a third party from proposing an alternative transaction to the merger.

Under the terms of the merger agreement, RITA or Horizon may be required to pay to the other a termination fee of up to \$3.5 million if the merger agreement is terminated under certain circumstances. With some exceptions, these circumstances include, among others, (i) situations in which one party has terminated the merger agreement as a result of the withdrawal or modification in the recommendation of the other party's board of directors with respect to the applicable merger-related proposal and (ii) certain other terminations if, prior to the termination, a third party announced an offer or indicated an interest in a transaction involving a party and/or, within 12 months of such termination, that party enters into a transaction involving the sale of that party, or the merger of that party, with another company. The effect of this termination fee may discourage competing bidders from presenting proposals to acquire or merge with RITA or Horizon that, from a financial perspective, might be superior to the terms of the merger. For a more complete description of the termination rights of each party and the termination fees payable under the merger agreement, see *The Merger Agreement Termination of Merger Agreement* and *Termination Fee* on pages 59 and 60.

Holders of Horizon's senior subordinated notes may have the ability to exert influence over the combined company following the merger.

Following the merger, approximately \$14.7 million in aggregate principal amount of Horizon's outstanding senior subordinated notes will be assumed by RITA, and the maturity date of a portion of those notes will be extended from July 2005 to July 2008. Until the notes are paid in full, the terms of the notes provide that, among other things, the holders of such notes have the right to approve material transactions, including a sale, merger or consolidation of the combined company. The holders of the notes may, in effect, veto a significant transaction even if the combined company's board of directors deems it in the best interests of the company and its stockholders. We cannot assure you that these, and other provisions of the senior subordinated notes will not impair the flexibility of the combined company to undertake transactions otherwise in the best interests of its stockholders.

Table of Contents

Index to Financial Statements

CAUTIONARY STATEMENT CONCERNING

FORWARD-LOOKING STATEMENTS

This joint proxy statement/prospectus and the other documents incorporated by reference into this joint proxy statement/prospectus contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this joint proxy statement/prospectus and the other documents incorporated into this joint proxy statement/prospectus by reference that are not historical facts are identified as forward-looking statements for the purpose of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, or the Exchange Act, and Section 27A of the Securities Act of 1933, or the Securities Act. Forward-looking statements include projections, assumptions or information concerning possible or assumed future actions, events or results of operations of RITA, Horizon or the combined company. These statements involve estimates and assumptions based on the judgment of each company's management. A number of risks and uncertainties may cause actual results to differ materially from those suggested by the forward-looking statements.

Forward-looking statements include the information in this joint proxy statement/prospectus and the other documents incorporated by reference into this joint proxy statement/prospectus. These statements may be made regarding the business, operations, financial performance and condition, earnings, prospects and products of RITA, Horizon and the combined company, as well as regarding their industries generally. These statements may be preceded by, followed by or include the words believes, expects, anticipates, intends, plans, estimates or similar expressions. RITA and Horizon claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements. RITA and Horizon do not undertake any obligation to publicly update any forward-looking statements to reflect subsequent events or circumstances.

Forward-looking statements are not guarantees of performance. You should understand that these factors, in addition to those discussed in Risk Factors above and elsewhere in this document, and in the documents that are incorporated by reference into this joint proxy statement/prospectus, could affect the future results of RITA, Horizon and the combined company after the completion of the merger and could cause those results or other outcomes to differ materially from those expressed or implied in any forward-looking statement.

Table of Contents

Index to Financial Statements

THE PROPOSED MERGER

The following is a description of the material aspects of the proposed merger. The following discussion is a summary only and may not contain all of the information that is important to you. We encourage you to read this entire joint proxy statement/prospectus, including the merger agreement included as Annex A to this joint proxy statement/prospectus, for a more complete understanding of the merger.

General

Each of RITA's and Horizon's board of directors has unanimously approved the merger agreement (with one Horizon director abstaining from voting due to a potential conflict of interest related to his ownership of stock of an unrelated entity). At the effective time of the merger, Hornet Acquisition Corp. will be merged with and into Horizon, and Horizon will become a wholly-owned subsidiary of RITA. Horizon shareholders will be entitled to receive 0.4212 of a share of RITA common stock for each share of Horizon common stock they own. Following completion of the merger, RITA stockholders will hold approximately 47.5% of the combined company and Horizon shareholders will hold approximately 52.5% of the combined company, measured on a fully diluted basis.

RITA's board of directors is using this joint proxy statement/prospectus as a prospectus for the issuance of stock in the merger and each of RITA and Horizon are using this joint proxy statement/prospectus to solicit proxies for their respective annual meetings.

RITA's Proposals

At RITA's annual meeting, holders of RITA common stock are being asked to vote on:

The issuance of shares of RITA common stock pursuant to the merger agreement;

The amendment of RITA's certificate of incorporation to increase the number of authorized shares of RITA common stock from 100,000,000 to 150,000,000 and to clarify the authority of RITA's board of directors to fix the terms of preferred stock;

The election of two Class I directors to serve until the 2007 annual meeting; and

The ratification of the selection of PricewaterhouseCoopers LLP as RITA's independent registered public accounting firm for the fiscal year ending December 31, 2004.

THE MERGER WILL NOT BE COMPLETED UNLESS RITA STOCKHOLDERS APPROVE THE ISSUANCE OF THE SHARES OF RITA COMMON STOCK PURSUANT TO THE MERGER AGREEMENT. In order to complete the merger, the holders of at least a majority of shares present in person or by proxy at RITA's annual meeting and entitled to vote must approve the issuance of shares of RITA common stock

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

pursuant to the merger agreement. Approval of the other RITA annual meeting matters is not a condition to the merger.

Horizon s Proposals

At Horizon s annual meeting, holders of Horizon common stock will be asked to vote on:

The approval of the merger agreement and the merger;

The election of seven individuals to serve as members of Horizon s board of directors until Horizon s 2005 annual meeting of shareholders; and

The ratification of the appointment of Grant Thornton LLP as Horizon s independent registered public accounting firm for the fiscal year ending December 31, 2004.

THE MERGER WILL NOT BE COMPLETED UNLESS HORIZON SHAREHOLDERS APPROVE THE MERGER AGREEMENT AND THE MERGER. In order to complete the merger, the holders of at least a majority of outstanding shares of Horizon common stock must vote to approve the merger agreement and the merger. Approval of the other Horizon annual meeting matters is not a condition to the merger. If the merger is completed, the other Horizon annual meeting matters will, as a result, be superseded.

Table of Contents

Index to Financial Statements

Background of the Merger

From time to time over the past several years, RITA and Horizon have engaged in informal discussions about Horizon and RITA co-promoting each other's products as well as a potential combination of the two companies. None of these discussions, however, proceeded beyond informal discussions and all of these discussions concluded with no agreement with respect to a potential transaction.

On June 16 and 17, 2003, members of senior management of Horizon, including Marshall B. Hunt, Chairman of the Horizon board of directors who served as Horizon's Chief Executive Officer until January 2004, Robert Singer, Horizon's Vice President of Sales, William E. Peterson, President of Horizon through June 2003 and a director of Horizon through October 2003, and Robert J. Wenzel, at the time serving as Chief Operating Officer of Horizon, held a meeting with Donald Stewart, Chief Financial Officer, Vice President of Finance and Administration and, at the time, Acting Chief Executive Officer of RITA, and Trent Reutiman, Vice President, U.S. Sales of RITA, and Steve Williams, Chief Operations Officer of RITA, at Horizon's offices in Atlanta, Georgia. At this meeting, initial discussions took place regarding various operational aspects of a potential business combination of the two companies, although the parties did not discuss any material terms of a business combination.

In July 2003, Mr. Hunt had a telephone conversation with Mr. Stewart, during which the parties discussed the product lines of both companies and initially explored the possibility of pursuing a business combination. At an August 11, 2003 telephonic meeting of the Horizon board of directors, Mr. Hunt briefed the Horizon board on his conversations with Mr. Stewart and at an August 14, 2003 telephonic meeting of the Horizon board of directors, the board directed Tunstall Consulting, an affiliate of A. Gordon Tunstall, a director of Horizon until October 2003, to prepare a presentation for the Horizon board outlining the material financial and synergistic aspects of a potential transaction with RITA.

On August 20, 2003, Mr. Hunt met with Joseph DeVivo, Chief Executive Officer of RITA, and Mr. Stewart at RITA's offices in Mountain View, California. At this meeting, Mr. Hunt and Mr. DeVivo discussed the possibility of a strategic transaction between the companies. These conversations primarily centered around the operational compatibility of the two companies. Following this meeting, Mr. DeVivo updated the RITA board of directors on the nature of the conversations that took place on August 20, 2004. The RITA board of directors indicated an interest in pursuing further discussions with Horizon regarding a potential business combination. On August 27, 2003, Mr. Hunt discussed with the Horizon board of directors at a telephonic meeting the results of this meeting with Mr. DeVivo. The Horizon board of directors expressed interest in exploring a strategic combination and authorized management to continue discussions with RITA regarding a potential business combination.

On September 29, 2003, Mr. Hunt, A. Gordon Tunstall and H. Ross Arnold, III, each directors of Horizon through October 2003, Harold Blue, a director of Horizon and the President and Chief Operating Officer of Commonwealth Associates Group Holdings, LLC, or CAGH, and James E. Brands, a director of Horizon and Chairman of Horizon's Audit Committee, met in San Francisco, California with the RITA board of directors and Mr. Stewart. At this meeting, the Horizon and RITA representatives discussed the development of RITA's business under the stewardship of Mr. DeVivo, who became Chief Executive Officer of RITA in August 2003. Also, the representatives engaged in preliminary discussions regarding Horizon's debt structure and the maturity date of Horizon's senior subordinated notes. The parties expressed interest that a business combination could be successfully completed. Following this meeting, through October and early November 2003, each of Horizon's management and its board of directors and RITA's management and its board of directors continued to express interest that a potential business combination of the two companies could provide benefits to each company and its stockholders.

On October 27, 2003, Mr. Brands contacted Scott Halsted, a director of RITA, and discussed the fact that Horizon had recently completed an extension of its senior subordinated notes and that Horizon continued to have a high level of interest in some form of business combination.

Table of Contents

Index to Financial Statements

On November 18, 2003, the Horizon board of directors held a conference call to discuss the general financial framework pursuant to which a business combination between Horizon and RITA could take place. The directors engaged in detailed discussion concerning a potential business combination, expressing issues about, among other things, the potential synergies which the combined company could achieve, Horizon's management being distracted in the course of negotiating a business combination and the desire that Horizon continue to develop its product offerings. The Horizon board also discussed RITA's proprietary technology and position in the marketplace. At this meeting, the Horizon board authorized management to continue its contact with RITA's Chief Executive Officer and determine whether a proposal would be forthcoming directly from RITA or through its financial advisor.

On November 20, 2003, Mr. DeVivo and Mr. Stewart met with representatives of Wells Fargo, RITA's financial advisor, in Mountain View, California. At this meeting, the parties discussed the financial consequences to RITA of a potential business combination with Horizon. The parties also discussed a possible valuation of Horizon and its business. Following this meeting, Mr. DeVivo updated the RITA board of directors on the discussions with Wells Fargo.

On December 4, 2003, Robert L. Priddy, a director of Horizon, Michael Falk, the Chief Executive Officer of CAGH, and Mr. Blue had a meeting with Mr. DeVivo and Mr. Stewart, in West Palm Beach, Florida, where the parties discussed potential revenue and cost synergies associated with a potential business combination. CAGH is the parent company of ComVest Venture Partners, L.P., or ComVest, an entity which directly owns 23% of Horizon's outstanding common stock (as of the date of this joint proxy statement/prospectus) and holds an approximately \$4.4 million senior subordinated note issued by Horizon. On December 5, 2003, Mr. Blue and representatives from Wells Fargo, on behalf of RITA, discussed valuation metrics and Horizon's debt structure, including the senior subordinated notes, the maturity date of which had been extended in October 2003 until July 2005. Throughout December 2003 and early- to mid-January 2004, Horizon's management and board of directors continued to deliberate whether a business combination with RITA would be in the best interests of Horizon and its shareholders. During this same period, RITA's management and board of directors continued to consider whether a business combination with Horizon would be in the best interests of RITA and its stockholders. Also, on January 14, 2004, Mr. Hunt resigned as Chief Executive Officer of Horizon, remaining in the position of Chairman of the Board.

On December 18, 2003, the RITA board of directors, Mr. Stewart, representatives of Wells Fargo and representatives of RITA's legal counsel, Heller Ehrman White & McAuliffe LLP, or Heller Ehrman, held a conference call to discuss a potential business combination with Horizon. During this call, the parties engaged in a detailed discussion relating to a potential business combination with Horizon, including the potential transaction valuation, financial impact of such a transaction on RITA, potential deal structure and potential benefits and risks of such a transaction to RITA's business and its stockholders.

On January 27, 2004, Mr. Wenzel, at the time serving as Chief Operating Officer and interim Chief Executive Officer of Horizon, Elaine Swygert, Corporate Controller of Horizon, and Mr. Singer, met with Mr. DeVivo and Mr. Stewart at Horizon's offices in Manchester, Georgia. Also present were representatives from Wells Fargo. The meeting centered on the potential synergies that the combined company could achieve, including the combination of the companies' complementary product lines and respective intellectual property. Mr. Wenzel briefed the Horizon board of directors on the discussions held at this meeting. In the days following the meeting, members of Horizon's management and board of directors engaged in active dialogue concerning the potential synergies a combined company would be able to achieve. Following the meeting on January 27, 2004 with representatives of Horizon, members of RITA's management team and the RITA board of directors engaged in ongoing detailed discussions regarding the potential benefits and risks of the potential business combination with Horizon as well as the potential for growth of the combined company.

On February 5, 2004, the RITA board of directors held a regularly scheduled meeting. Also joining the meeting were Mr. Stewart, Darrin Uecker, RITA's Chief Technology Officer, and representatives from

Table of Contents

Index to Financial Statements

Heller Ehrman and Wells Fargo. Representatives of Wells Fargo discussed with the board the financial impact of RITA's potential business combination with Horizon based on discussions as of January 27, 2004. The directors engaged in a detailed discussion with Wells Fargo regarding the nature and extent of the financial due diligence performed by Wells Fargo and Wells Fargo's preliminary findings.

On February 11, 2004, Mr. DeVivo and representatives of Wells Fargo met with Mr. Blue in New York City, and on February 23, 2004, Mr. DeVivo had a conference call with Mr. Blue and Mr. Falk. During each of these meetings, the parties discussed, among other things, the capitalization structure of the combined company, including the outstanding Horizon senior subordinated notes and the interest of Medtronic, the holder of approximately \$4 million in outstanding senior subordinated notes, in consenting to a potential transaction.

On February 18, 2004, Mr. DeVivo, Mr. Halsted and Randy Lindhom, each a director of RITA, and Mr. Stewart, a representative of Wells Fargo and representatives from Heller Ehrman held a conference call to discuss the status of the ongoing discussions with Horizon regarding a potential business combination. The participants discussed, among things, the capitalization structure of the combined company and the treatment of Horizon's outstanding senior subordinated notes.

At a regularly scheduled meeting of the Horizon board of directors held on February 24, 2004, with Horizon's legal counsel in attendance, the Horizon board constituted a special committee, consisting of Messrs. Wenzel, Blue and Brands, or the special committee. The special committee was specifically charged with exploring further a potential business combination with RITA and to consider any other transaction which might be presented to the company or its board of directors, and was granted the power to engage independent investment and financial advisors to assist in evaluating any potential transaction.

On February 27, 2004, the special committee, together with Carl Kleidman of Commonwealth Associates, L.P., or Commonwealth, held a conference call with Messrs. DeVivo and Stewart and a representative of Wells Fargo, to discuss the capitalization structure of the combined company, the location of operations following a business combination, the composition of the board of directors of the combined company (specifically, that the combined company's board of directors would consist of a majority of then-directors of RITA) and the continued progress and development of RITA's business model. At this meeting, the potential relative ownership of RITA and Horizon stockholders in the combined company was also discussed. Following the meeting, the special committee decided to continue discussions with RITA and its representatives after both parties had an opportunity to review and consider the information discussed at this meeting. In the few days following the meeting, the special committee convened numerous conference calls and engaged in other communications relating to the material terms of a potential transaction.

On March 5, 2004, the Horizon board of directors held a meeting at which the special committee updated the board with respect to the discussions relating to a potential transaction with RITA. Among other things, the board of directors discussed the potential relative ownership of RITA and Horizon stockholders in the combined company discussed at the February 27, 2004 meeting, the possible management team of the combined company and the impact of Horizon's outstanding indebtedness on a potential transaction, including the fact that certain noteholders, including ComVest, and Medtronic, possessed consent rights to any business combination. After discussion of these and other matters related to a potential transaction, the special committee was authorized specifically by the Horizon board of directors to negotiate non-binding terms with RITA relating to a transaction with an exchange ratio granting then-current Horizon shareholders a majority stake in the combined company.

Also at this March 5, 2004 meeting, the Horizon board of directors (with Messrs. Blue and Priddy recusing themselves from voting as a result of a potential conflict of interest) engaged Commonwealth to serve as financial advisor to the special committee with respect to the transaction. The Horizon board of directors engaged Commonwealth after receiving a presentation from legal counsel detailing the board of directors' fiduciary duties in engaging an independent financial advisor, and the potential conflicts of interest associated with engaging an entity affiliated with

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

ComVest, a substantial Horizon shareholder and noteholder. After Commonwealth was engaged to serve as a financial advisor, the Horizon board of directors determined that, in the event that a

Table of Contents

Index to Financial Statements

potential business combination with RITA was possible, the board of directors or special committee's engagement of another independent financial advisor would be necessary to advise the Horizon board as to the fairness of any such transaction to the Horizon shareholders.

Throughout late February and early March, Mr. DeVivo updated the RITA board of directors on the status of discussions between the parties. Vincent Bucci, the Chairman of the RITA board of directors, had numerous conversations with representatives of Horizon and members of its board of directors. Mr. DeVivo and Mr. Bucci continued to keep the RITA board of directors apprised of the nature and status of their discussions regarding a potential business combination between RITA and Horizon.

On March 8, 2004, the special committee, together with Mr. Kleidman, members of RITA's management, including Messrs. DeVivo and Stewart, and a representative of Wells Fargo met with representatives of Medtronic at Medtronic's offices in Minneapolis, Minnesota. At this meeting, the parties discussed with Medtronic RITA's business model and product lines, explored with Medtronic a potential business combination of RITA and Horizon and discussed whether Medtronic would be in a position to consent to such a transaction, which consent was required pursuant to the terms of the senior subordinated note held by it.

On March 10 and 11, 2004, Mr. Wenzel and Mr. Singer met with members of senior management of RITA, including Mr. DeVivo, Mr. Stewart and Darrin Uecker, Chief Technology Officer, in Mountain View, California. At this meeting, the parties discussed the operations of the two companies and how the respective companies' technology and infrastructure complemented each other. Shortly after this meeting, Mr. DeVivo updated the RITA board of directors on the discussions held on March 10 and 11, 2004 regarding the operational aspects of the potential transaction. On March 15, 2004, Mr. Wenzel communicated with the Horizon board of directors, detailing the recent discussions between the companies.

Several days following the meetings held on March 10 and 11, 2004, Wells Fargo, on behalf of RITA, sent a summary of the material terms of a potential business combination to Mr. Kleidman, which was subsequently distributed to the special committee. The terms provided for (i) the potential relative ownership of RITA and Horizon stockholders in the combined company, (ii) certain major shareholders and each director and officer of Horizon and RITA to enter into voting agreements, (iii) certain major stockholders of Horizon and RITA to enter into lock-up agreements in connection with a business combination and (iv) the extension of the term of the outstanding Horizon senior subordinated notes held by ComVest and Medtronic.

Over the following two weeks, the special committee, together with Mr. Kleidman, discussed whether these terms were in the best interest of Horizon and its shareholders. In particular, the special committee discussed various exchange ratios for the transaction, given the historical results and future prospects for each company. Also during this time, the special committee and members of the Horizon board of directors discussed the need to undertake a transaction in order to address the approximately \$15 million in principal amount of senior subordinated notes, and that the potential transaction with RITA, in light of the combined company's balance sheet following a business combination, would allow the timely repayment of the senior subordinated notes. During this time period, the special committee also discussed with Medtronic and ComVest terms of an extension of the maturity date of the senior subordinated notes held by them in connection with the business combination, given that the consent of each of Medtronic and ComVest would be required prior to the execution of a definitive merger agreement.

On March 23, 2004, the RITA board of directors held a meeting, at which representatives of Wells Fargo and representatives of Heller Ehrman were present. At such meeting, the terms of a proposed merger transaction with Horizon were discussed. At this meeting, the RITA board of directors discussed in detail the proposed terms of the transaction, including the potential relative ownership of RITA and Horizon stockholders in the combined company, the extension of Horizon's outstanding senior subordinated notes and the capitalization structure of the combined company. In addition, the RITA board also discussed the proposed required execution by certain RITA stockholders, directors and officers of

voting and lock-up agreements. After a lengthy discussion regarding the

Table of Contents

Index to Financial Statements

proposed terms between the parties, the RITA board approved the proposed terms and authorized the appropriate officers of RITA, together with RITA's financial advisors and legal counsel, to conduct further due diligence of Horizon and to negotiate the terms of a definitive merger agreement with Horizon.

On March 26, 2004, the Horizon board of directors held a telephonic meeting, at which Horizon's financial advisor and legal counsel were present, and at which the revised terms of a proposed merger transaction with RITA, which had been distributed to the directors in advance of such meeting, were discussed. At this meeting, the Horizon board of directors engaged in a comprehensive discussion of the terms of the transaction, including the potential relative ownership of RITA and Horizon stockholders in the combined company, the requirement that ComVest and Medtronic agree to extend the maturity date of the senior subordinated notes held by them, the required execution by certain Horizon shareholders, and all Horizon officers and directors of voting agreements and the required execution by certain Horizon shareholders of lock-up agreements. At the conclusion of the meeting, the Horizon board of directors (except for Mr. Priddy, who abstained from voting due to a potential conflict of interest resulting from an ownership interest in another company) approved the non-binding terms and authorized the special committee to commence with due diligence of RITA and also authorized the special committee, together with Horizon's financial advisors and legal counsel, to negotiate the terms of a definitive merger agreement with RITA.

Shortly after the meeting of the Horizon board of directors on March 26, 2004, Horizon's management, upon the recommendation and approval by the special committee, engaged Bennett Marks to serve as a special consultant to the board and the special committee and to assist in the due diligence process. Mr. Marks was chosen as a result of his substantial experience in business combinations in the healthcare industry.

On April 2, 2004, on behalf of RITA, Heller Ehrman, distributed an initial draft merger agreement to Horizon and its representatives.

On April 5, 2004, members of RITA's senior management, including Mr. Stewart, together with representatives of Wells Fargo, representatives of Heller Ehrman and RITA's other financial advisors, commenced due diligence on Horizon at the offices of Horizon's legal counsel in Atlanta, Georgia and at Horizon's offices in Manchester, Georgia.

On April 8, 2004, after consideration of the complexity of the transaction and the experience and resources that two financial advisors could bring to the transaction, the special committee (with Mr. Blue abstaining due to his association with Commonwealth) determined to retain an additional financial advisor, Brookwood Associates, LLC, or Brookwood. Brookwood was engaged to assist in the due diligence process, review a definitive merger agreement and advise the Horizon board of directors as to the fairness, from a financial point of view, of such a transaction to the shareholders of Horizon. Immediately thereafter, representatives of Brookwood commenced due diligence on RITA's operations, meeting with representatives of RITA and Wells Fargo both in Menlo Park, California and Manchester, Georgia.

On April 13, 2004, members of Horizon's senior management, including Mr. Wenzel, Ms. Swygert and Mr. Singer, together with Horizon's legal counsel and its independent registered public accounting firm, Mr. Marks, Mr. Brands, and representatives of Brookwood and Commonwealth commenced due diligence on RITA at the offices of RITA's legal counsel in Menlo Park, California.

During the weeks of April 12, April 19 and April 26, 2004, the special committee, together with Horizon's legal counsel and financial advisors, and RITA's management and the RITA board of directors, together with its legal counsel and financial advisors, continued its due diligence on RITA and Horizon, respectively. Also during this time, negotiations commenced and continued on the merger agreement. Mr. Kleidman, legal counsel to Horizon and members of the special committee had numerous telephone conversations with representatives of Wells Fargo, Mr.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

DeVivo and Mr. Stewart of RITA and legal counsel to RITA, discussing the material open issues contained in the merger negotiations, including the termination payment (and under what circumstances)

Table of Contents

Index to Financial Statements

such termination fee and expense reimbursement would be payable by either party) and the exchange ratio. In addition, the special committee conveyed to RITA and its advisors its concerns about the retention of Horizon employees following the merger and the desire to accelerate the vesting of outstanding Horizon stock options upon completion of the merger. Additionally, the parties discussed the composition of the combined company's board of directors.

Also during this time, Horizon discussed the status of the proposed merger with each of ComVest and Medtronic. In order to complete a merger between RITA and Horizon, the consent of each such party was required pursuant to the Note Purchase Agreement entered into in connection with Horizon's 2002 recapitalization and in order to extend the maturity date of the senior subordinated notes. In addition, the parties discussed the need to terminate the Securityholders Agreement, effective upon the closing of a merger transaction between RITA and Horizon.

At a special meeting of the Horizon board of directors held on April 29, 2004, the Horizon board of directors met to evaluate the potential business combination with RITA. Prior to the meeting, the Horizon board of directors was provided with a revised draft of the merger agreement and other proposed definitive documentation, including the voting agreements and lock-up agreements relating to certain shareholders, officers and directors of Horizon. In addition to the Horizon directors, present at this meeting were Horizon's legal counsel, representatives of Brookwood Associates and Mr. Marks. At the beginning of the meeting, Mr. Marks reviewed the material terms of the transaction, as set forth in the draft merger agreement presented to the directors prior to the meeting. Next, King & Spalding LLP, legal counsel to Horizon, reviewed with the Horizon directors their legal duties and responsibilities in connection with the proposed transaction and reviewed the material terms and conditions contained in the merger agreement and issues in the merger agreement which were still subject to negotiation. Legal counsel also briefed the Horizon board of directors on the status of the due diligence process. The directors asked numerous questions concerning the progress of the due diligence process and the impact of the exchange ratio on the shareholder composition of the combined company. In addition, representatives from Brookwood reviewed with the board of directors their work in evaluating the proposed merger. Brookwood delivered a presentation to the Horizon board of directors, based on its due diligence and evaluation of the businesses of RITA and Horizon. Brookwood reviewed the advantages, disadvantages and risks to Horizon in entering into a merger with RITA. Following questioning from the Horizon board of directors, Brookwood rendered to the Horizon board of directors its oral opinion (subsequently confirmed in writing), as described under Opinion of Horizon's Financial Advisor, that, as of the date of its opinion and based upon its review and subject to the assumptions made and described in its opinion, the exchange ratio of 0.417 of a share of RITA common stock to be received for each share of Horizon common stock was fair, from a financial point of view, to holders of Horizon common stock.

The Horizon board of directors then engaged in a discussion of the proposed transaction, including a discussion of the potential strategic benefits to the transaction, the fact that the exchange ratio represented, as of April 29, 2004, a premium of 16.8% for the Horizon shareholders, the material terms of the merger agreement (including the termination fee payable under certain circumstances) and the closing conditions, including the necessary receipt of shareholder approval of the transaction on the part of each of RITA and Horizon. The Horizon board also considered the various risks to the transaction, including the fact that, while a majority of Horizon shares would be subject to binding voting agreements, less than 10% of the RITA shares would be subject to such agreements. Following review and discussion among the members of the Horizon board of directors, and after consideration of the presentations provided by Horizon's advisors, including the written fairness opinion rendered by Brookwood, the Horizon board of directors (except for Mr. Priddy, who recused himself from consideration of the merger transaction as a result of a potential conflict of interest resulting from an ownership interest in another company) approved and adopted the merger agreement and the merger transaction and authorized appropriate members of Horizon's management to enter into the merger agreement on the terms presented to the Horizon board of directors at such meeting. Afterwards, the Horizon board directed the special committee to work to resolve expeditiously the remaining open issues on the merger agreement.

Table of Contents

Index to Financial Statements

On May 3, 2004, the RITA board of directors and Mr. Stewart held a meeting to discuss and evaluate the potential merger transaction with Horizon. Prior to the meeting, the RITA board of directors was provided with a draft of the merger agreement, an executive summary of the material terms of the proposed merger agreement and other related documents, including the voting agreements and lock-up agreements relating to certain stockholders, officers and directors of RITA. In addition to the RITA directors, present at this meeting were representatives of Heller Ehrman and representatives of Wells Fargo. At the beginning of the meeting, Mr. DeVivo reviewed the significant financial aspects of the transaction. Representatives of Heller Ehrman then reviewed (i) all of the material terms of the merger agreement and the changes thereto negotiated since the date of the executive summary and (ii) the fiduciary duties of the directors in connection with a merger transaction of the type envisioned with Horizon. Mr. Stewart then presented a summary of the due diligence performed by RITA and its financial advisor and legal counsel.

Wells Fargo then delivered a presentation to the RITA board of directors regarding its due diligence and analysis of Horizon and the proposed transaction, following which the directors engaged in a detailed discussion of Wells Fargo's presentation and assumptions.

The RITA board of directors then asked questions of management and RITA's financial advisor and legal counsel and engaged in a discussion of the proposed merger transaction, including a discussion of the potential strategic benefits to the transaction, the material terms of the merger agreement (including the termination fee payable under certain circumstances) and the closing conditions, including the necessary receipt of stockholder approval of the transaction on the part of each of RITA and Horizon. The RITA board of directors discussed the potential benefits of the transaction to RITA and its stockholders, including the benefit of broadening RITA's business, the potential synergies between the two companies and the opportunity for RITA stockholders to participate in a larger company with a greater potential for growth. The RITA board of directors also considered the various risks to the transaction, including the impact of the exchange ratio on the stockholder composition of the combined company, the terms of Horizon's subordinated senior notes, the challenges of combining the businesses of two separate organizations, the diversion of management resources, the composition of the board of directors of the combined company and the impact of the proposed merger transaction on RITA's employees and customers. The RITA board of directors directed the appropriate members of RITA's management, together with RITA's legal counsel and Wells Fargo to engage in further discussions with Horizon regarding the composition of the combined company's board of directors as well as other matters relating to the proposed merger agreement and to inform the RITA board of directors as to the results of such discussions.

Over the course of the following week, the special committee, together with Horizon's legal and financial advisors, worked to complete their due diligence and to obtain the necessary consents of ComVest and Medtronic to the proposed merger agreement. The Horizon board of directors, together with Mr. Kleidman and Horizon's legal counsel, held a special telephonic meeting on May 5, 2004, to discuss the status of negotiations on the merger agreement, including the specific composition of the combined company's board of directors, taking into account (1) that under Nasdaq regulations, the combined company must have a majority of independent directors and (2) that RITA's governing documents provided for a staggered board of directors with three classes. The Horizon board discussed which current Horizon directors would be proposed to serve on the combined company's board of directors following the merger. ComVest deliberated as to whether it was in a position to consent to the proposed transaction in light of the fact that RITA had a classified board of directors.

On May 6, 2004, the RITA board of directors, Mr. Stewart, Mr. Uecker, Mr. Reutiman, representatives of Wells Fargo and representatives of Heller Ehrman held a meeting to discuss the status of ongoing discussions with Horizon regarding the proposed merger. Among the issues discussed by the parties was the specific composition of the RITA board of directors after the merger as well as a proposed amendment to Horizon's Note Purchase Agreement with ComVest and other purchasers.

On May 8, 2004, Mr. Falk, Mr. Blue and Mr. Kleidman had a telephone conference with Mr. DeVivo, a representative of Wells Fargo and RITA's legal counsel concerning the composition of the RITA board of

Table of Contents

Index to Financial Statements

directors after the merger. Following this discussion, ComVest advised Horizon that it would consent to the merger.

On May 11, 2004, the special committee of the Horizon board of directors met and approved the merger agreement and the merger and recommended the approval of the merger agreement and the merger to the full Horizon board of directors. On May 12, 2004, Brookwood orally reaffirmed to the Horizon board of directors its written opinion of April 29, 2004, noting that the exchange ratio contained in the proposed execution version of the merger agreement was 0.4212, which was slightly more favorable to the holders of Horizon common stock than that assumed by Brookwood in its opinion, dated April 29, 2004. At a special meeting of the Horizon board of directors on May 12, 2004, legal counsel for Horizon reviewed with the Horizon board the changes made to the merger agreement since the board's review of the merger agreement on April 29, 2004. Following a complete discussion of the changes made to the merger agreement since the Horizon board's last review of the agreement, including the modified exchange ratio and the composition of the combined company's board of directors, the Horizon board of directors approved and adopted the merger agreement and the merger, authorized the execution and delivery of the merger agreement and recommended to the Horizon shareholders approval of the merger agreement and the merger.

On May 12, 2004, the RITA board of directors and Mr. Stewart held a meeting to discuss and evaluate the potential merger transaction with Horizon. In addition to the RITA directors, present at this meeting were representatives of Heller Ehrman and representatives of Wells Fargo. At the beginning of the meeting, Mr. DeVivo and representatives from Heller Ehrman and Wells Fargo reviewed the changes made to the merger agreement since the board's last review, including, among other things, the proposed amendment to Horizon's Note Purchase Agreement. The directors then engaged in a discussion regarding the changes made to the merger agreement and the terms of the proposed amendment to the Note Purchase Agreement.

After this discussion, Wells Fargo informed RITA that there were no material changes in market conditions or the financial terms of the proposed merger since its analyses were presented to the RITA board of directors on May 3, 2004 and rendered an oral opinion, which opinion was confirmed by written opinion of the same date, as described under "Opinion of RITA's Financial Advisor," that, as of the date of its opinion and based on the assumptions made, matters considered and the limitations on the review undertaken described in its written opinion, the exchange ratio of 0.4212 shares of RITA common stock to be issued for each share of Horizon common stock was fair from a financial point of view to RITA. Following considerable review and discussion among the members of the RITA board of directors, and after consideration of its legal duties and the presentations provided by RITA's management and its advisors, including the fairness opinion rendered by Wells Fargo, the RITA board of directors approved and adopted the merger agreement and the merger, and authorized the appropriate members of RITA's management to enter into the merger agreement on the terms presented to the RITA board of directors at the meeting.

On the evening of May 12, 2004, RITA and Horizon executed the merger agreement and on the morning of May 13, 2004 issued a joint press release announcing the transaction.

RITA's Reasons for the Merger

In reaching its decision to approve the merger agreement and the merger and proceed with the business combination with Horizon, RITA's board of directors consulted with RITA's management, legal advisors, accounting advisors and financial advisors regarding the strategic, operational and financial aspects of the merger. In the course of reaching its decision to approve the merger agreement and the merger, the board considered a variety of factors, including the following material factors:

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Its analysis of the business, operations, financial performance and condition, earnings, prospects and products of each of RITA and Horizon as separate entities and on a combined basis;

The importance of market position, scale and financial resources relative to the company's ability to compete effectively in the medical device market;

Table of Contents

Index to Financial Statements

The strategic nature of the business combination, the complementary nature of RITA's and Horizon's products and product pipelines, sales and marketing infrastructure, and the belief that the combined company will be a stronger, more diversified company with an increased opportunity for growth;

Whether combining with Horizon would enhance product and revenue diversification;

The current industry, economic and market conditions and trends, including the likelihood of continuing consolidation and increasing competition in the medical device industry;

The strategic alternatives reasonably available to RITA to enhance stockholder value, including remaining a stand-alone entity and/or pursuing a strategic business combination with another third party;

The synergies and cost savings that the combined company could reasonably expect to achieve from the elimination of redundant functions and the optimization of the combined company's operations;

The results of RITA's due diligence review of Horizon;

The larger market capitalization of the combined company, which is expected to increase interest from institutional investors and research analysts;

The opinion of Wells Fargo that, as of the date of the merger agreement, and based on the assumptions made, matters considered and the limitations on the review undertaken described in its opinion, the exchange ratio in the merger was fair to RITA from a financial point of view;

The structure of the merger and the provisions of the merger agreement, including the following factors:

Under the exchange ratio RITA's stockholders to own approximately 47.5% of the outstanding common stock of the combined company, measured on a fully diluted basis;

The board of the combined company initially will consist of five directors designated by RITA, three directors designated by Horizon, and RITA's Chief Executive Officer; and

The senior management of the combined company will include senior officers of both RITA and Horizon;

The terms of the merger agreement relating to third-party offers, including:

The restrictions on the ability of each of RITA and Horizon to solicit offers for alternative business transactions;

The ability of a party to terminate the merger agreement if the other party alters its recommendation in favor of the merger or fails to confirm its recommendation in favor of the merger; and

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

The requirement that each of RITA and Horizon must pay the other a termination fee of up to \$3.5 million in the event that the merger agreement is terminated under certain circumstances specified in the merger agreement and the possibility that, under certain circumstances specified in the merger agreement, either party may also be responsible for an expense reimbursement of up to \$1.5 million; and

Other terms of the merger agreement, including:

The representations and warranties of Horizon;

The covenants of RITA and Horizon and the effect of such covenants on the operations of each company prior to completion of the merger; and

The opportunity for RITA stockholders to participate in a larger company with a broader and more diverse product line, and as stockholders of the combined company, to benefit from future growth of the combined company.

Table of Contents

Index to Financial Statements

In its review of the proposed merger, RITA's board of directors considered the potential adverse impact of other factors, including:

The risks described under the section of this joint proxy statement/prospectus entitled "Risk Factors" including the risk that the proposed business combination might not be completed;

The limitations imposed on the conduct of RITA regarding its business operations and the solicitation by RITA of alternative business transactions prior to the completion of the proposed merger;

The uncertainty created by the fixed exchange ratio as to the value of RITA common stock received pursuant to the merger; and

The challenges of combining the businesses of two separate corporations and the risks associated with the diversion of management resources and the impact of the merger on employees and customers.

RITA's board of directors did not find it constructive to and did not quantify, rank or otherwise assign relative weights to the factors considered in reaching its decision. RITA's board of directors considered all of the factors outlined above, both positive and negative, in reaching its decision; however, individual members of RITA's board of directors may have placed different weight on different factors.

This summary of the reasoning of RITA's board of directors, as well as certain information presented in this section, is forward-looking in nature. This information should be read in light of the factors discussed under the section entitled "Cautionary Statement Concerning Forward-Looking Statements" on page 21.

RITA's board of directors unanimously approved the merger agreement, the merger and the other transactions contemplated thereby and believes that the terms of the merger are in the best interests of RITA and its stockholders. RITA's board of directors unanimously recommends that RITA stockholders vote FOR the proposal relating to approval of the issuance of shares of RITA common stock pursuant to the merger agreement.

Opinion of RITA's Financial Advisor Wells Fargo Securities, LLC

Pursuant to an engagement letter, dated November 6, 2003, RITA engaged Wells Fargo to act as its financial advisor and to render an opinion as to the fairness of the exchange ratio in the proposed merger, from a financial point of view, to RITA.

On May 12, 2004, at a meeting of the RITA board of directors held to evaluate the proposed merger, Wells Fargo delivered to the RITA board of directors its written opinion, dated May 12, 2004, that, as of that date and based on the assumptions made, matters considered and the limitations on the review undertaken described in the written opinion, the exchange ratio of 0.4212 shares of RITA common stock for each share of Horizon common stock was fair from a financial point of view to RITA. See Annex B for a copy of the full opinion. The exchange ratio was determined through negotiations between the respective managements of RITA and Horizon. Although Wells Fargo did assist the management of RITA in those negotiations, Wells Fargo was not asked by, and did not recommend to, RITA that any specific exchange ratio constituted the appropriate exchange ratio for the Merger.

You should consider the following when reading the discussion of the opinion of RITA's financial advisor in this document:

We urge you to read the entire opinion of Wells Fargo which is set forth in Annex B to this proxy statement and is incorporated by reference. The following description of the Wells Fargo opinion is qualified by reference to the full opinion located in Annex B. The full opinion sets forth, among other things, the assumptions made by, the matters considered by and the limitations on the review undertaken by Wells Fargo.

The Wells Fargo opinion was provided for the information of the RITA board of directors in connection with its evaluation of the proposed merger and is not intended to be and does not constitute a recommendation to any stockholder of RITA or Horizon as to how they should vote, or take any other action, with respect to the proposed merger.

Table of Contents

Index to Financial Statements

The Wells Fargo opinion did not address the relative merits of the proposed merger and the other business strategies that the RITA board of directors has considered or may be considering, nor did it address the decision of the RITA board of directors to proceed with the proposed merger.

The Wells Fargo opinion was necessarily based upon market, economic and other conditions as in effect on, and information made available to Wells Fargo as of, the date of the opinion. You should understand that subsequent developments may affect the conclusion expressed in the Wells Fargo opinion and that Wells Fargo disclaims any undertaking or obligation to advise any person of any change in any matter affecting its opinion which may come or be brought to Wells Fargo's attention after the date of its opinion.

The Wells Fargo opinion was limited to the fairness, from a financial point of view and as of the date thereof, to RITA of the exchange ratio.

Opinion and Analyses of Wells Fargo

In connection with the preparation of the Wells Fargo opinion, Wells Fargo:

Reviewed certain publicly available financial statements and other business and financial information of Horizon and RITA, respectively;

Reviewed certain internal financial statements and other financial and operating data, including certain financial forecasts and other forward looking information, concerning (a) Horizon prepared by the managements of Horizon and of RITA and (b) RITA prepared by the management of RITA;

Reviewed certain publicly available research estimates of research analysts regarding Horizon and RITA;

Held discussions with the respective managements of Horizon and RITA concerning the businesses, past and current operations, financial condition and future prospects of both Horizon and RITA, independently and combined, including discussions with the managements of Horizon and RITA concerning cost savings and other synergies that are expected to result from the proposed merger, as well as their views regarding the strategic rationale for the proposed merger;

Reviewed the financial terms and conditions set forth in the merger agreement;

Reviewed the stock price and trading history of Horizon common stock and RITA common stock;

Compared the financial performance of Horizon and the prices and trading activity of Horizon common stock with that of certain other publicly traded companies comparable with Horizon;

Compared the financial performance of RITA and the prices and trading activity of RITA common stock with that of certain other publicly traded companies comparable with RITA;

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Compared the financial terms of the proposed merger with the financial terms, to the extent publicly available, of other transactions that Wells Fargo deemed relevant;

Reviewed the pro forma impact of the proposed merger on RITA's earnings per share;

Prepared an analysis of the relative contributions of Horizon and RITA to the combined company;

Prepared a discounted cash flow analysis of Horizon and of RITA;

Participated in discussions and negotiations among representatives of Horizon and RITA and their financial and legal advisors; and

Made such other studies and inquiries, and reviewed such other data, as Wells Fargo deemed relevant.

In its review and analysis, and in arriving at its opinion, Wells Fargo assumed and relied upon the accuracy and completeness of all of the financial and other information provided to it, including information furnished to it

Table of Contents

Index to Financial Statements

orally or otherwise discussed with it by the managements of Horizon and of RITA, or publicly available and has neither attempted to verify, nor assumed responsibility for verifying, any of such information. Wells Fargo relied upon the assurances of the managements of Horizon and of RITA that they were not aware of any facts that would make such information inaccurate or misleading. Furthermore, Wells Fargo did not obtain or make, or assume any responsibility for obtaining or making, any independent evaluation or appraisal of the properties, assets or liabilities, contingent or otherwise, of Horizon or RITA, nor was it furnished with any such evaluation or appraisal. With respect to the financial forecasts and projections, and the assumptions and bases therefor, for Horizon and RITA, including the synergistic savings and benefits projected to be realized with respect to operations of the combined company following the proposed merger and the timing thereof, that Wells Fargo reviewed, Wells Fargo assumed that:

such forecasts and projections were reasonably prepared in good faith on the basis of reasonable assumptions;

such forecasts and projections reflect the best currently available estimates and judgments of the managements of Horizon and of RITA, respectively, as to the future financial condition and performance of Horizon and RITA, respectively; and

such forecasts and projections will be realized in the amounts and in the time periods estimated as of the date of its opinion.

In addition, Wells Fargo assumed that:

the proposed merger will be completed upon the terms set forth in the merger agreement, including, among other things, that the proposed merger will be treated as a tax-free reorganization pursuant to the Internal Revenue Code of 1986, as amended; and

the historical financial statements of each of Horizon and RITA reviewed by Wells Fargo were prepared and fairly presented in accordance with U.S. generally accepted accounting principles consistently applied.

Wells Fargo expressed no opinion as to:

the value of any employee agreement or other arrangement entered into in connection with the proposed merger;

any tax or other consequences that might result from the proposed merger; or

what the value of RITA common stock will be when issued to Horizon's shareholders pursuant to the proposed merger or the price at which shares of RITA common stock may be traded in the future.

Furthermore, the Wells Fargo opinion did not address any legal or accounting matters, as to which Wells Fargo understands that RITA obtained such advice as it deemed necessary from qualified professionals.

The following is a summary of the material financial analyses performed by Wells Fargo in connection with rendering its opinion and presented to the RITA board of directors on May 3, 2004. Although there were several business days between the date upon which Wells Fargo delivered

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

its presentation and the date it delivered its written opinion, neither Wells Fargo nor RITA believed that a subsequent presentation from Wells Fargo was necessary because there were no material changes in market conditions or the financial terms of the proposed merger during such time. In the following analyses, the valuation of Horizon was based on an exchange ratio of 0.4174. Although the final exchange ratio was 0.4212, Wells Fargo believed the difference in the exchange ratios was not material to its analyses. The summary of the financial analyses is not a complete description of all of the analyses performed by Wells Fargo. Some of the information in this section is presented in tabular form. **In order to better understand the financial analyses performed by Wells Fargo, the tables must be read together with the text accompanying each table. Wells Fargo's opinion is based upon the totality of the various analyses that it performed, and no particular portion of the analyses has any value or merit standing alone.**

Table of Contents**Index to Financial Statements***Comparable Companies Analysis*

Using publicly available Wall Street research, Wells Fargo analyzed, among other things, the total enterprise value, which Wells Fargo defined as market value plus debt less cash as of the latest company filing, as a multiple of estimated revenue and as a multiple of estimated earnings before interest and taxes, or EBIT, for the following companies that Wells Fargo believed to be reasonably comparable to Horizon:

Possis Medical, Inc.	LifeCell Corporation
Arthrocare Corporation	Candela Corporation
Merit Medical Systems, Inc.	Exactech, Inc.
Kensey Nash Corporation	Endocardial Solutions, Inc.
Aspect Medical Systems, Inc.	STAAR Surgical Company
Palomar Medical Technologies, Inc.	Micro Therapeutics, Inc.

As set forth below, this analysis indicated the high, mean, median, stripped mean, defined as the average of the data set excluding the high and low data points, and low of multiples for the calendar years 2003, 2004 and 2005 as of April 29, 2004 and compared these multiples to those for Horizon for the same periods:

	Total Enterprise Value as a Multiple of					
	2003 Actual		2004 Estimated		2005 Projected	
	Revenue	EBIT	Revenue	EBIT	Revenue	EBIT
Mean	5.52x	30.3x	4.45x	30.3x	3.50x	22.9x
Median	5.82x	28.0x	4.38x	22.3x	2.93x	18.0x
Stripped Mean	5.50x	26.4x	4.44x	28.7x	3.47x	20.7x
High	8.59x	59.6x	6.67x	59.6x	5.33x	51.7x
Low	2.69x	16.9x	2.24x	12.3x	1.86x	9.3x
Horizon	4.97x	15.55x	4.71x	13.75x	4.03x	11.75x

Wells Fargo obtained estimated and projected revenue data for Horizon from RITA management. For Horizon, Wells Fargo calculated actual, 2004 and 2005 EBIT data by including total estimated annual cost savings as a result of the combination and as determined by RITA's and Horizon's respective management teams. In addition, Wells Fargo calculated estimated 2004 EBIT data by excluding a one-time charge associated with separation payments payable to Marshall B. Hunt and William E. Peterson, Jr. Wells Fargo then applied a range of selected multiples of revenue for calendar years 2003, 2004 and 2005 and of EBIT for calendar years 2003, 2004 and 2005 derived from the selected companies listed above to the corresponding financial data of Horizon. The analysis of these periods indicated the following implied exchange ratios, based on RITA's stock price as of April 29, 2004, for Horizon:

	Relevant Range		Implied Exchange Ratio	
	Low	High	Low	High
Revenue Multiples				
2003 Actual Revenue	3.52x	5.52x	0.2868x	0.4669x
2004 Estimated Revenue	2.99x	4.45x	0.2528x	0.3918x
2005 Projected Revenue	2.62x	3.50x	0.2603x	0.3579x
EBIT Multiples				
2003 Actual EBIT	16.9x	28.0x	0.4563x	0.7773x
2004 Estimated EBIT	13.7x	22.3x	0.4163x	0.6949x
2005 Projected EBIT	11.1x	18.0x	0.3941x	0.6563x
Exchange Ratio in the Proposed Merger			0.4212x	

Table of Contents

Index to Financial Statements

Based on the implied exchange ratio ranges summarized above, Wells Fargo calculated a relevant exchange ratio range of 0.2500x to 0.7000x. Wells Fargo noted that the exchange ratio in the proposed merger of 0.4212x fell within this range.

Selected Precedent Transactions Analysis

Using publicly available Wall Street research, Wells Fargo reviewed and analyzed, among other things, the total enterprise values and implied transaction multiples in the following selected transactions, listing the acquired company followed by the acquirer and the date these transactions were publicly announced, that Wells Fargo believed to be reasonably comparable to the proposed merger:

Interpore International, Inc. / Biomet, Inc. March 7, 2004

Novacept, Inc. / Cytoc Corporation March 1, 2004

i-STAT Corporation / Abbott Laboratories December 15, 2003

Breg, Inc. / Orthofix International N.V. November 19, 2003

Spinal Concepts, Inc. / Abbott Laboratories June 2, 2003

Computer Motion, Inc. / Intuitive Surgical, Inc. March 7, 2003

Bionx Implants, Inc. / CONMED Corporation January 13, 2003

Cohesion Technologies, Inc. / Angiotech Pharmaceuticals, Inc. September 27, 2002

BEI Medical Systems Company, Inc. / Boston Scientific Corporation May 14, 2002

Fusion Medical Technologies, Inc. / Baxter International, Inc. February 27, 2002

ORATEC Interventions, Inc. / Smith & Nephew, Inc. February 14, 2002

VidaMed, Inc. / Medtronic, Inc. December 6, 2001

Cardiac Pathways Corporation / Boston Scientific Corporation June 29, 2001

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Heartport, Inc. / Johnson & Johnson January 26, 2001

IntraTherapeutics, Inc. / Sulzer Medica January 5, 2001

Wells Fargo reviewed the transaction value at the announcement of the transaction in each of the selected transactions as a multiple of last twelve months, or LTM, revenue and next twelve months, or NTM, estimated revenue. Based on these calculations, Wells Fargo noted the mean, stripped mean, median, high and low of the multiples, as well as the one-day and one-month purchase price premiums paid, in each of the selected transactions listed above, as summarized in the following table, and compared these multiples and premiums to those for Horizon:

	Total Enterprise			
	Value as a		Premiums Paid to	
	Multiple of		Market	
	LTM	NTM	One Day	One Month
	Revenue	Revenue	Prior	Prior
Mean	5.86x	4.67x	38.6%	56.7%
Stripped Mean	5.67x	4.56x	35.6%	50.0%
Median	5.35x	4.43x	39.4%	55.4%
High	12.25x	9.44x	87.5%	155.6%
Low	1.57x	1.00x	17.5%	18.1%
Horizon	4.97x	4.71x	9.8%	11.9%

Table of Contents**Index to Financial Statements**

Wells Fargo obtained LTM revenue data for Horizon from publicly available information and NTM revenue data for Horizon from RITA management. Wells Fargo then applied a range of selected multiples of LTM revenue and NTM revenue, as well as a range of selected values of one-day premiums and one-month premiums, derived from the selected transactions listed above to the corresponding financial data of Horizon. The analysis indicated the following implied exchange ratios, based on RITA's stock price as of April 29, 2004, for Horizon:

	Relevant Range		Implied Exchange Ratio	
	Low	High	Low	High
Revenues				
LTM Revenues	3.75x	5.86x	0.3068x	0.4979x
NTM Revenues	3.25x	4.67x	0.2775x	0.4127x
Premiums Paid				
Premium Paid to One Day Prior Stock Price	34.3%	40.0%	0.5104x	0.5320x
Premium Paid to One Month Prior Stock Price	47.6%	55.0%	0.5506x	0.5782x
Exchange Ratio in the Proposed Merger			0.4212x	

Based on the implied exchange ratio ranges summarized above, Wells Fargo calculated a relevant exchange ratio range of 0.2750x to 0.5000x. Wells Fargo noted that the exchange ratio in the proposed merger of 0.4212x fell within this range.

Discounted Cash Flow Analysis

Using estimates obtained from RITA's management, Wells Fargo performed a discounted cash flow analysis on the net cash flows of Horizon for calendar years 2004 through 2006. Wells Fargo first discounted the net cash flows through calendar year 2006 using discount rates ranging from 12.0% to 15.0%. Wells Fargo then added the present value of these net cash flows to the terminal value of Horizon in calendar year 2006, discounted back to present at the same discount rates. Wells Fargo computed the terminal value of Horizon in calendar year 2006 under a revenue methodology, whereby projected revenue for calendar year 2006 was multiplied by terminal revenue multiples ranging from 3.50x to 5.50x. Applying the above ranges of discount rates and terminal revenue multiples to net cash flows of Horizon yielded the following implied exchange ratio, based on RITA's stock price as of April 29, 2004, for Horizon:

	Implied Exchange Ratio	
	Revenue	EBIT
Revenue Methodology	0.3029x	0.5109x
Exchange Ratio in the Proposed Merger	0.4212x	

As used above, net cash flows means free cash flow to Horizon. Wells Fargo noted that the exchange ratio in the proposed merger of 0.4212x fell within the implied exchange ratio range summarized above.

Contribution Analysis

Using figures based on SEC filings and estimates obtained from RITA's management, Wells Fargo reviewed and analyzed, among other things, the respective contributions of Horizon and RITA to the actual and estimated revenues of the combined company for calendar years 2003, 2004, 2005 and 2006, assuming no

Table of Contents**Index to Financial Statements**

incremental revenue synergies. The analysis of these periods indicated the following implied exchange ratios, based on RITA's stock price as of April 29, 2004, for Horizon:

	Implied Exchange Ratio
Revenues	
2003 Actual Revenue	0.5301x
2004 Estimated Revenue	0.4871x
2005 Projected Revenue	0.4402x
2006 Projected Revenue	0.4030x
Exchange Ratio in the Proposed Merger	0.4212x

Based on the implied exchange ratios summarized above, Wells Fargo calculated a relevant exchange ratio range of 0.4000x to 0.5500x. Wells Fargo noted that the exchange ratio in the proposed merger of 0.4212x fell within this range.

Pro Forma Merger Analysis

Using estimates obtained from RITA's management, Wells Fargo reviewed and analyzed, among other things, the projected earnings per share, or EPS, of RITA for calendar years ending December 31, 2004, 2005 and 2006. Wells Fargo calculated projected EPS data for calendar year 2004 by including Horizon results after the proposed merger only, which was assumed to occur on June 30, 2004. The analysis of these periods indicated the following EPS impact, calculated in accordance with U.S. generally accepted accounting principles and calculated excluding amortization of intangible assets:

	Projected for Calendar Year		
	2004	2005	2006
EPS Impact Analysis (GAAP)			
Accretion / (Dilution) \$	\$ 0.15	\$ 0.13	\$ 0.04
Accretion / (Dilution) %	37.6%	208.1%	24.9%
EPS Impact Analysis (Excluding Amortization of Intangible Assets)			
Accretion / (Dilution) \$	\$ 0.26	\$ 0.29	\$ 0.20
Accretion / (Dilution) %	66.1%	461.6%	126.7%

Other Factors

No company, business or transaction compared in any of the above analyses is identical to Horizon, RITA or the proposed merger. Accordingly, an analysis of the results of the foregoing is not entirely mathematical. Rather, an analysis of the results of the foregoing involves complex

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the public trading, acquisition and other values of comparable companies, precedent transactions or the business segment, company or transaction to which they are being compared. In addition, various analyses performed by Wells Fargo incorporate projections prepared by Wall Street analysts using only publicly available information. These projections may or may not prove to be accurate.

While this summary describes the analyses and factors that Wells Fargo deemed material in its presentation to the RITA board of directors, it is not a comprehensive description of all analyses and factors considered by Wells Fargo. The preparation of a fairness opinion is a complex process that involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary

Table of Contents

Index to Financial Statements

description. In arriving at its opinion, Wells Fargo did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Wells Fargo believes that its analyses must be considered as a whole, and that selecting portions of its analyses and of the factors considered by it, without considering all analyses and factors, could create a misleading or incomplete view of the evaluation process underlying its opinion. Each of the comparable companies analysis, selected precedent transactions analysis, discounted cash flow analysis, contribution analysis and pro forma merger analysis, among other analyses, were employed and no one method of analysis should be regarded as critical to the overall conclusion reached by Wells Fargo. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the value of particular techniques. The conclusion reached by Wells Fargo is based on all analyses and factors taken as a whole and also on application of Wells Fargo's own experience and judgment. This conclusion may involve significant elements of subjective judgment and qualitative analysis. Wells Fargo expresses no opinion as to the value or merit standing alone of any one or more parts of the analyses it performed. In performing its analyses, Wells Fargo made numerous assumptions with respect to industry performance, general business and other conditions and matters, many of which are beyond the control of Horizon, RITA or Wells Fargo. Any estimates contained in these analyses are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by these analyses. Accordingly, analyses relating to the value of businesses do not purport to be appraisals or to reflect the prices at which these businesses actually may be sold in the future, and these estimates are inherently subject to uncertainty.

Under the terms of Wells Fargo's engagement, Wells Fargo is entitled to receive usual and customary fees from RITA in connection with the proposed merger. A substantial portion of such fee is contingent upon the completion of the proposed merger. In addition, RITA has agreed to indemnify Wells Fargo for certain liabilities that may arise out of its engagement. Wells Fargo has in the past provided financial advisory services to RITA for which it has received customary fees. Wells Fargo maintains a market in RITA's common stock. In the ordinary course of business, Wells Fargo may trade in RITA's securities and Horizon's securities for Wells Fargo's own account and the accounts of its customers and, accordingly, may at any time hold a long or short position in RITA's securities or Horizon's securities.

Wells Fargo was retained based on its reputation as an internationally recognized investment banking firm and based on its experience as a financial advisor in connection with mergers and acquisitions and in securities valuations generally. As part of its investment banking business, Wells Fargo had been frequently engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of securities, private placements and other purposes.

Horizon's Reasons for the Merger

The Horizon board of directors believes that the merger agreement and the merger are advisable and in the best interests of Horizon and its shareholders and would be consistent with, and in furtherance of, the long-term business strategies and goals of Horizon. Accordingly, the Horizon board of directors approved and adopted the merger agreement and the merger and recommends that Horizon shareholders vote for approval of the merger agreement and the merger.

The Horizon board of directors, in reaching its decision to approve and adopt the merger agreement and the merger, consulted with its management, as well as its financial and legal advisors, carefully reviewed a significant amount of information and considered a variety of factors weighing positively towards the merger, including, without limitation, the following:

The exchange ratio of 0.4212 for the merger consideration (based on the closing price per RITA common share on May 11, 2004, the last trading day before the signing of the merger agreement), which implied a value of approximately \$2.40 per share of Horizon common stock, representing a premium of approximately 36% over the closing price per share of Horizon common stock on May 11,

2004.

Table of Contents

Index to Financial Statements

The merger consideration to be received by Horizon shareholders is common stock of RITA, which will allow Horizon shareholders, following completion of the merger, to participate in the benefits of a more diversified company with greater resources and, as stockholders of RITA, benefit from any future growth of the combined company.

The alternatives reasonably available to Horizon, including remaining a stand-alone entity and pursuing other strategic acquisitions and a re-financing of its outstanding debt, including its outstanding Senior Subordinated Notes.

Because the exchange ratio for the merger consideration is fixed, the opportunity for Horizon shareholders to benefit from any increase in the trading price of RITA common shares between announcement of the merger and the closing of the merger.

Its analysis of the business, operations, financial condition, earnings and prospects of both Horizon and RITA, including the results of Horizon's due diligence review of RITA and its business.

The potential for the merger to create the opportunity for the combined company to achieve significant cost savings, estimated to be approximately \$5 to \$7 million annually, and synergies which will inure to a significant degree to the benefit of Horizon shareholders as RITA stockholders and to customers of the combined company.

The current and prospective industry, economic and market conditions and trends, including increased competition in the industry in which Horizon operates, and the belief that the combined company, with greater size and scale, would be better positioned to succeed.

The strategic nature of the business combination, the complementary nature of the companies' research and development expertise and manufacturing resources, and the belief of Horizon's board that combining the two companies likely will create a stronger company able to deal more efficiently with the costs of being a public company.

The opportunity for Horizon shareholders to participate in a combined larger company with a broader and more diverse and innovative product line.

The fact that current Horizon shareholders will own approximately 52.5% of the outstanding RITA common stock immediately following the merger on a fully diluted basis.

The complimentary nature of the companies' product lines which will provide the combined company's sales force a more diverse array of medical oncology devices to market and sell to existing and new customers.

The potential for the combined company to generate greater revenues, as compared to Horizon as a stand-alone entity, through the combination of the two companies' complementary customer bases, which will inure to a significant degree to the benefit of Horizon shareholders as RITA stockholders.

The potential for the merger to have an accretive effect with regard to RITA's earnings following completion of the merger, which will inure to a significant degree to the benefit of Horizon's shareholders as RITA stockholders.

The financial presentation of Brookwood Associates, LLC described in the section entitled "Opinion of Horizon's Financial Advisor Brookwood Associates, LLC" beginning on page 42, including Brookwood's opinion to the effect that, as of the date of its opinion, based on its review and subject to the assumptions described in its opinion, an exchange ratio of 0.417 RITA shares for each

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Horizon share was fair from a financial point of view to Horizon's shareholders. See Opinion of Horizon's Financial Advisor Brookwood Associates, LLC on page 42.

The terms of the merger agreement relating to third-party offers, including:

The limitations on the ability of both parties to solicit offers for alternative business combinations; and

Table of Contents

Index to Financial Statements

Each party's ability, under certain circumstances, to terminate the merger agreement in order to accept a third party superior proposal. See the section entitled "The Merger Agreement" beginning on page 54.

The other terms of the merger agreement, including:

The representations and warranties of RITA;

The covenants of Horizon and RITA and their effect on the operations of Horizon and RITA prior to the merger;

The conditions required to be satisfied prior to completion of the merger; and

The rights of Horizon and RITA to terminate the merger agreement.

The expectation that the merger will be treated as a tax-free reorganization for U.S. federal income tax purposes, with the result that the merger consideration to be received by Horizon shareholders will generally be free of any federal income tax liability. See the section entitled "The Proposed Merger Material U.S. Federal Income Tax Consequences of the Merger" beginning on page 49.

The agreement of certain holders of Horizon's senior subordinated notes, in connection with the merger, to extend the maturity date of such notes from July 2005 to July 2008.

In addition to these factors, the Horizon board of directors also considered the potential adverse impact of other factors weighing negatively on the proposed transactions. These included the following:

The risks described under the section of this joint proxy statement/prospectus entitled "Risks Relating to the Merger".

The challenges of combining the businesses and workforces of RITA and Horizon.

The risk that the cost savings, synergies and other benefits expected to be obtained in the transaction might not be fully realized.

Because only approximately 9% of outstanding RITA shares have committed to voting in favor of the issuance of the RITA common stock to be used as the merger consideration, as opposed to the approximately 53% of outstanding Horizon shares committed to voting in favor of the merger agreement and the merger, the risk that RITA stockholders will not approve such issuance, in which case the merger would not occur and Horizon would only be entitled to up to a \$1.5 million expense reimbursement fee.

The potential disruption to Horizon's business that may result from the announcement of the merger, including the potential loss of existing customers and employees, the potential for the renegotiation of terms with existing Horizon customers on terms that are less favorable to Horizon, and the potential for not being able to obtain new business from existing or potential customers.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Because the exchange ratio for the merger consideration is fixed, Horizon shareholders will be adversely affected by any decrease in the sale price of RITA common shares between the date of execution of the merger agreement and the closing of the merger, which would not have been the case had the consideration been based on a fixed value (that is a fixed dollar amount of value per share in all cases).

The limitations imposed in the merger agreement on the conduct by Horizon of its business and on the solicitation by Horizon of alternative business combinations prior to completion of the merger.

The requirement that Horizon must pay to RITA a termination fee of \$3.5 million and up to a \$1.5 million expense reimbursement if the merger agreement is terminated by Horizon under certain circumstances specified in the merger agreement. See the section entitled The Merger Agreement Termination Fee beginning on page 60.

The loss of autonomy of Horizon.

Table of Contents

Index to Financial Statements

The risk that the merger might not be completed and the effect of the resulting public announcement of the termination on:

the market price of Horizon common stock;

Horizon's operating results, particularly in light of the substantial costs incurred in connection with the proposed transaction, including the potential requirement to make a termination fee payment and expense reimbursement; and

Horizon's ability to attract and retain key personnel.

The Horizon board of directors also considered the interests that certain executive officers and directors of Horizon may have with respect to the merger in addition to their interests as shareholders of Horizon generally (see the section entitled "Interests of Executive Officers and Directors of Horizon in the Merger" beginning on page 51) and the fact that certain provisions of the certificate of incorporation and bylaws of RITA, including the fact that RITA has a stockholder rights plan in effect, may be viewed as having anti-takeover effects with respect to transactions not approved by the board of directors of RITA, which the Horizon board of directors considered as being neutral in its evaluation of the proposed transaction. See the section entitled "Comparison of Stockholder Rights and Corporate Governance Matters" beginning on page 159.

The Horizon board of directors concluded that the positive aspects of the merger significantly outweighed the foregoing negative and neutral factors.

This discussion of the information and factors considered by the Horizon board of directors includes all the material positive, negative and neutral factors considered by the Horizon board of directors, but it is not intended to be exhaustive and may not include all of the factors considered by the Horizon board. In reaching its determination to approve and recommend the merger agreement and the merger, the Horizon board of directors did not quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination that the merger agreement and the merger are advisable and in the best interests of Horizon and its shareholders. Rather, the Horizon board of directors viewed its position and recommendation as being based on the totality of the information presented to and factors considered by it. In addition, individual members of the Horizon board of directors may have given differing weights to different factors.

In considering the recommendation of the Horizon board of directors with respect to the merger agreement and the merger, you should be aware that certain Horizon directors and officers have arrangements that cause them to have interests in the transaction that are different from, or are in addition to, the interests of Horizon shareholders generally. See the section entitled "Interests of Executive Officers and Directors of Horizon in the Merger" beginning on page 51.

Opinion of Horizon's Financial Advisor Brookwood Associates, LLC

Pursuant to an engagement letter dated April 2, 2004, Horizon's board of directors engaged Brookwood Associates, LLC to act as its financial advisor in evaluating the fairness of the exchange ratio, from a financial point of view, to Horizon's shareholders. Horizon's board of directors selected Brookwood to act as financial advisor based on Brookwood's expertise, reputation and experience, as well as its familiarity with the medical device and healthcare sector in which Horizon conducts its business. On April 29, 2004 at a meeting of the Horizon board of directors, Brookwood delivered to the Horizon board of directors its opinion that, as of that date, based upon the review and subject to the various assumptions, all as described in its opinion, the exchange ratio was fair, from a financial point of view, to Horizon's shareholders. For purposes

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

of its opinion, Brookwood assumed that the exchange ratio would be 0.417 of a share of RITA common stock to be received for each share of Horizon common stock. However, the merger agreement as signed on May 12, 2004 specifies an exchange ratio of 0.4212, which is slightly more favorable to holders of Horizon common stock than that assumed by Brookwood in its opinion.

Table of Contents

Index to Financial Statements

THE FULL TEXT OF BROOKWOOD ASSOCIATES' WRITTEN OPINION DATED APRIL 29, 2004 IS ATTACHED AS ANNEX C TO THIS JOINT PROXY STATEMENT/PROSPECTUS AND IS INCORPORATED INTO THIS JOINT PROXY STATEMENT/PROSPECTUS BY REFERENCE. THE WRITTEN OPINION SETS FORTH, AMONG OTHER THINGS, THE ASSUMPTIONS MADE, MATTERS CONSIDERED AND LIMITATIONS ON THE REVIEW UNDERTAKEN BY BROOKWOOD ASSOCIATES IN CONNECTION WITH THE OPINION. HORIZON MEDICAL PRODUCTS' SHAREHOLDERS ARE URGED TO, AND SHOULD, READ THE BROOKWOOD LETTER OPINION CAREFULLY AND IN ITS ENTIRETY. THE BROOKWOOD LETTER OPINION IS DIRECTED TO HORIZON'S BOARD OF DIRECTORS AND ADDRESSES ONLY THE FAIRNESS OF THE EXCHANGE RATIO TO HORIZON SHAREHOLDERS FROM A FINANCIAL POINT OF VIEW AS OF THE DATE OF THE OPINION. THE BROOKWOOD LETTER OPINION DOES NOT ADDRESS ANY OTHER ASPECT OF THE ACQUISITION AND DOES NOT CONSTITUTE A RECOMMENDATION TO ANY HORIZON SHAREHOLDER AS TO HOW TO VOTE AT THE HORIZON ANNUAL MEETING. THE SUMMARY OF THE BROOKWOOD OPINION SET FORTH IN THIS JOINT PROXY STATEMENT/PROSPECTUS IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF SUCH OPINION.

In connection with rendering its opinion, Brookwood, among other things:

reviewed the financial terms and conditions of a draft of the Merger Agreement dated April 28, 2004, furnished to Brookwood on April 28, 2004 (which, for purposes of its opinion, Brookwood assumed to be identical in all material respects to the executed Merger Agreement and that the exchange ratio in the executed Merger Agreement is 0.417);

reviewed Horizon's and RITA's Annual Reports on Form 10-K for the fiscal year ended December 31, 2003 as filed with the SEC, including the audited financial statements contained therein;

reviewed certain internal financial and operating information (including certain preliminary financial results and projections) for Horizon and RITA prepared by and provided to Brookwood by their respective managements;

participated in discussions with Horizon and RITA management concerning the operations, business strategy, financial performance and prospects for Horizon and RITA;

discussed the strategic rationale for Horizon merging with RITA with Horizon and RITA management including but not limited to the strategic and financial benefits of the acquisition, the timing and risks of integration, and the validity of and risks to the intellectual property, products, services, and business models of the companies;

reviewed recent reported closing prices and trading activity for Horizon common stock and RITA common stock;

compared certain aspects of the financial performance of Horizon and RITA with other public companies Brookwood deemed comparable, in whole or in part;

analyzed publicly available information concerning other mergers and acquisitions Brookwood deemed comparable, in whole or in part;

reviewed recent equity research analyst reports covering Horizon and RITA;

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

reviewed estimates of the management and other representatives of Horizon and RITA regarding the pro forma impact of the acquisition on the financial statements and future financial performance of the combined entity;

reviewed certain other publicly available information on Horizon's and RITA's respective industries; and

conducted other studies and analyses as Brookwood deemed appropriate for purposes of its opinion.

Table of Contents**Index to Financial Statements**

In rendering its opinion, Brookwood relied, without independent verification, on the accuracy and completeness of all financial and other information that was publicly available or furnished to Brookwood by Horizon or RITA or various other parties. With respect to the financial forecasts and other information provided to or discussed with Brookwood, Brookwood assumed that such projections were reasonably prepared in good faith and reflected the best available estimates and judgments of Horizon's and RITA's management as to the future performance of the companies. Brookwood also assumed that neither Horizon nor RITA was currently involved in any material transaction as of the date of Brookwood's opinion other than the merger of Horizon and RITA and those activities undertaken in the ordinary course of conducting their respective businesses.

Brookwood relied upon, without independent verification, assessments by the managements of Horizon and RITA of: (i) the strategic, financial and other benefits expected to result from the merger; (ii) the timing and risks associated with the integration of Horizon and RITA; and (iii) the validity of, and risks associated with, Horizon and RITA's existing and future technologies, intellectual property, products, services and business models. Brookwood did not make or obtain any independent appraisal or valuation of any of Horizon's or RITA's assets or liabilities, contingent or otherwise. Brookwood's opinion is necessarily based upon market, economic, financial and other conditions as they existed and were disclosed to Brookwood as of April 26, 2004, and any material change in those conditions after that date would require a reevaluation of Brookwood's opinion. The Brookwood opinion did not express any opinion as to the price at which Horizon or RITA common stock will trade at any time. Brookwood also expressed no opinion as to the merits of the underlying business decision to effect the merger of Horizon and RITA, the structure or tax consequences of the acquisition, or with respect to any other reasons, legal, business, or otherwise, that may support the decision of Horizon's board of directors to approve or complete the acquisition.

The following is a brief summary of the sources of information and valuation methodologies employed by Brookwood in rendering Brookwood's opinion. This summary includes the financial analyses used and deemed to be material by Brookwood, but does not purport to be a complete description of analyses performed by Brookwood in arriving at its opinion. This summary of financial analyses includes information presented in tabular format. In order to fully understand the financial analyses used by Brookwood, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses.

Trading Range Analysis

Brookwood reviewed the range of closing prices of Horizon common stock for various periods ending on April 26, 2004. Brookwood observed the following:

	Range of Closing Prices
Horizon's share price 10 trading days prior	\$ 2.26 - \$ 2.55
Horizon's share price 30 trading days prior	\$ 1.79 - \$ 2.60
Horizon's share price 120 trading days prior	\$ 1.20 - \$ 2.60
Horizon's share price 12 months prior	\$ 0.49 - \$ 2.60

Comparable Public Company Analysis

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Brookwood compared selected financial and market capitalization data of Horizon with that of an index of 10 publicly-traded companies that Brookwood deemed reasonably comparable to Horizon's medical device business, referred to as the Comparable Medical Device Company Index. The Comparable Medical Device Company Index includes the following companies: Cardiotech International, Inc.; Enpath Medical, Inc.; Escalon Medical Corp.; I-Flow Corp.; Kensey Nash Corp.; Merit Medical Systems, Inc.; Micro Therapeutics, Inc.; NMT Medical, Inc.; Possis Medical, Inc.; and Retractable Technologies, Inc.

Table of Contents**Index to Financial Statements**

The following table presents the median and range of multiples for the Comparable Medical Device Companies of total enterprise value (defined as equity market capitalization plus total debt, minus cash and cash equivalents) divided by selected operating metrics:

	Median Multiple	Range of Multiples		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total enterprise value to last twelve months revenue	6.5x	0.8x	-	8.4x
Total enterprise value to last twelve months EBITDA earnings	17.5x	13.4x	-	31.0x
Total enterprise value to last twelve months EBIT earnings	28.4x	15.6x	-	33.4x

Brookwood then applied the ratios shown above to Horizon's operating results for the latest twelve months ended March 31, 2004. The following table presents the median implied per share values and the range of implied per share values of Horizon's common stock for each of the above operating metrics, calculated using the multiples shown above to arrive at Horizon's enterprise value, then subtracting debt and adding cash and cash equivalents to calculate market value of equity. The number of shares outstanding used to calculate the per share value of equity was based on the number of shares outstanding reported by Horizon as of March 31, 2004. Additionally, Brookwood analyzed the implied value per Horizon share implied by a 30% control premium.

	Implied Values Per Share			
	Median	Range		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total enterprise value to last twelve months revenue	\$ 3.88	\$ 0.18	-	\$ 5.16
With 30% control premium	\$ 5.04	\$ 0.23	-	\$ 6.71
Total enterprise value to last twelve months EBITDA earnings	\$ 0.88	\$ 0.59	-	\$ 1.85
With 30% control premium	\$ 1.14	\$ 0.77	-	\$ 2.41
Total enterprise value to last twelve months EBIT earnings	\$ 0.41	\$ 0.06	-	\$ 0.55
With 30% control premium	\$ 0.53	\$ 0.08	-	\$ 0.72

No company utilized in the comparable public company analysis as a comparison is identical to Horizon. Mathematical analysis, such as determining the median, average, or range, is not in itself a meaningful method of using comparable company data.

Precedent Transaction Analysis

Brookwood considered, to the extent information was publicly available, ratios of equity purchase price, adjusted for the seller's cash and debt when appropriate, to selected historical operating results in order to indicate multiples that strategic and financial acquirers have been willing to pay for companies in a particular market segment. In order to perform this analysis, Brookwood reviewed a number of transactions involving companies Brookwood considered reasonably similar to Horizon, referred to as Medical Device Transaction Comparables. These transactions consisted of the acquisition of:

Interpore International Inc. by Biomet Inc.;

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Novacept Inc. by CYTYC Corp.;

Bio-Plexus Inc. by ICU Medical Inc.;

Gish Biomedical Inc. by Cardiotech International Inc.;

Meridian Medical Technology by King Pharmaceuticals Inc.; and

ORATEC Interventions Inc. by Smith & Nephew plc.

The following table presents the median multiple and the range of multiples of the adjusted purchase price (meaning equity purchase price plus the seller's total debt minus the seller's cash and cash equivalents) divided

Table of Contents**Index to Financial Statements**

by the seller's revenue, EBITDA, and EBIT in the last reported twelve months prior to acquisition for the Medical Device Transaction Comparables:

	Median Multiple	Range of Multiples
Adjusted price to last reported twelve months revenue	3.6x	0.5x - 11.3x
Adjusted price to last reported twelve months EBITDA	21.9x	12.3x - 31.5x
Adjusted price to last reported twelve months EBIT	26.4x	14.6x - 38.2x

Brookwood then applied the ratios shown above to Horizon's operating results for the latest twelve months ended March 31, 2004. The following table presents the median implied per share value and the range of implied per share values of Horizon's common stock, calculated by multiplying the multiples from the Medical Device Transaction Comparables by the appropriate Horizon operating metric. The number of shares outstanding used to calculate the per share value of equity was based on the number of shares outstanding reported by the Company as of March 31, 2004.

	Implied Values Per Share		
	Median	Range	
Adjusted price to last reported twelve months revenue	\$ 1.97	(\$0.08)	- \$ 7.10
Adjusted price to last reported twelve months EBITDA	\$ 1.20	\$0.51	- \$ 1.89
Adjusted price to last reported twelve months EBIT	\$ 0.35	\$0.03	- \$ 0.68

No transaction utilized as a comparable in the precedent transaction analysis is identical to the merger of Horizon and RITA. Mathematical analysis, such as determining the average, median or range, is not in itself a meaningful method of using comparable transaction data.

Transaction Premiums Analysis

Brookwood considered the premiums paid above a seller's share price in order to determine the additional value strategic and financial acquirers, when compared to public shareholders, are willing to pay for companies in a particular market segment. In order to perform this analysis, Brookwood reviewed 50 transactions from 1999 to 2004 involving publicly-traded medical device or medical device-related companies.

The following table presents the average premium and the range of premiums for these transactions, as follows:

Average Premium	Range of Premiums
----------------------------	------------------------------

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Premium to seller's share price one trading day prior to announcement	47.0%	(12%)	-	326%
Premium to seller's share price five trading days prior to announcement	54.7%	(8%)	-	277%
Premium to seller's share price 30 trading days prior to announcement	67.3%	(66%)	-	406%

Brookwood then calculated the implied premium paid to Horizon shareholders by subtracting the closing share price from the implied purchase price per share of Horizon common stock and dividing by the closing share price for each period. The implied purchase price per share was calculated by multiplying the exchange ratio by the closing price for RITA common stock on April 26, 2004.

	Closing Price	Implied Premium
	<u> </u>	<u> </u>
Premium to Horizon's share price one trading day prior	\$ 2.53	8.3%
Premium to Horizon's share price five trading days prior	\$ 2.47	10.9%
Premium to Horizon's share price 30 trading days prior	\$ 2.15	27.4%

Table of Contents**Index to Financial Statements**

No transaction utilized as a comparable in the transaction premiums analysis is identical to the merger of Horizon and RITA. Mathematical analysis, such as determining the average, median or range is not in itself a meaningful method of using comparable transaction data.

Exchange Ratio Analysis

Brookwood compared the ratios of the closing prices of Horizon common stock divided by the corresponding prices of RITA common stock over the period from April 28, 2003 through April 26, 2004, referred to as the historical exchange ratio, with the exchange ratio in the Merger Agreement, assumed by Brookwood to be 0.417. The one-year historical exchange ratio has ranged from 0.13 to 0.48, with an average of 0.31.

Relative Contribution Analysis

Brookwood examined the relative contribution of Horizon to RITA for a number of historical and projected operating metrics. In this analysis, projected figures for Horizon and RITA are based on management estimates for the respective companies. The following reflect the relative contribution of Horizon and RITA for each operating metric:

	% of Combined	
	Horizon	RITA
Actual 2003 and Pro Forma Combined:		
Sales		
2003A	63%	37%
2004E	64%	36%
Gross Profit		
2003A	62%	38%
2004E	61%	39%
Total Debt	100%	0%
Cash & Equivalents	18%	82%
Market Capitalization	48%	52%
Total Enterprise Value	53%	47%

Pro Forma Combination Analysis

Brookwood calculated the pro forma impact of the acquisition on the combined entity's projected earnings per share for the calendar years 2004, 2005, and 2006, taking into consideration various financial effects that will result from completion of the acquisition. This analysis relied upon certain financial and operating assumptions derived from publicly available data about Horizon and RITA, certain internal financial projections provided by Horizon and RITA management, and synergy assumptions determined through discussions with Horizon management and RITA management. Based on this analysis the pro forma purchase model indicates the following earnings per share impact for Horizon shareholders: (\$0.03) dilution for 2004; \$0.07 accretion for 2005; and \$0.12 accretion for 2006.

Implied Breakeven Analysis

Brookwood performed a sensitivity analysis to derive the ownership percentage for Horizon shareholders of the pro forma combined company required in order for the implied net income attributable to the pro forma interest in the combined company of Horizon shareholders to yield the estimated 2005 and 2006 net income of Horizon on a stand alone basis. In conducting its analysis, Brookwood used a range of 50% to 100% realization of the synergies of the combined company for 2005 and 2006, as estimated by the managements of Horizon and RITA. This analysis was based on Horizon's projected net income for fiscal years 2005 and 2006 provided to Brookwood by Horizon's management team.

Table of Contents**Index to Financial Statements**

The table below presents a summary of the implied ownership percentage Horizon shareholders would have in the combined entity to breakeven relative to projected net income.

	Scenario 1		Scenario 2		Scenario 3	
	100% Synergies		75% Synergies		50% Synergies	
	2005E	2006E	2005E	2006E	2005E	2006E
Horizon Stand Alone Net Income	\$ 2.6	\$ 4.1	\$ 2.6	\$ 4.1	\$ 2.6	\$ 4.1
Combined Pro Forma Net Income	\$ 9.5	\$ 16.3	\$ 7.7	\$ 14.4	\$ 5.8	\$ 12.5
Implied Ownership % to Breakeven	27.1%	25.4%	33.7%	28.7%	44.5%	33.1%

Discounted Cash Flow Methodology

Brookwood performed a discounted cash flow analysis to estimate the present value of Horizon, given certain projections for revenue, gross profit, and operating profit presented to Brookwood by the Horizon management team. The discounted cash flow of Horizon was determined by adding the present value, as of July 1, 2004 of free cash flows through December 31, 2006, as projected by Horizon management, plus the estimated value of Horizon as of December 31, 2006 using a range of growth rates in perpetuity. Free cash flow is defined as unlevered cash flow after working capital increases or decreases and capital expenditures and depreciation.

The range of estimated values for Horizon was calculated by applying discount rates ranging from 16.5% to 24.5% and perpetuity growth rates ranging from 5% to 14%. Brookwood arrived at these discount rates by calculating an estimated cost of capital for Horizon using, among other things, the estimated cost of capital and capital structures of companies in Horizon's industry according to Horizon's SIC code, Horizon's company beta as of April 26, 2004, and an estimated range of company-specific risk premiums from 0% to 10%.

The following table presents a summary of the implied equity values per share of Horizon common stock from this analysis:

Discount Rate	Value per Common Share	
	Growth Rate of 2006E Free Cash Flow	
	5%	14%
16.5%	\$0.25	\$2.50
24.5%	\$0.01	\$0.26

Miscellaneous

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. In arriving at its opinion, Brookwood considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor considered. Accordingly, Brookwood believes that its analyses must be considered as a whole and that selecting any portion of its analyses, without considering all analyses, would create an incomplete view of the process underlying its opinion.

In performing its analyses, Brookwood made numerous assumptions with respect to industry performance and general business and economic conditions and other matters, many of which are beyond the control of Horizon or RITA. The analyses performed by Brookwood are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. The exchange ratio under the merger agreement and other terms of the merger agreement were determined through arm's length negotiations between Horizon and RITA and were approved by the Horizon board of directors. In addition, Brookwood's opinion was one of many factors taken into consideration by the Horizon board of directors in making its decision to approve the acquisition. Consequently, the Brookwood analyses as described above should

Table of Contents

Index to Financial Statements

not be viewed as determinative of the opinion of the Horizon board of directors with respect to the value of Horizon or of whether the Horizon board of directors would have been willing to agree to a different consideration.

Under the terms of Brookwood's engagement, Brookwood was paid a customary and usual fee in connection with the delivery of its opinion. Brookwood would receive no additional fees upon completion of the merger. In addition, Horizon has agreed to reimburse Brookwood for its reasonable expenses, including fees and expenses of its counsel, and to indemnify Brookwood and its affiliates against certain liabilities and expenses related to their engagement, including liabilities under the federal securities laws. The terms of the fee arrangement with Brookwood, which Horizon and Brookwood believe are customary in transactions of this nature, were negotiated at arm's length between Horizon and Brookwood, and the Horizon board of directors was aware of the nature of the fee arrangement.

Accounting Treatment of the Merger

RITA will account for the merger as a purchase under accounting principles generally accepted in the United States. Under the purchase method of accounting, the assets and liabilities of Horizon will be recorded, as of completion of the merger, at their respective fair values and added to those of RITA. Reported financial condition and results of operations of RITA after completion of the merger will reflect Horizon's balances and results after completion of the merger, but will not be restated retroactively to reflect the historical financial condition or results of operations of Horizon. Following the completion of the merger, the earnings of the combined company will reflect purchase accounting adjustments, including the recording of significant amortizable intangible assets as well as goodwill and increased cost of sales, amortization and depreciation expense for acquired assets.

Material U.S. Federal Income Tax Consequences of the Merger

The following is a discussion of the material U.S. federal income tax consequences of the merger to Horizon shareholders who exchange their shares of Horizon common stock for shares of common stock of the combined company pursuant to the merger. This discussion addresses only a Horizon shareholder who holds Horizon common stock as a capital asset. It does not address all of the U.S. federal income tax consequences that may be relevant to a particular Horizon shareholder in light of that shareholder's individual circumstances or to a Horizon shareholder who is subject to special rules, including, without limitation:

A financial institution or insurance company;

A mutual fund;

A tax-exempt organization;

A shareholder who is not a U.S. person for U.S. federal income tax purposes;

A pass-through entity or an investor in such an entity;

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

A dealer or broker in securities or foreign currencies;

A shareholder who holds Horizon common stock through individual retirement or other tax-deferred accounts;

A trader in securities who elects to apply a mark-to-market method of accounting;

A shareholder who holds Horizon common stock as part of a hedge, appreciated financial position, straddle, constructive sale or conversion transaction; and

A shareholder who acquired his or her shares of Horizon common stock pursuant to the exercise of employee stock options or otherwise as compensation.

Table of Contents

Index to Financial Statements

The following discussion is based on the Code, applicable Treasury regulations, administrative interpretations and court decisions, each as in effect as of the date of this joint proxy statement/prospectus and all of which are subject to change, possibly with retroactive effect. It is not binding on the courts or the Internal Revenue Service, or the IRS. In addition, this discussion does not address any state, local or foreign tax consequences of the merger.

Horizon shareholders are strongly urged to consult their tax advisors as to the specific tax consequences to them of the merger in light of their particular circumstances including the applicability and effect of U.S. federal, state, local, foreign and other tax laws.

RITA and Horizon have structured the merger so that it is anticipated that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. It is a condition to the completion of the merger that RITA receive a written opinion from Heller Ehrman White & McAuliffe LLP and Horizon receive a written opinion from King & Spalding LLP, in each case dated as of the effective date of the merger, both to the effect that the merger will qualify as such a reorganization. RITA's and Horizon's conditions relating to these tax opinions are not waivable after receipt of Horizon shareholder approval without reapproval by Horizon shareholders (with appropriate disclosure), and neither RITA nor Horizon intends to waive this condition. The opinions will rely on assumptions, including assumptions regarding the absence of changes in existing facts and law and the completion of the merger in the manner contemplated by the merger agreement, and representations and covenants made by RITA, Hornet Acquisition Corp. and Horizon, including those contained in representation letters of officers of RITA, Hornet Acquisition Corp. and Horizon. If any of those representations, covenants or assumptions is inaccurate, counsel may not be able to render the required opinions and the tax consequences of the merger could differ from those discussed here. An opinion of counsel represents counsel's best legal judgment and is not binding on the IRS or any court, nor does it preclude the IRS from adopting a contrary position. No ruling has been or will be sought from the IRS on the U.S. federal income tax consequences of the merger.

Assuming that the merger qualifies as a reorganization within the meaning of Section 368(a) of the Code for U.S. federal income tax purposes:

A Horizon shareholder whose shares of Horizon common stock are exchanged pursuant to the merger for shares of common stock of the combined company will not recognize gain or loss, except to the extent of cash, if any, received in lieu of a fractional share of common stock of the combined company;

A Horizon shareholder's tax basis in shares of common stock of the combined company received pursuant to the merger will equal (i) the tax basis of the Horizon common stock surrendered in the merger, less (ii) the portion of that tax basis allocable to a fractional share of common stock of the combined company for which cash is received, if any;

A Horizon shareholder's holding period for shares of common stock of the combined company received pursuant to the merger will include the holding period for the shares of Horizon common stock surrendered in the merger; and

To the extent that a Horizon shareholder receives cash in lieu of a fractional share of common stock of the combined company, the shareholder will be deemed to have received that fractional share pursuant to the merger and then to have received the cash in redemption of that fractional share. The shareholder will recognize gain or loss equal to the difference between the cash received and the portion of the shareholder's tax basis in the shares of Horizon common stock surrendered allocable to that fractional share. This gain or loss generally will be long-term capital gain or loss if the holding period for those shares of Horizon common stock is more than one year at the effective time of the merger.

No Appraisal Rights

Under Delaware law, RITA stockholders will not have appraisal rights in connection with the merger if the merger agreement and the transactions contemplated by the merger agreement are approved.

Table of Contents

Index to Financial Statements

Under Georgia law, Horizon shareholders will not have appraisal rights in connection with the merger if the merger agreement and the transactions contemplated by the merger agreement are approved.

Federal Securities Laws Consequences; Stock Transfer Restriction Agreements

All shares of RITA common stock received by Horizon shareholders pursuant to the merger will be freely transferable, except that shares of RITA common stock received by persons who are deemed to be affiliates of Horizon under the Securities Act at the time of Horizon's annual meeting may be resold by them only in transactions permitted by Rule 145 under the Securities Act or as otherwise permitted under the Securities Act, including as described in the following paragraph. Persons who may be deemed to be affiliates of Horizon for these purposes generally include individuals or entities that control, are controlled by or are under common control with Horizon, and may include Horizon directors and executive officers as well as large shareholders.

Following the completion of the merger, RITA intends to file a registration statement in order to allow certain affiliates of Horizon to sell the shares of RITA common stock they receive pursuant to the merger.

In addition, certain shareholders of Horizon have executed Lock Up Agreements in connection with the merger, which agreements, among other things, restrict such shareholder's ability to sell shares of RITA common stock following the effective time of the merger. See The Merger Agreement Other Agreements beginning on page 63.

Stock Exchange Listing; Delisting and Deregistration of Horizon Common Stock

It is a condition to the merger that the shares of RITA common stock issuable pursuant to the merger be approved for listing on the Nasdaq National Market, subject to official notice of issuance. If the merger is completed, Horizon common stock will cease to be listed on the American Stock Exchange and Horizon's shares will be deregistered under the Exchange Act.

Interests of Executive Officers and Directors of RITA in the Merger

RITA's directors and executive officers have interests in the merger as individuals in addition to, and that may be different from, their interests as stockholders. In particular, all executive officers have interests in the combined company as employees in terms of job responsibilities, working environment and compensation that are in addition to and different from their interests as stockholders. All continuing directors will have the responsibility for being directors of a new and larger company after the merger. Specific agreements with certain executive officers are described below. RITA's board of directors was aware of these interests and considered them in its decision to approve the merger agreement and the merger.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

RITA's officers are entitled to certain benefits following a change of control of the company, including acceleration of vesting of stock options and certain termination benefits. The RITA officers have waived any rights they would have to these benefits as a result of the merger with Horizon, but remain entitled to these benefits if their employment is terminated within 12 months from the completion of the merger. See, "The Companies About RITA Employment Agreements" on page 83.

Interests of Executive Officers and Directors of Horizon in the Merger

Horizon's directors and executive officers have interests in the merger as individuals in addition to, and that may be different from, their interest as shareholders.

Compensation to Certain Non-Employee Directors

In June 2004, the Horizon board of directors approved Horizon's one-time payment of \$17,500 to each of James E. Brands and Robert D. Tucker prior to the consummation of the merger for providing certain services to Horizon related to the merger in their capacities as directors.

Table of Contents

Index to Financial Statements

Other Interests

Horizon directors and all Horizon officers will receive accelerated vesting of their stock options and certain executive officers will have interests in the combined company as employees in terms of job responsibilities, working environment and compensation that are in addition to and different from their interests as shareholders. All continuing directors will have the responsibility for being directors of a new and larger company after the merger. Specific agreements with certain executive officers are described below. Horizon's board of directors was aware of the below interests and considered them in its decision to approve the merger agreement and the merger.

Employment Arrangements

In connection with the merger agreement, L. Bruce Maloy and Robert Singer entered into employment agreements with Horizon in May 2004. For a detailed description of these agreements, see [The Companies About Horizon Employment Agreements](#) beginning in page 99.

Severance Plans and Agreements

In connection with the merger agreement, L. Bruce Maloy, Robert Singer and Elaine Swygert entered into severance and bonus agreements with Horizon in May 2004. For a detailed description of these agreements, see [The Companies About Horizon Employment Agreements](#) beginning on page 99.

Treatment of Horizon Stock Options

Each outstanding Horizon stock option will be assumed by RITA as of the completion of the merger and, after such date, will be exercisable for shares of RITA common stock under the same terms and conditions of the same documents as currently govern such options, except that: (a) the number of shares of RITA common stock underlying the new option will equal the number of shares of Horizon common stock for which the corresponding Horizon option was exercisable, multiplied by 0.4212 and rounded down to the nearest whole share, (b) the per share exercise price of each new option will equal the exercise price of the corresponding Horizon option, divided by 0.4212 and rounded up to the nearest whole cent and (c) the exercisability of all Horizon options will accelerate such that these options will become exercisable and fully vested upon completion of the merger. See [Risk Factors Risks Related to the Merger](#) on page 18.

Indemnification; Directors and Officers Insurance

The merger agreement generally provides that following completion of the merger, RITA and the surviving corporation will fulfill the obligations of Horizon pursuant to any indemnification agreements between Horizon and its directors and officers. Following the merger, the certificate of incorporation and bylaws of the surviving corporation will contain certain provisions with respect to the indemnification that are least as favorable to Horizon directors and officers as those contained in the Horizon articles of organization and bylaws in effect on the date the

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

merger agreement was executed. These provisions will not be adversely amended or repealed for a period of six years following completion of the merger, unless such modification is required by law. For a period of six years after completion of the merger, RITA and the surviving corporation will maintain, subject to certain limits regarding premium increases, directors and officers liability insurance with respect to claims relating to actions or omissions occurring before the merger.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, RITA has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and may therefore be unenforceable.

Table of Contents

Index to Financial Statements

Commonwealth Advisory Services to Horizon

As described in the section entitled Background of the Merger, the Horizon board of directors engaged Commonwealth to serve as a financial advisor in connection with the proposed merger. Commonwealth assisted in the negotiations of the merger agreement on Horizon's behalf, and provided general advisory services in connection with the evaluation of the proposed transaction. In connection with these advisory services, Commonwealth will be paid an aggregate fee of \$750,000, which fee will be reduced by the fee which was paid to Brookwood in connection with its rendering of a fairness opinion in the merger. In addition, Commonwealth was reimbursed for its reasonable expenses incurred in connection with its services to Horizon. This fee payable to Commonwealth will be paid upon the completion of the merger.

Table of Contents

Index to Financial Statements

THE MERGER AGREEMENT

The following is a summary of the material terms of the merger agreement. This summary does not purport to describe all of the terms of the merger agreement and is qualified in its entirety by reference to the complete merger agreement, which is included as Annex A to this joint proxy statement/prospectus and incorporated by reference herein. All stockholders of RITA and Horizon are urged to read the entire merger agreement.

General

Under the merger agreement, Hornet Acquisition Corp., a wholly-owned subsidiary of RITA, will merge with and into Horizon, with Horizon continuing as the surviving corporation. As a result of the merger, Horizon will become a wholly-owned subsidiary of RITA.

Closing Matters

Closing. Unless the parties agree otherwise, the completion of the merger will take place on a date specified by the parties, but no later than the third business day after all closing conditions have been satisfied or waived, at the offices of Heller Ehrman White & McAuliffe LLP in Menlo Park, California. See *Conditions to Completion of the Merger* below for a more complete description of the conditions that must be satisfied or waived prior to closing.

Completion of the Merger. As soon as practicable after the satisfaction or waiver of the conditions to the merger, RITA and Horizon will file certificates or articles of merger with the Secretaries of State of the State of Georgia and the State of Delaware in accordance with the relevant provisions of the Georgia Business Corporation Code, or GBCC, and the Delaware General Corporation Law, or DGCL, respectively. The merger will become effective when the certificates of merger are filed or at such later time as RITA and Horizon agree and specify in the certificates or articles of merger.

Consideration to be Received Pursuant to the Merger; Treatment of Stock Options

The merger agreement provides that, at the completion of the merger:

Each share of Horizon common stock issued and outstanding immediately prior to the completion of the merger, but excluding shares of Horizon common stock held in the treasury of Horizon, will be converted into the right to receive 0.4212 of a share of RITA common stock; and

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Horizon's stock option plan and each outstanding Horizon stock option will be assumed by RITA as of the completion of the merger and, after such date, will be exercisable for shares of RITA common stock under the same terms and conditions of the same documents as currently govern such options, except that: (a) the number of shares of RITA common stock underlying the new option will equal the number of shares of Horizon common stock for which the corresponding Horizon option was exercisable, multiplied by 0.4212 and rounded down to the nearest whole share, (b) the per share exercise price of each new option will equal the exercise price of the corresponding Horizon option, divided by 0.4212 and rounded up to the nearest whole cent, and (c) the exercisability of all Horizon options shall accelerate such that these options will become exercisable and fully vested upon completion of the merger.

As soon as practicable after the completion of the merger, the combined company will deliver notices to the holders of Horizon stock options. These notices will set forth each holder's rights under the Horizon stock plans as assumed by the combined company, taking into account provisions providing for adjustments to the number of shares underlying, and the exercise price of, the options and the impact of the merger on the vesting schedule of the options.

Table of Contents

Index to Financial Statements

Exchange of Certificates in the Merger

Before the completion of the merger, an exchange agent will be appointed to handle the exchange of Horizon stock certificates for certificates representing shares of RITA common stock and the payment of cash for fractional shares. Promptly after the completion of the merger, the exchange agent will send a letter of transmittal to each former Horizon shareholder explaining the procedure for surrendering Horizon stock certificates in exchange for certificates representing shares of RITA common stock. A former Horizon shareholder should, if required, complete the substitute IRS Form W-9 included with the letter of transmittal to avoid possible backup withholding tax on cash in lieu of fractional shares of common stock of RITA of \$20 or more.

After the completion of the merger, each certificate that previously represented shares of Horizon common stock will only represent the right to receive (i) the applicable number of shares of RITA common stock and (ii) cash in lieu of any fractional shares of RITA common stock that would have otherwise been issued in the merger. In addition, after the completion of the merger, Horizon will not register any transfers of the shares of Horizon common stock. RITA stockholders need not exchange their stock certificates.

Fractional Shares

No fractional shares of RITA common stock will be issued in the merger. Instead, the exchange agent will pay each of those stockholders who would have otherwise been entitled to a fractional share of RITA common stock an amount in cash determined by multiplying the fractional share interest by the closing price, as reported on the Nasdaq National Market, of one share of RITA common stock on the trading day immediately preceding the date of the merger.

Listing of Common Stock of the Combined Company

RITA has agreed to use commercially reasonable efforts to cause the shares of RITA common stock to be issued in the merger and the shares of RITA common stock to be reserved for issuance upon exercise of the Horizon stock options and warrants to be approved for listing on the Nasdaq National Market. RITA's symbol will remain RITA following the merger. Approval for listing on the Nasdaq National Market of the shares of RITA common stock issuable to Horizon shareholders in the merger is a condition to the obligations of RITA and Horizon to complete the merger.

Covenants

Each of RITA and Horizon have undertaken certain covenants in the merger agreement restricting the conduct of our respective businesses between the date the merger agreement was signed and the completion of the merger. Some of these covenants are complicated and not easily summarized. You are urged to read the section of the merger agreement entitled *Operation of Business*. The following summarizes the more significant of these covenants:

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Operation of Business. Except as expressly required by, or provided for, in the merger agreement, or agreed to by the other party in writing, each of Horizon and RITA is required to carry on its business in the ordinary course, consistent with past practice and use commercially reasonable efforts to, among other things, (i) preserve its current business organization, (ii) maintain the services of its current officers and employees and (iii) preserve its relationships with its customers, suppliers and other persons with which it has significant business relations.

Required Consent. Without the prior written consent of the other party, none of Horizon, RITA or any of their respective subsidiaries may take certain prohibited actions. These restrictions relate to the following:

the declaration or payment of dividends;

the issuance of capital stock or other securities;

the hiring of employees;

Table of Contents

Index to Financial Statements

the amendment of charter documents;

capital expenditures;

the sale of certain assets;

the acquisition of another business or material assets;

the incurrence of indebtedness;

the payment or discharge of indebtedness;

changes in employee compensation or other benefits;

changes in accounting methods;

tax elections and related matters;

the commencement or settlement of legal proceedings;

entering into, terminating or modifying material agreements;

certain amendments to stock option plans;

the formation of subsidiaries; and

the granting of exclusive licenses.

No Solicitation. Each of RITA and Horizon has agreed that, except in certain circumstances, RITA and Horizon and their respective subsidiaries will not, nor will either company authorize or permit any of its officers, directors, employees, financial advisors, attorneys, accountants or other representatives to, take any of the following actions:

Solicit, encourage, initiate or take any other action that would be reasonably likely to facilitate, induce or encourage any inquiries or the making, submission or announcement of any proposal or offer that constitutes, or could reasonably be expected to lead to, an acquisition proposal (as defined below);

Participate in any discussions or negotiations regarding, or furnish any information with respect to, an acquisition proposal;

Approve, endorse or recommend any acquisition proposal; or

Enter into any letter of intent, agreement or commitment contemplating or otherwise relating to any proposed acquisition proposal.

The merger agreement also provides that each party will promptly advise the other of the status and terms of any acquisition proposal (including the identity of the party making the proposal and the material terms of the proposal) or any inquiry or request for information relating to any acquisition proposal and the status and terms of any such discussions or negotiations. Each of RITA and Horizon shall then continue to notify the other of status of any such acquisition proposal, inquiry or request for information, and any material changes thereto.

An acquisition proposal includes, with respect to any party, with certain exceptions, any liquidation or dissolution of such party, or any transaction or series of related transactions with one or more third parties involving any one or more of the following:

Any merger, consolidation, business combination or similar transaction;

Any issuance of securities, exchange offer or similar transaction pursuant to which any person or entity or group (as defined under Section 13(d) of the Exchange Act and the rules and regulations thereunder) directly or indirectly acquires more than 15% of the outstanding voting securities of such party; and

Table of Contents

Index to Financial Statements

Any direct or indirect sale, lease, exchange, transfer, license, acquisition or disposition of any business or assets that constitute or account for 10% or more of the consolidated net revenues, net income or assets of such party and its subsidiaries, taken as a whole.

Each of RITA and Horizon, in response to an unsolicited, bona fide, written proposal for an acquisition proposal that is determined in accordance with the merger agreement by such party's board of directors to reasonably be expected to result in a superior offer (as defined below), may (i) furnish nonpublic information to a person making such acquisition proposal and (ii) participate in discussions or negotiations, or enter into an agreement, with such person if all of the following conditions are met:

Such party has given the other party prior notice of its intentions to engage in negotiations and of the identity of the person, entity or group making such acquisition proposal and the material terms and conditions of such acquisition proposal;

Such party has not breached provisions in the merger agreement prohibiting solicitation of competing bids;

Such party's board of directors has determined in good faith that such action is required to comply with its fiduciary obligations;

Such party provides a copy of any materials provided to the person making the acquisition proposal to the counter-party to the merger agreement; and

Such party gives the other party prompt written notice of such party's intention to furnish nonpublic information to, or enter into or participate in discussions with, the third party, and such party received from the third party an executed confidentiality agreement with provisions no less favorable to such party that those contained in the confidentiality agreements executed between Horizon and RITA.

In response to the receipt of an unsolicited acquisition proposal that is determined to be a superior offer, the board of directors of the party receiving such proposal may withhold, withdraw or modify its recommendation in favor of the merger and, in the case of a tender or exchange offer made directly to stockholders, may recommend that the stockholders accept the tender or exchange offer if all of the following conditions are met:

An unsolicited, bona fide written offer is made by a third party for an acquisition transaction, and such offer is not withdrawn;

Such party's stockholders' meeting has not occurred;

The recipient's board of directors determines in good faith, after consultation with its financial advisor, that such offer constitutes a superior offer;

Following consultation with outside legal counsel, the recipient's board of directors determines that the withholding, withdrawal or modification of the recommendation is required to comply with the fiduciary duties of the board of directors under applicable law;

The recommendation is not withheld, withdrawn or modified in a manner adverse to the other party until at least three business days after the other party received written notice of the superior offer; and

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

At the end of this three-business-day period, after taking into account any adjustment or modification of the terms of the merger agreement proposed by the other party (and any adjustment or modification of the terms of the acquisition proposal), the recipient's board of directors again determines in good faith that the competing offer is a superior offer and that the withholding, withdrawal or modification of the recommendation is required to comply with the fiduciary duties of the board of directors under applicable law.

A superior offer, with respect to a party, means any acquisition proposal that is on terms that such party's board of directors has in good faith, following consultation with outside legal counsel and financial advisors, and

Table of Contents

Index to Financial Statements

after taking into account all of the terms and conditions of such proposal and the merger agreement (including any proposal by either party to amend the terms of the merger agreement), determined (i) to be more favorable, from a financial point of view, to its stockholders, (ii) to be reasonably likely to be completed on the terms proposed and (iii) to be, if completed, in the best interests of its stockholders, taking into account all other legal, financial, regulatory and other aspects of such acquisition proposal and the person making the acquisition proposal. No acquisition proposal may be considered a superior offer if any financing required to complete the transaction is not committed at the time the offer is made.

Representations and Warranties

The merger agreement contains substantially reciprocal representations and warranties, many of which are qualified by materiality, made by each of us to the other. The representations and warranties relate to, among other topics, the following:

Corporate existence, qualification to conduct business and corporate standing and power;

Ownership of subsidiaries and capital structure;

Corporate authority to enter into and perform the merger agreement and enforceability of the merger agreement;

Absence of a breach of the certificate of incorporation, bylaws, law or material agreements as a result of the merger;

Filings with the SEC and other government entities;

Financial statements;

Absence of certain changes or events, including litigation;

Compliance with laws and regulations;

Labor and other employment matters and employee benefit plans;

Tax matters;

Regulatory compliance;

Absence of environmental liabilities;

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Intellectual property matters;

Inapplicability of anti-takeover statutes and absence of any triggering events under the Horizon and RITA stockholder rights plans;

Payment of fees to finders or brokers in connection with the merger agreement;

Opinions of financial advisors;

Ownership by Horizon or RITA of the other party's common stock;

Existence and enforceability of material contracts; and

Board of directors and stockholder approval.

The merger agreement also contains certain representations and warranties of RITA with respect to its wholly-owned subsidiary, Hornet Acquisition Corp., including corporate organization and authorization, absence of a breach of the certificate of incorporation and the bylaws, no prior business activities and capitalization of the merger subsidiary.

Table of Contents

Index to Financial Statements

Conditions to Completion of the Merger

The obligations of Horizon and RITA to complete the merger are subject to the satisfaction of the following conditions:

The approval of the merger agreement and the merger by Horizon shareholders and the approval of the issuance of shares of RITA common stock pursuant to the merger by RITA stockholders;

The absence of any law, order or injunction prohibiting completion of the merger;

The receipt of all other governmental and regulatory consents, approvals and authorizations necessary for the merger unless failure to obtain those consents or approvals would not reasonably be expected to have a material adverse effect on the combined company;

The SEC having declared effective the RITA registration statement, of which this joint proxy statement/prospectus forms a part;

The approval for listing by Nasdaq National Market of the RITA common stock to be issued pursuant to the merger, subject to official notice of issuance; and

The receipt of an opinion of each company's counsel to the effect that the merger will qualify as a reorganization under the Code (this condition is not waivable after Horizon shareholders approve the merger agreement and the merger unless future Horizon shareholder approval is obtained with appropriate disclosure).

In addition, each of Horizon's and RITA's obligation to effect the merger are subject to the satisfaction or waiver of the following additional conditions:

The representations and warranties of the other company contained in the merger agreement being true and correct as required by the merger agreement;

The other party having performed or complied, in all material respects, with all agreements or covenants required to be performed by it under the merger agreement;

The other party and its respective subsidiaries not having suffered from any change or effect that would reasonably be expected to have a material adverse effect on such party, as defined in the merger agreement;

The other party having obtained certain consents and waivers;

Horizon having terminated its 401(k) plan; and

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

The execution of estoppel certificates by the requisite noteholders (as defined in the Note Purchase Agreement).

Termination of the Merger Agreement

Right to Terminate. The merger agreement may be terminated at any time prior to the completion of the merger, whether before or after the stockholder approvals have been obtained by either RITA or Horizon, or both, under the following circumstances:

By mutual written consent of RITA and Horizon;

By written notice of RITA or Horizon for any of the following reasons:

If the merger has not been completed by November 9, 2004 (subject to an extension to December 9, 2004 under certain conditions), provided that a party may not terminate by reason of the merger not having occurred by these dates if that party's failure to fulfill in any material respect any of its obligations or satisfy any condition to be satisfied by it has caused or resulted in the failure of the merger to occur by these dates;

Table of Contents

Index to Financial Statements

If a governmental entity has issued a final and non-appealable order, decree or ruling or taken any other action that has the effect of permanently restraining, enjoining or otherwise prohibiting the merger; or

If the shareholders of Horizon have not approved the merger agreement and the merger or the stockholders of RITA have not approved the issuance of RITA common stock pursuant to the merger agreement.

By RITA upon a breach of any representation, warranty, covenant or agreement contained in the merger agreement on the part of Horizon, or if any representation or warranty of Horizon shall become untrue, in either case such that the conditions set forth in the merger agreement would not be satisfied as of closing, provided that Horizon must be given 30 days notice of such breach and an opportunity to cure the breach;

By Horizon upon a breach of any representation, warranty, covenant or agreement contained in the merger agreement on the part of RITA, or if any representation or warranty of RITA shall become untrue, in either case such that the conditions set forth in the merger agreement would not be satisfied as of closing, provided that RITA must be given 30 days notice of such breach an opportunity to cure the breach;

By RITA upon a Horizon Triggering Event (as defined below);

By Horizon upon a RITA Triggering Event ;

By RITA in connection with entering into an agreement providing for a superior offer in compliance with the merger agreement; or

By Horizon in connection with entering into an agreement providing for a superior offer in compliance with the merger agreement.

A RITA or Horizon Triggering Event occurs if: (i) a party's board of directors withdraws, or modifies in a manner adverse to the other party, its recommendation in favor of the merger proposal; (ii) this joint proxy statement/prospectus does not include the recommendation of a party's board of directors in favor of the merger proposal; (iii) a party's board of directors approves, endorses or recommends an acquisition proposal providing for its acquisition by a third party; (iv) a tender or exchange offer relating to securities of the party commences and the party either recommends such tender offer or fails to send its stockholders, within ten business days after the commencement of the tender or exchange offer, a statement disclosing that the party recommends rejection of the tender or exchange offer or the party's board of directors fails to reaffirm in writing its recommendation in favor of the merger proposal within ten business days after the other party requests in writing such reaffirmation, (v) a third party acquisition proposal for the party is publicly announced, and (A) the party fails to publicly disclose its opposition to the proposal within 10 business days after it is publicly announced or (B) the party's board of directors fails to reaffirm in writing its recommendation in favor of the merger proposal within 10 business days after the other party requests such reaffirmation in writing, or (vi) the party willfully breaches its non-solicitation obligations under the merger agreement.

Termination Fee

If terminated, the merger agreement will become void and, except in circumstances where a termination fee is payable, neither party will have any liability to the other party under the merger agreement. Upon a termination, a party may become obligated to pay a termination fee of \$3.5 million (offset for fees and expenses of the other party that were previously reimbursed) in the following circumstances:

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

RITA may owe the termination fee to Horizon if (a) the merger is not completed by November 9, 2004 (or December 9, 2004, in certain circumstances), the RITA stockholders do not vote in favor of the issuance of the shares in the merger or Horizon terminates the merger agreement due to a breach on the part of RITA and (b) a third party acquisition proposal has been announced on or before the time the merger agreement is terminated, and RITA enters into a definitive agreement for or consummates a third party acquisition within 12 months from the termination of the merger agreement;

Table of Contents

Index to Financial Statements

Horizon may owe the termination fee to RITA if (a) the merger is not completed by November 9, 2004 (or December 9, 2004, in certain circumstances), the Horizon shareholders do not vote in favor of the issuance of the shares in the merger or RITA terminates the merger agreement due to a breach on the part of Horizon and (b) a third party acquisition proposal has been announced on or before the time the merger agreement is terminated, and Horizon enters into a definitive agreement for or consummates a third party acquisition within 12 months from the termination of the merger agreement;

RITA will owe the termination fee to Horizon if Horizon terminates the merger agreement due to the occurrence of a RITA Triggering Event or if RITA terminates the merger agreement in order to enter into an agreement providing for a superior offer; and

Horizon will owe the termination fee to RITA if RITA terminates the merger agreement due to the occurrence of a Horizon Triggering Event or if Horizon terminates the merger agreement in order to enter into an agreement providing for a superior offer.

Each party may be obligated to reimburse the other party for its reasonable fees and expenses (up to \$1 million) incurred in connection with the merger agreement if the agreement is terminated due to the other party's material breach of its representations, warranties and/or covenants set forth pursuant to the merger agreement.

If the RITA stockholders do not approve the issuance of the shares pursuant to the merger agreement and the termination fee is not payable at the time of such termination, then RITA may be required to pay Horizon \$1.5 million upon termination of the merger agreement. Similarly, if the Horizon shareholders do not approve the merger agreement and the termination fee is not payable at the time of such termination, then Horizon may be required to pay RITA \$1.5 million upon termination of the merger agreement. A portion of the \$1.5 million may be payable in the form of a promissory note payable up to 12 months after termination of the merger agreement.

Amendments, Extensions and Waivers

Amendment. The parties may amend the merger agreement at any time before or after the stockholder meetings to approve the merger. However, following the stockholder meetings, an amendment that changes the amount or form of consideration to be delivered to Horizon shareholders can only be effected with approval of the Horizon and RITA stockholders.

Extension; Waiver. At any time prior to the completion of the merger, any party may (i) extend the time for performance of any obligations or other acts of the other party, (ii) waive any inaccuracies in the representations and warranties of the other party contained in the merger agreement or in any document delivered pursuant to the merger agreement or (iii) with certain exceptions, waive compliance by another party with any of the agreements or conditions contained in the merger agreement.

Other Covenants

Expenses. Each company has agreed to pay its own costs and expenses incurred in connection with the merger and the merger agreement, provided, however, that each company has agreed to pay one-half of any expenses incurred in connection with the filing with the Securities and Exchange Commission of the registration statement of which this joint proxy statement/prospectus forms a part, and the costs associated with the printing of this joint proxy statement/prospectus.

Election of Directors and Officers. In connection with the completion of the merger, RITA will fix its board size at nine members. Initially, the board will be comprised of the RITA Chief Executive Officer, five directors selected by RITA and three directors selected by Horizon. RITA currently has a board comprised of six directors, which is classified into three classes, with directors in each class serving staggered three-year terms. If the merger is completed, Horizon-designated directors will be elected to each class of RITA's board of directors, which means that each Horizon-designated nominee's term will expire at the RITA annual meeting for each of 2005, 2006 and 2007.

Table of Contents

Index to Financial Statements

Upon completion of the merger, RITA intends to elect the following persons as officers of the combined company: Vincent Bucci as Chairman of the board of directors, Joseph DeVivo as President and Chief Executive Officer, Robert J. Wenzel as Chief Operating Officer, Donald Stewart as Chief Financial Officer and Darrin Uecker as Chief Technology Officer. Each of these officers is expected to serve until his respective successor is duly elected or appointed and qualified.

Other Covenants. The merger agreement contains certain other covenants, including covenants relating to:

Cooperation between RITA and Horizon in the preparation of this joint proxy statement/prospectus;

Timeliness of holding stockholders' meetings to approve, with regard to Horizon, the merger agreement and the merger, and with regard to RITA, the issuance of shares pursuant to the merger agreement, and the recommendation of the boards of directors of the parties with respect to approval of the applicable shareholder actions at such meetings (subject to the provisions described above permitting the board of directors of a party to change its recommendations);

Assumption by RITA of the Horizon stock option plan and agreements and warrants of Horizon in connection with the merger;

Honoring, following the completion of the merger, of the indemnity and insurance obligations of the parties prior to the merger;

Confidentiality and access by each party to certain information about the other party;

Cooperation with respect to any public announcements regarding the merger;

Cooperation to obtain (and to keep each other apprised of the status of) all governmental approvals required to complete the merger;

Horizon having obtained the resignation of its directors from Horizon and its subsidiaries, effective as of the closing of the merger;

Each affiliate of Horizon having delivered affiliate letters to RITA with respect to the sale of RITA shares under Rule 145 following the merger; and

RITA filing a Form S-8 registration statement with respect to Horizon options assumed in the merger within 10 days subsequent to the closing of the merger.

Voting Agreements

Simultaneously with the execution of the merger agreement, RITA and Horizon, and certain of their respective officers, directors and stockholders, entered into voting agreements whereby each such Horizon shareholder committed to vote his or her shares in favor of the merger agreement and the merger and each such RITA stockholder agreed to vote his or her shares in favor of the issuance of shares. As a result of these voting agreements, RITA has the commitment of approximately 9.6% of its outstanding shares of common stock to vote in favor of the issuance

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

of shares of RITA common stock and Horizon has the commitment of approximately 53% of its outstanding shares of common stock to vote in favor of the merger agreement and the merger.

The RITA and Horizon stockholders who are parties to the voting agreements, with the exception of Morgan Stanley Venture Partners, are also obligated to vote any shares of RITA common stock they beneficially own in favor of the election of director nominees recommended for election by the RITA board of directors at RITA's 2004 and 2005 annual meeting of stockholders.

The voting agreement signed by Marshall Hunt permits Mr. Hunt to dispose of shares of Horizon common stock to the extent required pursuant to certain pledge arrangements applicable to certain shares of Horizon common stock that Mr. Hunt beneficially owns.

Table of Contents

Index to Financial Statements

Other Agreements

Amendment to Horizon Notes. As a condition to signing the merger agreement, Horizon and certain holders of Horizon's Senior Subordinated Convertible Notes, due July 16, 2005, holding in the aggregate approximately \$8.4 million of the face amount of such notes, have agreed to extend the term of these notes to July 2008 and to fix the interest rate at 8% per annum for the year from the merger effective time and then at a rate of 14% thereafter until maturity. Other individual holders holding the balance of these notes may also elect to amend their notes in a similar fashion. If none of these individual holders elect to extend the maturity date of their notes, approximately \$6.6 million of the notes will become due and payable in July 2005.

The note purchase agreement governing the notes was also amended to provide that no breach or default under the agreement existing as of the effective time of the merger would constitute an event of default under the agreement unless any such breach or default, either individually or together with other breaches or defaults under the agreement, constitutes a material adverse effect on Horizon or its ability to repay the notes or fulfill its other obligations under the agreement or the notes.

Lock Up Agreements. In connection with the execution of the merger agreement, each of Morgan Stanley Venture Partners, ComVest, Medtronic and Marshall Hunt entered into lock-up agreements with RITA and Horizon that limit the number of shares of RITA common stock that the stockholder may sell during any three-month period following the effective time of the merger to two-times the number of shares that could be sold in accordance with the volume limitations under Rule 144 of Securities Act if all shares of RITA common stock held by the stockholder were subject to those volume limitations. Morgan Stanley Venture Partners beneficially owns approximately 9% of RITA's common stock. ComVest, Medtronic and Marshall Hunt beneficially own approximately 23%, 17% and 16%, respectively, of Horizon's common stock.

Amendment to Horizon Securityholders Agreement. In connection with the execution of the merger agreement, Horizon and the other parties to an Amended and Restated Securityholders Agreement, dated as of October 21, 2003, amended the agreement to provide for its termination immediately before the effective time of the merger. The agreement generally provides for registration rights in respect of Horizon securities held by the securityholders who are parties to the agreement and rights to designate Horizon directors and observe at meetings of the Horizon board of directors. RITA agreed to grant to Medtronic, one of the parties to the agreement, board observer rights for a period of at least one year following the effective time of the merger in order to obtain its consent to the amendment.

Table of Contents

Index to Financial Statements

PRO FORMA FINANCIAL INFORMATION

RITA and Horizon Unaudited Pro Forma Condensed Consolidated Financial Information

The following unaudited pro forma condensed consolidated financial information give effect to the merger of RITA and Horizon in a transaction to be accounted for as a purchase with RITA treated as the acquiror. The unaudited pro forma condensed consolidated balance sheet combines the historical consolidated balance sheets of RITA and Horizon as of March 31, 2004, giving effect to the merger as if it occurred on March 31, 2004. The unaudited pro forma condensed consolidated statements of operations combine the historical consolidated statements of operations of RITA and Horizon for the year ended December 31, 2003 and the three months ended March 31, 2004, giving effect to the merger as if it occurred on January 1, 2003, reflecting only pro forma adjustments expected to have a continuing impact on the combined results.

The unaudited pro forma condensed consolidated financial information is for informational purposes only. It does not purport to indicate the results that would have actually been obtained had the merger been completed on the assumed date or for the periods presented, or which may be realized in the future. To produce the pro forma financial information, RITA allocated the purchase price using its best estimates of fair value. These estimates are based on the most recently available information. To the extent there are significant changes to Horizon's business, including results from ongoing clinical trials, the assumptions and estimates herein could change significantly. Furthermore, the parties expect to have reorganization and restructuring expenses as well as potential operating efficiencies as a result of combining the companies. The pro forma condensed consolidated financial information does not reflect these potential expenses and efficiencies. The unaudited pro forma condensed consolidated financial information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements, including the related notes, of RITA and Horizon covering these periods, contained in this joint proxy statement/prospectus and incorporated by reference into this joint proxy statement/prospectus. See *Where You Can Find More Information* on page 170 for more information.

Table of Contents**Index to Financial Statements****UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS****Three months ended March 31, 2004****(Amounts in thousands, except per share amounts)**

	Historical RITA	Historical Horizon	Pro forma adjustments	Pro forma
Sales	\$ 4,644	\$ 7,086	\$	\$ 11,730
Cost of goods sold	1,615	2,863	144(a)	4,622
Gross profit	3,029	4,223	(144)	7,108
Operating expenses:				
Research and development	843	172		1,015
Selling, general and administrative	4,366	4,469	221(a)	9,056
Total operating expenses	5,209	4,641	221	10,071
Loss from operations	(2,180)	(418)	(365)	(2,963)
Interest income	25			25
Interest expense		(570)		(570)
Other expense, net	(15)	(8)		(23)
Net loss	\$ (2,170)	\$ (996)	\$ (365)	\$ (3,531)
Net loss per common share, basic and diluted	\$ (0.12)	\$ (0.02)		\$ (0.10)(b)
Shares used in computing net loss per common share, basic and diluted	17,998	43,888		36,642

The accompanying notes are an integral part of the pro forma condensed consolidated financial information.

Table of ContentsIndex to Financial Statements

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

Year Ended December 31, 2003

(Amounts in thousands, except per share amounts)

	Historical RITA	Historical Horizon	Pro forma adjustments	Pro forma
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Sales	\$ 16,607	\$ 27,975	\$	\$ 44,582
Cost of goods sold	6,166	11,248	575(a)	17,989
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross profit	10,441	16,727	(575)	26,593
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating expenses:				
Research and development	4,294	973		5,267
Selling, general and administrative	17,418	14,123	892(a)	32,433
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total operating expenses	21,712	15,096	892	37,700
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income (loss) from operations	(11,271)	1,631	(1,467)	(11,107)
Interest income	201			201
Interest expense		(2,373)		(2,373)
Other expense, net	(9)	(45)		(54)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net loss	\$ (11,079)	\$ (787)	\$ (1,467)	\$ (13,333)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net loss per common share, basic and diluted	\$ (0.63)	\$ (0.02)		\$ (0.37)(b)
	<u> </u>	<u> </u>		<u> </u>
Shares used in computing net loss per common share, basic and diluted	17,647	36,656		36,291
	<u> </u>	<u> </u>		<u> </u>

The accompanying notes are an integral part of the pro forma condensed consolidated financial information.

Table of Contents**Index to Financial Statements****UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET**

As of March 31, 2004

(Amounts in thousands)

	<u>Historical RITA</u>	<u>Historical Horizon</u>	<u>Pro forma adjustments</u>	<u>Pro forma</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 6,122	\$ 1,538	\$ (2,450)(e)	\$ 5,210
Marketable securities	1,726			1,726
Accounts and note receivable, net	3,006	4,552		7,558
Inventories	1,777	5,597		7,374
Prepaid and other current assets	796	296		1,092
	<u>13,427</u>	<u>11,983</u>	<u>(2,450)</u>	<u>22,960</u>
Total current assets				
Long term marketable securities	264			264
Long term note receivable, net	315			315
Property and equipment, net	905	1,989		2,894
Goodwill		15,650	72,813(c)	88,463
Intangible assets	4,673	5,019	22,631(f)	32,323
Other assets	47	6		53
	<u>19,631</u>	<u>34,647</u>	<u>92,994</u>	<u>147,272</u>
Total assets				
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable	\$ 736	\$ 1,033	\$	\$ 1,769
Accrued liabilities	1,751	1,659		3,410
Current portion of long-term debt		1,347		1,347
	<u>2,487</u>	<u>4,039</u>	<u></u>	<u>6,526</u>
Total current liabilities				
Long-term debt, less current portion		16,661		16,661
Other liabilities	25	86		111
	<u>2,512</u>	<u>20,786</u>	<u></u>	<u>23,298</u>
Total liabilities				
Shareholders' equity:				
Common stock	18	44	(25)(d)	37
Additional paid-in capital	98,241	75,015	31,864(d)	205,120
Accumulated other comprehensive income	3			3
Shareholders' note receivable		(43)		(43)
Accumulated deficit	(81,143)	(61,155)	61,155(d)	(81,143)
	<u>17,119</u>	<u>13,861</u>	<u>92,994</u>	<u>123,974</u>
Total shareholders' equity				
Total liabilities and shareholders' equity	<u>\$ 19,631</u>	<u>\$ 34,647</u>	<u>\$ 92,994</u>	<u>\$ 147,272</u>

The accompanying notes are an integral part of the pro forma condensed consolidated financial information.

Table of ContentsIndex to Financial Statements**NOTES TO UNAUDITED PRO FORMA CONDENSED****CONSOLIDATED FINANCIAL INFORMATION**

1. Basis of presentation

On May 13, 2004, RITA Medical Systems, Inc. (RITA) and Horizon Medical Products, Inc. (Horizon) announced that the parties had signed a definitive agreement to merge the two companies in a transaction to be accounted for as a purchase under accounting principles generally accepted in the United States of America. Under the terms of the merger agreement, each share of Horizon common stock outstanding at the closing of the merger will be converted into 0.4212 of a share of RITA 's common stock. In addition, outstanding Horizon stock options and warrants will be accelerated and assumed by RITA, with each option to purchase a share of Horizon 's common stock becoming an option to purchase 0.4212 of a share of RITA 's common stock at an exercise price equal to the exercise price of the Horizon option divided by 0.4212.

As of May 13, 2004, there were 44,264,101 shares of Horizon common stock outstanding, and there were 9,342,617 common shares issuable upon exercise of outstanding options and warrants. Based on these amounts, if the merger had taken place on May 13, 2004, Horizon shareholders would have received approximately 18,644,039 shares of RITA 's common stock, and holders of Horizon 's options and warrants would then hold options to purchase approximately 3,935,110 shares of RITA 's common stock. The exact number of shares and options to be issued will depend on the number of Horizon common shares, options and warrants outstanding at the closing of the merger.

2. Purchase price

The estimated purchase price of the acquisition is \$109.3 million as follows (in thousands):

Issuance of RITA common stock	\$ 91,281
Assumption of Horizon options and warrants	15,617
Transaction costs	2,450
	<hr/>
Total	\$ 109,348
	<hr/>

The fair value of the RITA shares used in determining the purchase price was \$4.896 per share based on the average closing price of RITA 's common stock from the two days before through two days after May 13, 2004, the date of the public announcement of the merger. The fair value of the Horizon options and warrants assumed was determined using the Black-Scholes option pricing model assuming a market price of \$4.896 per share, exercise prices ranging from \$0.83 to \$34.72 and averaging \$1.95, an expected average life of five years, a risk-free interest rate of 3.79%, volatility of 75% and no expected dividends.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

The preliminary allocation of purchase price is as follows:

Current assets	\$ 11,983
Property and equipment	1,989
Intangible assets	27,650
Goodwill	88,463
Other assets	6
Current liabilities	(4,039)
Debt	(16,661)
Other liabilities	(86)
Shareholder's note receivable	43
	<hr/>
Net assets	\$ 109,348
	<hr/>

Table of Contents

Index to Financial Statements

The final determination of the purchase price allocation will be based on the fair values of the assets and liabilities assumed at the date of the closing of the merger. The purchase price will remain preliminary until RITA is able to complete a third party valuation of significant intangible assets acquired and evaluate the fair value of other assets and liabilities acquired. The final determination of the purchase price will be completed as soon as practicable after the date of the closing of the merger. The final amounts allocated to assets and liabilities acquired could differ significantly from the amounts presented in the unaudited pro forma condensed consolidated financial information above.

3. Pro forma adjustments

- a) Represents amortization of identifiable intangible assets based on estimated fair values and useful lives assigned to these assets at the date of acquisition.
- b) Pro forma basic and diluted loss per share is calculated by dividing the pro forma net loss by the pro forma weighted average shares of RITA s common stock outstanding (in thousands):

	Year ended December 31, 2003	Three months ended March 31, 2004
RITA historical weighted average common shares outstanding	17,647	17,998
Common shares issued to acquire Horizon	18,644	18,644
Pro forma weighted average common shares outstanding	36,291	36,642

Shares issuable upon the exercise of outstanding stock options have been omitted from the calculation of pro forma loss per share as their effect would be anti-dilutive.

- c) Represents the estimated fair value of goodwill arising from the merger. The estimated goodwill arising from the merger is \$88.5 million. In accordance with Statements of Financial Accounting Standards No. 141, Business Combinations and No. 142, Goodwill and Other Intangible Assets, the goodwill arising from the merger will be recorded as an asset on the balance sheet and will be reviewed for impairment on at least an annual basis.
- d) Represents the elimination of historical shareholders equity accounts for Horizon, the issuance of RITA common stock and options as part of the purchase price and estimated cash closing costs of the merger.
- e) Estimated cash closing costs of the merger.
- f) The estimated fair values of identifiable intangible assets arising from the merger total \$27.3 million, as follows (in thousands):

Trademarks (10 year life)	\$ 3,100
Product technology (12 year life)	6,900

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Customer relationships (15 year life)	16,600
Contract with Medtronic, Inc. (4 year life)	700
	<u> </u>
	<u>\$ 27,300</u>

Intangible assets arising from the merger will replace \$4.7 million of the \$5.0 million in pre-merger intangible assets of Horizon. The net pro forma adjustment to intangible assets is then \$22.6 million as follows (in thousands):

Intangible assets arising from the merger	\$ 27,300
Less: Horizon intangible assets replaced by intangible assets arising from the merger	<u>(4,669)</u>
Pro forma adjustment to intangible assets	<u>\$ 22,631</u>

Table of Contents

Index to Financial Statements

THE COMPANIES

About RITA

RITA is a medical device company that develops, manufactures and markets minimally invasive products to treat patients with solid cancerous or benign tumors. RITA's proprietary system uses radiofrequency energy to heat tissue to a high enough temperature to ablate it, or cause cell death. The RITA system includes radiofrequency generators and a family of disposable needle electrode devices that deliver controlled thermal energy to the targeted tissue.

RITA is currently focused on addressing the liver cancer market and the bone cancer market. RITA believes its system offers a viable option to patients who previously had few or no effective alternatives. RITA estimates that the worldwide market opportunity for the radiofrequency ablation of unresectable liver cancer is approximately \$500 million annually and \$600 million annually for the radiofrequency ablation of painful tumors that have metastasized or spread to the bone.

In addition to liver and bone cancer, RITA believes that its minimally invasive technology may in the future be applied to the treatment of other types of cancerous or benign tumors, including tumors of the lung, breast, uterus, prostate and kidney. RITA believes the market opportunity for these additional applications exceeds \$1 billion annually.

RITA has received regulatory clearance for sale of its products in the United States, Italy and Japan. In March 2000, RITA became the first radiofrequency ablation company to receive specific U.S. Food and Drug Administration, or FDA, clearance for unresectable liver lesions, in addition to its previous general FDA clearance for the ablation of soft tissue. In October 2002, RITA again became the first company to receive specific FDA clearance, this time for the palliation of pain associated with metastatic lesions involving bone. RITA's system is distributed in the United States through its direct sales force and internationally through distribution partners. Since RITA's product launch, it has sold nearly 60,000 disposable devices.

RITA has a broad patent portfolio. As of June 1, 2004, RITA had 58 issued patents worldwide and 57 United States and foreign patent applications pending. The issued patents cover, among other things, deployable multi-array electrode technology and temperature feedback technology.

Directors and Executive Officers

The following table shows specific information about RITA's directors and executive officers as of March 31, 2004.

Name	Age	Position(s)
------	-----	-------------

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Joseph DeVivo	37	President, Chief Executive Officer and Director
Vincent Bucci(1)(3)	50	Director
John Gilbert (1)(2)	67	Director
Scott Halsted (1)(2)(3)	44	Director
Wesley E. Johnson, Jr. (2)(3)	46	Director
Randy Lindholm	48	Director
Donald Stewart	48	Chief Financial Officer and Vice President, Finance and Administration
Trent Reutiman	39	Vice President, U.S. Sales
Darrin Uecker	38	Chief Technology Officer
Lynn Saccoliti	44	Vice President, Reimbursement
Stephen Pedroff	47	Vice President, Marketing Communications
Juan J. Soto	39	Vice President, International Sales

-
- (1) Member of Compensation Committee of the board
(2) Member of Audit Committee of the board
(3) Member of Nominating/Corporate Governance Committee

Table of Contents

Index to Financial Statements

Joseph DeVivo has served as RITA's President and Chief Executive Officer and as a member of RITA's Board since August 2003. Prior to joining RITA, from August 2002 to June 2003, he was President, Director and Chief Operating Officer of Computer Motion Inc., or CMI, a medical robotics company. Prior to CMI, Mr. DeVivo held various positions at United States Surgical Corporation, a division of TYCO Healthcare, from May 1993 to August 2002, most recently as Vice President and General Manager of the U.S. Surgical/Davis and Geck suture division from October 2001 through August 2002. Mr. DeVivo holds a B.S. in Business Administration from the E. Claiborne Robins School of Business at the University of Richmond.

Vincent Bucci has served as a member of RITA's Board since March 1999. Mr. Bucci has held the position of President of Health Policy Associates, Inc., a consulting company, since 1992. Mr. Bucci holds a B.A. from Bates College and a J.D. in Public Law and an M.A. in Government, both from Georgetown University.

John Gilbert has served as a member of RITA's Board since May 2000. From 1992 to July 1999 he served as Vice Chairman of Keravision, Inc., a medical device company. Prior to that, Mr. Gilbert retired from Johnson & Johnson in 1992 after 30 years where he served as Vice President of Sales at Ethicon, Inc., Vice President of Johnson & Johnson International and President and Vice Chairman of Iolab Corporation. Mr. Gilbert is also a director of STAAR Surgical Company. Mr. Gilbert holds a B.S. from Texas A&M University.

Scott Halsted has served as a member of RITA's Board since May 1998. He has held the positions of General Partner and Principal of Morgan Stanley Dean Witter Venture Partners, a venture capital firm, since February 1997 and prior to that he was Vice President from January 1992 to January 1997. Mr. Halsted is also a director of Intuitive Surgical, Inc. and various private companies. Mr. Halsted holds an A.B. and a B.S. in Biomechanical Engineering from Dartmouth College and an M.M. from the Kellogg Graduate School of Management at Northwestern University.

Wesley E. Johnson, Jr. has served as a member of RITA's Board since August 2003. Since June 2003, Mr. Johnson has been Division Vice President, Finance and Operations for Spinal Concepts, Inc., a division of Abbott Laboratories, Inc. From May 1999 to June 2003, he served as Vice President of Operations and Chief Financial Officer for Spinal Concepts. From August 1995 to May 1999, Mr. Johnson served as Chief Financial Officer for Urologix Inc., a medical device company specializing in urologic disorders. Mr. Johnson holds a B.B.A. in Accounting from Texas A&M University and is a Certified Public Accountant.

Randy Lindholm has served as a member of RITA's Board since April 2003. Mr. Lindholm is currently a consultant to several life sciences companies. Prior to that, Mr. Lindholm held various positions at VidaMed, Inc., a medical device company. From August 1999 to April 2002, he served as Chairman, President and Chief Executive Officer and from July 1998 to August 1999, he served as Executive Vice President of Sales and Marketing. Prior to that, Mr. Lindholm held various positions at Mallinckrodt, Inc. (formerly Nellcor Puritan Bennett), a specialty medical products company, most recently as Vice President of North American Respiratory Field Operations from January 1998 to August 1998. Mr. Lindholm is also a director of Omnicell, Inc., a medical supply company, as well as two private companies. Mr. Lindholm holds a B.S. in Electrical Engineering from Michigan Technological University.

Donald Stewart has served as RITA's Vice President, Finance and Administration and Chief Financial Officer since April 2001. Prior to joining RITA, Mr. Stewart served from May 1998 to April 2001 as the Vice President of Finance and Administration, CFO and Secretary at Abaxis Corporation in Union City, California. Previously, from March 1997 through February 1998, Mr. Stewart held the position of Vice President, Finance and Administration for Mimetix, Inc. Prior to his employment with Mimetix, Inc., he was employed for thirteen years at SEQUUS Pharmaceuticals, Inc. in a series of positions culminating with the role of Vice President, Finance and Treasurer. Mr. Stewart holds a B.S. in Accounting from San Francisco State University and an M.B.A. from Santa Clara University. He is a Certified Public Accountant.

Trent Reutiman has served as RITA's Vice President of U.S. Sales since December 2001. From January 2001 to December 2001, he served as Director of U.S. Sales and from March 2000 to January 2001 he served as a

Table of Contents

Index to Financial Statements

regional sales manager. Prior to joining RITA, Mr. Reutiman served from March 1998 through March 2000 as a district sales manager with the Cardio Thoracic Systems Division of Guidant Corporation. From October 1996 through February 1998 he was a sales representative for Johnson and Johnson's Cordis division. Mr. Reutiman holds a B.S. in Business Administration from Colorado State University and an M.B.A. from the University of California, Irvine.

Darrin Uecker has served as RITA's Chief Technical Officer since January 2004. Before joining RITA he served as a Vice President at Mountain View based Intuitive Surgical, a surgical robotics company, from June 2003 to December 2003. Prior to the merger in June 2003 of Intuitive Surgical with Computer Motion Inc., or CMI, Santa Barbara, Calif., Mr. Uecker held the position of Chief Technical Officer at CMI, a medical robotics company, from May 1993 to June 2003. Mr. Uecker received both his B.S. and M.S. degrees in Electrical and Computer Engineering from the University of California at Santa Barbara.

Lynn Saccoliti has served as RITA's Vice President, Reimbursement since May 2003. From May 2002 through April 2003, Ms. Saccoliti served as the acting Senior Director of Strategic Reimbursement in Medtronic's Gastroenterology/Urology division. From October 1997 through April 2002, Ms. Saccoliti served as Senior Director of Government Relations and Reimbursement Affairs of VidaMed, Inc. Ms. Saccoliti holds a BA from the University of Northern Colorado and is professionally affiliated with the MDMA, AdvaMed, and the Medical Technology Leadership Forum.

Stephen Pedroff has served as RITA's Vice President, Marketing Communications since September 2003. Prior to that, from December 2001 through August 2003, Mr. Pedroff served as the Vice President of Marketing at Computer Motion Inc., a surgical robotics company. From September 2000 through November 2001, Mr. Pedroff served as Director of Business Development for Salus Media, Inc., a developer of on-line health and wellness products for the insurance industry. From September 1998 through August 2000, Mr. Pedroff served as the Vice President of Business Development for Digital Media International, a developer of interactive CD-rom based computer games. Mr. Pedroff holds a B.A. in English from the University of California, Santa Barbara.

Juan J. Soto has served as RITA's Vice President, International Sales since September 2003. Prior to that, Mr. Soto served as Vice President and General Manager of Operations at Computer Motion Inc., a medical robotics company, from 2002 to September 2003. From 1999 through 2002, Mr. Soto worked at Tyco Healthcare in Norwalk Connecticut, first as product director in the cardiac division, then as managing director for the European division, concentrating on strategic and business planning and development for the spine and sports medicine departments. Mr. Soto, a former pilot in the British Royal Navy, holds a degree in Electronic Engineering from the Royal Naval College in the UK and a degree in Medical Marketing from UCLA.

Classes of Directors

RITA's certificate of incorporation divides its board of directors into three classes, with staggered three-year terms. The Class I directors, whose term expires at the 2004 annual meeting, are Scott Halsted and Vincent Bucci; the Class II directors, whose terms expire at RITA's 2005 annual meeting, are John Gilbert and Wesley Johnson; and the Class III directors, whose terms expire at the 2006 annual meeting, are Joseph DeVivo and Randy Lindholm.

Committees of the Board of Directors

The RITA board of directors has standing audit, compensation and nominating/corporate governance committees.

Audit Committee. John Gilbert, Scott Halsted and Wesley Johnson (chairman) are members of the RITA audit committee, or the RITA Audit Committee. The RITA board of directors has determined that all members of the RITA Audit Committee are independent directors under the rules of the Nasdaq National Market and each of

Table of Contents

Index to Financial Statements

them is able to read and understand fundamental financial statements. The RITA board of directors has determined that Mr. Johnson qualified as an audit committee financial expert as defined by the rules of the SEC. The purpose of the RITA Audit Committee is to oversee the accounting and financial reporting processes of RITA and audits of its financial statements. The responsibilities of the RITA Audit Committee include, among other things, appointing and providing the compensation of the independent accountants to conduct the annual audit of RITA's accounts, reviewing the scope and results of the independent audits, reviewing and discussing annual and quarterly financial statements of RITA and approving all professional services to be provided to RITA by its independent accountants. The RITA Audit Committee has a revised written charter, which was adopted in March 2004 and is attached as Annex D to this joint proxy statement/prospectus.

Compensation Committee. Vincent Bucci, John Gilbert and Scott Halsted (chairman) are members of the RITA compensation committee, or the RITA Compensation Committee. The purpose of the RITA Compensation Committee is to discharge the responsibilities of the RITA board of directors with respect to compensation matters for RITA's executive officers and other employees and consultants, report annually to RITA's stockholders on executive compensation matters and administer RITA's equity and other compensation plans. The responsibilities of the RITA Compensation Committee include, among other things, establishing and administering RITA's policies regarding annual executive salaries and cash incentives and long-term equity incentives and administering RITA's 2000 Stock Plan, or the Stock Plan, 2000 Employee Stock Purchase Plan, or the Purchase Plan and RITA's 2000 Directors' Stock Option Plan, or the Directors' Plan.

Nominating/Corporate Governance Committee. Vincent Bucci (chairman), Scott Halsted and Wesley Johnson (Chairman) are members of the RITA nominating committee, or the RITA Nominating Committee. The purpose of the RITA Nominating Committee is to recommend nominees for election as directors of RITA, evaluate the board of directors performance, develop and recommend to such board corporate governance guidelines and provide oversight with respect to corporate governance and ethical conduct. The responsibilities of the RITA Nominating Committee include, among other things, recommending to the RITA board of directors nominees for possible election to the RITA board of directors and providing oversight with respect to corporate governance matters. The RITA Nominating Committee's charter is attached to this joint proxy statement/prospectus as Annex F.

Meetings of the Board and Committees of the Board

During the last fiscal year (the period from January 1, 2003 through December 31, 2003), the RITA board of directors met 12 times, the RITA Audit Committee met seven times and the RITA Compensation Committee met one time. The RITA Nominating Committee was established in March 2004 so it did not meet during the last fiscal year. Each director attended at least 75% of all board and applicable committee meetings during this time except as follows: Mr. Bucci attended seven of the 12 RITA board of directors meetings. Mr. Halsted attended two of the five RITA Audit Committee meetings held after his appointment to the RITA Audit Committee.

Director Nomination

In March 2004, the RITA board of directors established the RITA Nominating Committee. In the future, the RITA Nominating Committee will be responsible for, among other things, recommending to the board of directors nominees for possible election to the RITA board of directors and providing oversight with respect to corporate governance matters. The information below describes the criteria and process that the RITA Nominating Committee currently intends to use to evaluate future candidates to the RITA board of directors.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Criteria for Nomination to the Board. The RITA Nominating Committee will consider the appropriate balance of experience, skills and characteristics required of the RITA board of directors, and will seek to insure that at least a majority of the directors are independent under the rules of the Nasdaq National Market, and that members of the RITA Audit Committee meet the financial literacy requirements under the rules of the Nasdaq National Market and at least one of them qualifies as an audit committee financial expert under the rules of the

Table of Contents

Index to Financial Statements

Securities and Exchange Commission. Nominees for director will be selected on the basis of their depth and breadth of experience, wisdom, integrity, ability to make independent analytical inquiries, understanding of RITA's business environment, and willingness to devote adequate time to RITA board of directors duties.

Stockholders Proposals for Nominees. The RITA Nominating Committee will consider written proposals from stockholders for nominees for director. Any such nominations should be submitted to the RITA Nominating Committee c/o the Secretary of RITA and should include (at a minimum) the following information: (a) all information relating to such nominee that is required to be disclosed pursuant to Regulation 14A under the Securities Exchange Act of 1934 (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) the name(s) and address(es) of the stockholder(s) making the nomination and the number of shares of RITA's common stock which are owned beneficially and of record by such stockholder(s); and (c) appropriate biographical information and a statement as to the qualification of the nominee, and should be submitted in the time frame described in the Bylaws of RITA and under the caption, Information About the Meetings The RITA Annual Meeting above.

Process for Identifying and Evaluating Nominees. The process for identifying and evaluating nominees to the RITA board of directors will be initiated by identifying a slate of candidates who meet the criteria for selection as a nominee and have the specific qualities or skills being sought based on input from members of the RITA board of directors and, if the RITA Nominating Committee deems appropriate, a third-party search firm. These candidates will be evaluated by the RITA Nominating Committee by reviewing the candidates' biographical information and qualification and checking the candidates' references, and qualified nominees will be interviewed by at least one member of the RITA Nominating Committee. Serious candidates will meet with all members of the RITA board of directors, and using the input from such interviews and the information obtained by the RITA Nominating Committee, the RITA Nominating Committee will evaluate which of the prospective candidates is qualified to serve as a director and whether the committee should recommend to the RITA board of directors that the RITA board of directors nominate, or elect to fill a vacancy, with one of these final prospective candidates. Candidates recommended by the RITA Nominating Committee will be presented to the RITA board of directors for selection as nominees to be presented for the approval of the stockholders or for election to fill a vacancy.

The RITA Nominating Committee expects that a similar process will be used to evaluate nominees recommended by stockholders. However, to date, RITA has not received any stockholder's proposal to nominate a director.

Board Nominees for the 2004 Annual Meeting. The nominee for the 2004 Annual Meeting, Mr. Halsted, was initially elected to the RITA board of directors in May 1998.

Communications with Directors

RITA stockholders who wish to communicate with RITA's directors to report complaints or concerns related to accounting, internal accounting controls or auditing may do so using RITA's Whistleblower Policy adopted by the RITA Audit Committee in March 2004.

RITA encourages directors attendance at each annual meetings of stockholders. Two directors attended the 2003 annual meeting.

Compensation Committee Interlocks and Insider Participation

No member of the RITA Compensation Committee or executive officer of RITA has, or in the past fiscal year had, a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

Table of Contents

Index to Financial Statements

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires RITA's directors, executive officers and persons who own more than 10% of the common stock (collectively, RITA Reporting Persons) to file initial reports of ownership and changes in ownership of RITA's common stock. RITA Reporting Persons are required by SEC regulations to furnish RITA with copies of all Section 16(a) reports they file. To RITA's knowledge, based solely on RITA's review of the copies of such reports received or written representations from certain RITA Reporting Persons that no other reports were required, RITA believes that during its fiscal year ended December 31, 2003, all RITA Reporting Persons complied with all applicable filing requirements except for Messrs. Bucci, Gilbert, Watkins and Uecker. Each of Messrs. Bucci and Gilbert filed one late report in connection with the automatic option granted to him on the date of the 2003 annual meeting of stockholders pursuant to RITA's Directors' Plan. Mr. Watkins, one of RITA's former directors, failed to file a report in connection with the automatic option granted to him on the date of the 2003 annual meeting of stockholders pursuant to such plan. Mr. Watkins resigned from the RITA board of directors soon after the annual meeting and his option was never issued or exercised. Mr. Uecker failed to disclose ownership of 500 shares of RITA's common stock on the Form 3 filed with the beginning of his employment in January 2004. He filed an amended Form 3 in March 2004.

Code of Ethics

RITA's board of directors has adopted a code of ethics that applies to all officers and employees, including RITA's principal executive officer, principal financial officer and controller. This code of ethics was filed as exhibit to RITA's amended annual report on Form 10-K/A for the year ended December 31, 2003.

Director Compensation

Non-employee directors are not compensated for attendance at meetings of the RITA board of directors or any committee but are reimbursed for reasonable and customary travel expenses. All RITA non-employee directors are eligible to participate in RITA's Directors' Plan. RITA employee directors and non-employee directors are eligible to participate in RITA's Stock Plan. Employee directors are eligible to participate in RITA's Purchase Plan. Employee directors receive no additional compensation for serving on the RITA board of directors.

Under RITA's Directors' Plan, when a non-employee director first becomes a director, he or she receives a non-statutory stock option to purchase 25,000 shares of RITA's common stock. This option vests at a rate of $\frac{1}{48}$ of the total number of shares subject to such option per month. Thereafter, on the date of each annual meeting of stockholders, each director who has been a member for at least six months will be granted a non-statutory stock option to purchase 10,000 shares of RITA's common stock. These options shall vest at a rate of 100% of the total number of shares subject to such option on the one-year anniversary of the grant date. All options granted under RITA's Directors' Plan are for a 10-year term and shall be adjusted to reflect any stock splits, stock dividends, combinations or similar transactions. The exercise price of the options must be at least 100% of the fair market value of RITA's common stock on the Nasdaq National Market on the date the option was granted. The options may be exercised only (i) while the individual is serving as a director on the RITA board of directors, (ii) within six months after termination by death or disability, or (iii) within three months after the individual's term as director ends. Therefore, on the date of the annual meeting each of RITA's non-employee directors, Messrs. Bucci, Gilbert, Halsted, Johnson and Lindholm will be granted an option to purchase 10,000 shares of RITA's common stock.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

During 2003, Randy Lindholm was elected to the RITA board of directors and received four option grants: one for 25,000 shares of RITA's common stock under RITA's Directors' Plan and three for an aggregate of 60,000 shares of RITA's common stock under RITA's Stock Plan. During 2003, Wesley Johnson was also elected to the RITA board of directors and received two option grants: one for 25,000 shares of RITA's common stock under RITA's Directors' Plan and one for 10,000 shares of RITA's common stock under RITA's Stock Plan. During 2003, Mr. Bucci received one grant for 30,000 shares of RITA's common stock under RITA's Stock Plan and one grant for 10,000 shares of RITA's common stock under RITA's Directors' Plan. During

Table of Contents**Index to Financial Statements**

2003, Messrs. Gilbert, Halsted and Watkins and Ms. Effland each received one grant for 10,000 of RITA's common stock under RITA's Directors Plan. Mr. Watkins and Ms. Effland resigned from the RITA board of directors during 2003.

In conjunction with his appointment as RITA's President and Chief Executive Officer, Mr. DeVivo who is also one of RITA's directors was granted an option for 692,175 shares of RITA's common stock under RITA's Stock Plan.

Executive Compensation

The following table shows the compensation paid by RITA for services rendered during the three preceding fiscal years to (a) the three individuals who served as RITA's Chief Executive Officer during the fiscal year ended December 31, 2003, (b) the two other most highly compensated individuals who served as executive officers of RITA as of December 31, 2003 and (c) two additional individuals who would have been included in the four most highly compensated individuals, except that they were not serving as executive officers on December 31, 2003, which is referred to herein as the RITA Named Executive Officers.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation		All Other Compensation (\$)
		Salary (\$)(1)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Securities		
					Stock Awards (\$)	Underlying Options (#)	
Joseph DeVivo President, Chief Executive Officer and Director	2003 2002 2001	97,500		42,079(6)		692,175	100,000(10)
Donald Stewart Chief Financial Officer and Vice President, Finance and Administration (2)	2003 2002 2001	196,381 188,885 131,042	27,500 17,100			61,250 6,250 150,000	35,000(11)
Trent Reutiman Vice President, U.S. Sales	2003 2002 2001	100,000 100,000 91,250	91,281 110,481 121,838	6,000(7) 6,000(7) 6,000(7)		25,200 35,360 76,000	23,000(12)
Lynn Saccoliti Vice President, Reimbursement	2003 2002 2001	86,513	19,250			100,000	20,000(13)
Barry Cheskin Former President, Chief Executive Officer and Director (3)	2003 2002 2001	99,673 262,650 255,000		3,375(8) 34,575(8) 34,674(8)		10,000 160,000	25,887(14)

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Kenneth Waters	2003	112,877	2,963(9)		131,974(15)
Former Senior Vice President,	2002	200,000	9,000(9)		45,000(15)
International Sales and Global	2001	31,923	1,500(9)	150,000	194,438(15)
Marketing (4)					
Stephen Williams	2003	174,247		30,000	103,830(16)
Former Chief Operating	2002	85,641		150,000	
Officer (5)	2001				

-
- (1) Includes amounts deferred under RITA's 401(k) plan.
(2) Mr. Stewart also served as RITA's Acting Chief Executive Officer from May 2003 to August 2003.
(3) Mr. Cheskin resigned from his positions with RITA in May 2003.

Table of Contents

Index to Financial Statements

- (4) Mr. Waters resigned from his employment with RITA in July 2003.
- (5) Mr. Williams resigned from his employment with RITA in November 2003.
- (6) Mr. DeVivo received \$9,367 in reimbursed moving expenses in 2003. An additional \$32,712 related to expected relocation expenses have been accrued on his behalf.
- (7) Mr. Reutiman received a \$6,000 auto allowance in 2001, 2002 and 2003.
- (8) Mr. Cheskin received a \$3,375 auto allowance in 2003. In 2002, he received a \$9,000 auto allowance and \$25,575 in forgiven principal and interest on a note payable to RITA. In 2001, he received a \$9,000 auto allowance and \$25,674 in forgiven principal and interest on a note payable to RITA.
- (9) Mr. Waters received auto allowances of \$2,963 in 2003, \$9,000 in 2002 and \$1,500 in 2001.
- (10) Mr. DeVivo received a \$100,000 signing bonus in 2003.
- (11) In 2001, \$35,000 was accrued for Mr. Stewart's relocation expenses.
- (12) In 2003, Mr. Reutiman received a \$23,000 housing allowance.
- (13) In 2003, Ms. Saccoliti earned a \$20,000 signing bonus.
- (14) In 2003, Mr. Cheskin received \$25,887 relating to accumulated vacation pay upon his termination from RITA.
- (15) In 2003, Mr. Waters received a \$7,055 housing allowance and \$124,919 in severance and other termination related payments, including accumulated vacation pay. In 2002, Mr. Waters received a \$30,000 signing bonus and a \$15,000 housing allowance. In 2001, Mr. Waters received a \$2,500 housing allowance and \$191,938 was accrued for his relocation expenses.
- (16) In 2003, Mr. Williams received \$103,830 in severance and other termination related payments, including accumulated vacation pay.

Table of Contents

Index to Financial Statements

Notwithstanding anything to the contrary set forth in any of RITA's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings, in whole or in part, the Compensation Committee Report, the Audit Committee Report and the Stock Performance Graph shall not be deemed to be incorporated by reference into any such filings.

Compensation Committee Report on Executive Compensation

The following is a report of the RITA Compensation Committee of the RITA board of directors describing the compensation policies applicable to RITA's executive officers during the fiscal year ended December 31, 2003. Vincent Bucci, John Gilbert and Scott Halsted (chairman) are members of the RITA Compensation Committee. All are non-employee directors within the meaning of Section 16 of the Securities and Exchange Act and an outside director within the meaning of Section 162(m) of the Internal Revenue Code. The purpose of RITA's Compensation Committee is to discharge the responsibilities of the RITA board of directors with respect to compensation matters for RITA's executive officers and other employees and consultants, report annually to RITA's stockholders on executive compensation matters and administer RITA's equity and other compensation plans. The responsibilities of the RITA Compensation Committee include, among other things, establishing and administering RITA's policies regarding annual executive salaries and cash incentives and long-term equity incentives and administering RITA's Stock Plan, Purchase Plan and Directors' Plan.

General Compensation Policy

Under the supervision of RITA's board of directors, RITA's compensation policy is designed to attract and retain qualified key executives critical to RITA's growth and long-term success. It is the objective of RITA's board of directors to have a portion of each executive's compensation contingent upon RITA's performance as well as upon the individual's personal performance. Accordingly, each RITA executive officer's compensation package is comprised of three elements: (i) base salary which reflects individual performance and expertise, (ii) variable bonus awards payable in cash and tied to the achievement of certain performance goals that the RITA board of directors establishes from time to time for RITA, and (iii) long term stock-based incentive awards which are designed to strengthen the mutuality of interests between the executive officers and RITA's stockholders.

The summary below describes in more detail the factors that the RITA board of directors considers in establishing each of the three primary components of the compensation package provided to the RITA executive officers.

Base Salary

The level of base salary is established primarily on the basis of the individual's qualifications and relevant experience, the strategic goals for which he or she has responsibility, the compensation levels at similar companies and the incentives necessary to attract and retain qualified management. Base salary is adjusted each year to take into account the individual's performance and to maintain a competitive salary structure. Company performance does not play a significant role in the determination of base salary.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

During fiscal 2003, the RITA Compensation Committee reviewed the base salaries for RITA's executive officers by evaluating the factors described above and considering the recommendations of RITA's Chief Executive Officer.

Cash-Based Incentive Compensation

Cash bonuses are awarded on a discretionary basis to RITA executive officers on the basis of their success in achieving designated individual goals and RITA's success in achieving specific company-wide goals, such as

Table of Contents

Index to Financial Statements

revenue growth and earnings. For fiscal 2003, the RITA board of directors adopted the 2003 Performance Incentive Plan for RITA's executive officers (excluding the Chief Executive Officer), directors and managers. The goal of this plan was to insure RITA maintained at least \$9.0 million in cash, cash equivalents and marketable securities at December 31, 2003. The goal was achieved and approximately \$0.2 million was paid under this plan in February 2004.

In addition, RITA maintains an incentive program for its sales force in which the Vice President, Sales participates (in lieu of participating in the annual bonus plan) and which pays commissions based on the performance of the sales team toward RITA's revenue targets. In fiscal 2003, Mr. Reutiman earned commissions of \$91,281 under such program.

Long-Term Incentive Compensation

The RITA Compensation Committee has utilized RITA's stock option plans to provide executives and other key employees with incentives to maximize long-term stockholder values. Awards under this plan by the RITA board of directors take the form of stock options designed to give the recipient a significant equity stake and thereby closely align his or her interests with those of RITA's stockholders. Factors considered in making such awards include the individual's position, his or her performance and responsibilities, and internal comparability considerations. In addition, the RITA board of directors has established certain general guidelines in making option grants to the executive officers in an attempt to target a fixed number of unvested option shares based upon each individual's position and his or her existing holdings of unvested options. However, the RITA board of directors is not required to adhere strictly to these guidelines and may vary the size of the option grant made to each executive officer as it determines the circumstances warrant. Each option grant allows the executive officer to acquire shares of common stock at a fixed price per share (the fair market value on the date of grant) over a specified period of time (up to 10 years). The options typically vest in periodic installments over a four-year period, contingent upon the executive officer's continued employment with RITA. Accordingly, the option will provide a return to the executive officer only if he or she remains in RITA's service, and then only if the market price of the common stock appreciates over the option term.

In accordance with this policy, during fiscal 2003, the existing equity-based compensation of the executive officers was reviewed and the RITA board of directors made new grants of stock options under RITA's 2000 Stock Plan. In the aggregate, these options provided RITA's officers with rights to purchase 1,108,625 shares of RITA common stock at prices ranging from \$2.52 to \$4.89 per share. These figures include Mr. DeVivo's option to purchase 692,175 shares of RITA common stock, granted in conjunction with his hiring as RITA's President and Chief Executive Officer.

In addition to participating in RITA's Stock Plan, RITA's executive officers may also participate in RITA's Purchase Plan on the same basis as other employees who meet eligibility criteria. This plan is qualified under Section 423 of the Internal Revenue Code, and it allows participants to purchase, through payroll deductions, shares of RITA's common stock at a price equal to 85% of its fair market value on the enrollment date or the purchase date, whichever is lower.

Compensation of the Chief Executive Officer

Joseph DeVivo has served as RITA's President and Chief Executive Officer since August 2003. His annual base salary for the fiscal year ended December 31, 2003 was \$260,000, which was determined based on the factors described above at the time of his hire. In addition, in connection with his joining RITA, Mr. DeVivo was paid a \$100,000 signing bonus, which he is required to repay to RITA in whole or in part if he

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

voluntarily terminates his employment with RITA before August 18, 2005. Except for this signing bonus, Mr. DeVivo did not earn a cash bonus under RITA's Stock Plan. For fiscal 2004, Mr. DeVivo is eligible to participate in RITA's Stock Plan with a target cash bonus of up to 40% of his base salary. In connection with his commencement of employment, Mr. DeVivo was granted an option to purchase 692,175 shares of RITA's common stock, which

Table of Contents

Index to Financial Statements

vests at the rate of 25% of the total number of shares on August 18, 2004 and ¹/₄₈th of the remaining number of shares each month thereafter. The factors discussed above in Base Salary, Cash-Based Incentive Compensation and Long Term Incentive Compensation were considered in establishing the amount of Mr. DeVivo's base salary, cash bonus and stock option grant at the time of his hiring.

Barry Cheskin served as RITA's President and Chief Executive Officer from May 1997 to April 2003. His annual base salary for the fiscal year ended December 31, 2003 was \$262,650. The factors discussed above in Base Salary, Cash-Based Incentive Compensation and Long Term Incentive Compensation were also applied in establishing the amount of Mr. Cheskin's salary and stock option grants. Significant factors in establishing Mr. Cheskin's compensation were the achievement of RITA's revenue goals, the development and implementation of clinical initiatives designed to demonstrate applicability of RITA's technology to new organs, the publication of survival data in liver cancer and the receipt of regulatory approval from the FDA to use the RITA system to treat pain associated with bone tumors.

Deductibility of Executive Compensation

The RITA Compensation Committee has considered the impact of Section 162(m) of the Internal Revenue Code adopted under the Omnibus Budget Reconciliation Act of 1993, which section disallows a deduction for any publicly held corporation for individual compensation exceeding \$1 million in any taxable year for the Chief Executive Officer and four other most highly compensated executive officers, respectively, unless such compensation meets the requirements for the performance-based exception to Section 162(m). As the cash compensation paid by RITA to each of its executive officers is expected to be below \$1 million and the committee believes that options granted under RITA's Stock Plan to such officers will meet the requirements for qualifying as performance-based, the committee believes that Section 162(m) will not affect the tax deductions available to RITA with respect to the compensation of its executive officers. It is the RITA Compensation Committee's policy to qualify, to the extent reasonable, its executive officers' compensation for deductibility under applicable tax law. However, RITA may from time to time pay compensation to its executive officers that may not be deductible.

The RITA Compensation Committee:

Vincent Bucci

John Gilbert

Scott Halsted

Table of Contents**Index to Financial Statements*****Option Grants In Last Fiscal Year***

The following table provides certain information with respect to stock options granted to the RITA Named Executive Officers in the last fiscal year out of RITA's Stock Plan. In addition, as required by SEC rules, the table sets forth the hypothetical gains that would exist for the options based on assumed rates of annual compound stock price appreciation during the option term.

Name	Individual Grants (1)				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (2)	
	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year 2003(3)	Exercise Price (\$/sh)(4)	Expiration Date	5%	10%
Joseph DeVivo	692,175 (1)	41.59%	\$ 2.52	8/18/2013	\$ 1,096,969	\$ 2,779,935
Donald Stewart	25,000 (1)	1.50%	\$ 2.70	5/1/2013	42,450	107,579
	36,250 (1)	2.18%	\$ 3.37	9/9/2013	76,827	194,696
Trent Reutiman	25,200 (1)	1.51%	\$ 3.37	9/9/2013	53,408	135,347
Lynn Saccoliti	100,000 (1)	6.01%	\$ 2.70	5/1/2013	169,802	430,310
Barry Cheskin	(1,5)	0.00%				
Kenneth Waters	(1,5)	0.00%				
Stephen Williams	30,000 (1,2,5)	1.80%	\$ 3.12	2/12/2004		

- (1) No stock appreciation rights were granted to the RITA Named Executive Officers in the last fiscal year. The options granted have a 10-year term. Mr. DeVivo's options vest at the rate of 25% on the 12-month anniversary of the vesting commencement date and 2.0833% each month thereafter. Options granted to the other RITA Named Executive Officers vest at the rate of 12.5% on the six-month anniversary of the vesting commencement date and 2.0833% each month thereafter. All of the granted options are subject to earlier termination in connection with termination of employment. Messrs. Cheskin, Waters and Williams terminated their employment during 2003 (see note 5 below).
- (2) The potential realizable value illustrates the value that might be realized upon the exercise of the options immediately prior to the expiration of their terms, assuming the specified compounded rates of appreciation of the market price on the date of grant through the option term, less the exercise price. Actual gains, if any, on stock option exercise are dependent upon a number of factors, including the future performance of the common stock and the timing of option exercises, as well as the optionees' continued employment throughout the vesting period. There can be no assurance that the amounts reflected in this table will be achieved. Options granted to Mr. Williams during 2003 expired unexercised as of February 12, 2004 due to the termination of his employment and the potential realizable value of these options has therefore been shown as zero.
- (3) RITA granted 1,664,215 options to purchase common stock to employees in the last fiscal year.
- (4) The exercise price may be paid in cash, in shares of common stock valued at fair market value on the exercise date or through a cashless exercise procedure involving a same-day sale of the purchased shares.
- (5) Mr. Cheskin resigned his positions with RITA in May 2003. Mr. Waters resigned his position with RITA in July 2003. Mr. Williams resigned his position with RITA in November 2003.

Table of Contents**Index to Financial Statements*****Equity Compensation Plan Information***

The following table provides information as of March 31, 2004 with respect to the shares of common stock that may be issued under RITA's existing equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column (a))
(a)	(b)	(c)	
Equity compensation plans approved by security holders(1)	3,084,492	\$ 3.72(2)	1,088,843
Equity compensation plans not approved by security holders			
Total	3,084,492	\$ 3.72	1,088,843

(1) Consists of the following equity compensation plans:

- 2000 Stock Plan
- 2000 Directors Stock Option Plan
- 2000 Employee Stock Purchase Plan
- 1994 Incentive Stock Plan

(2) Assumes that employees will purchase the remaining 341,647 shares of common stock available for issuance under RITA's Purchase Plan in August 2004 at a purchase price of \$2.38 per share. Under the terms of RITA's Purchase Plan, shares are purchased at 85% of the fair market value of RITA's common stock on either the first day of an offering period or the last day of a purchase period, whichever is lower. Therefore, the purchase price is not fixed until the August 2004 purchase date, and employees may purchase the shares at a lower price per share, affecting the weighted-average exercise price.

(3) RITA's Stock Plan incorporates an evergreen formula pursuant to which, on the first day of each of fiscal year (through fiscal 2010), the number of shares available for future issuance under RITA's Stock Plan automatically increases by the lesser of (i) 1,000,000 shares, (ii) 7% of the outstanding common stock on the last day of the immediately preceding fiscal year, or (iii) such lesser number of shares as the RITA board of directors determines. RITA's Purchase Plan incorporates an evergreen provision pursuant to which, on the first day of each fiscal years (through fiscal 2004), the number of shares available for future issuance under RITA's Purchase Plan automatically increases by the lesser of (i) 650,000 shares; (ii) 4% of the outstanding common stock on the last day of the immediately preceding fiscal year; or (iii) such lesser number of shares as RITA's board of directors determines.

Table of Contents**Index to Financial Statements*****Aggregated Option Exercises In Last Fiscal Year And Fiscal Year-End Option Values***

The following table sets forth certain information with respect to stock options exercised by the RITA Named Executive Officers during the fiscal year ended December 31, 2003. In addition, the table sets forth the number of shares covered by stock options as of the fiscal year ended December 31, 2003, and the value of in-the-money stock options, which represents the positive spread between the exercise price of a stock option and the market price of the shares subject to such option at the end of the fiscal year ended December 31, 2003.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at 12/31/2003(1)		Value of Unexercised In-the-Money Options at December 31, 2003(2)	
			Exercisable	Unexercised	Exercisable	Unexercisable
Joseph DeVivo		\$		692,175	\$	\$ 1,335,898
Donald Stewart			106,508	110,992	6,379	85,584
Trent Reutiman			57,347	78,541	40,381	72,037
Lynn Saccoliti			14,583	85,417	25,520	149,480
Barry Cheskin	327,064	720,200				
Kenneth Waters	62,500	16,619				
Stephen Williams			46,875			

(1) No stock appreciation rights (SARs) were outstanding during fiscal 2003.

(2) Based on the \$4.45 closing price of RITA's common stock on the Nasdaq National Market on December 31, 2003, less the exercise price of the options.

Employment Agreements

Barry Cheskin. RITA had an employment agreement with Barry Cheskin, RITA's former Chief Executive Officer who resigned from his positions with RITA in April 2003. This agreement provided for, among other things, the payment of severance or the acceleration of unvested stock, options and warrants in certain circumstances, none of which were triggered by Mr. Cheskin's departure.

Joseph DeVivo. RITA has an employment agreement with Joseph DeVivo, RITA's President and Chief Executive Officer, which among other things provides for the payment of severance or the acceleration of unvested options in certain circumstances. Mr. DeVivo's agreement provides that if his employment with RITA is terminated without cause prior to August 18, 2004, he shall be vested and able to exercise that number of shares subject to his initial option grant equal to the product of (1) the total number of shares subject to his initial option grant times (2) the following ratio: (A) the total number of full months from August 18, 2003 to the date of termination of his employment by (B) 48. Furthermore, Mr. DeVivo's employment agreement provides that he will have up to 18 months to exercise his initial option grant, to the extent vested, if his employment is terminated after a change of control transaction. Mr. DeVivo's agreement also provides that if his employment with RITA is terminated without cause (including as a result of constructive termination), and provided that he executes the form or release agreement releasing any claims he may have against RITA, Mr. DeVivo will receive monthly severance payments, equal to 1/12th of his annual base salary and reimbursement for his continued medical coverage until the earlier of (i) 12 months after his termination date or (ii) such time as he accepts an offer of employment or consulting relationship which constitutes the equivalent of a full-time position or which compensates him at a level equal to the level of compensation provided by RITA on the date of termination of his employment. Mr. DeVivo is also a party to the form of change of control agreement that is described in more detail below.

Stephen Pedroff. RITA has an employment agreement with Stephen Pedroff, RITA's Vice President, Marketing Communications, which among other things provides for the payment of severance in certain circumstances. Mr. Pedroff's agreement provides that if his employment with RITA is terminated without cause, and provided that he executes the form or release agreement releasing any claims he may have against RITA, Mr. Pedroff will receive monthly severance payments, equal to $\frac{1}{12}$ th of his annual base salary and reimbursement for

Table of Contents

Index to Financial Statements

his continued medical coverage until the earlier of (i) six months after his termination date or (ii) such time as he accepts an offer of employment or consulting relationship which constitutes the equivalent of a full-time position.

Lynn Saccoliti. RITA has an employment agreement with Lynn Saccoliti, RITA's Vice President, Reimbursement Affairs, which among other things provides for the payment of severance in certain circumstances. Ms. Saccoliti's agreement provides that if her employment with RITA is terminated without cause, and provided that she executes the form or release agreement releasing any claims she may have against RITA, Ms. Saccoliti will receive monthly severance payments, equal to $\frac{1}{12}$ th of her annual base salary and reimbursement for her continued medical coverage until the earlier of (i) six months after her termination date or (ii) such time as she accepts an offer of employment or consulting relationship which constitutes the equivalent of a full-time position.

Juan J. Soto. RITA has an employment agreement with Juan J. Soto, RITA's Vice President, International Sales, which among other things provides for the payment of severance in certain circumstances. Mr. Soto's agreement provides that if his employment with RITA is terminated without cause, Mr. Soto will receive monthly severance payments, equal to $\frac{1}{12}$ th of his annual base salary until the earlier of (i) six months after his termination date or (ii) such time as he obtains alternative full-time employment. Mr. Soto is also a party to the standard form of change of control agreement that is described in more detail below.

Donald Stewart. RITA has an employment agreement with Donald Stewart, RITA's Vice President, Finance and Administration, and Chief Financial Officer, which among other things provides for the payment of severance in certain circumstances. Mr. Stewart's agreement provides that if his employment with RITA is terminated without cause on or prior to August 18, 2004, and provided that he executes the form or release agreement releasing any claims he may have against RITA, Mr. Stewart will receive monthly severance payments, equal to $\frac{1}{12}$ th of his annual base salary and reimbursement for his continued medical coverage until the earlier of (i) 12 months after his termination date or (ii) such time as he accepts an offer of employment or consulting relationship which constitutes the equivalent of a full-time position. Mr. Stewart's agreement provides that if his employment with us is terminated without cause after August 18, 2004, and provided that he executes the form or release agreement releasing any claims he may have against RITA, Mr. Stewart will receive monthly severance payments, equal to $\frac{1}{12}$ th of his annual base salary and reimbursement for his continued medical coverage until the earlier of (i) six months after his termination date or (ii) such time as he accepts an offer of employment or consulting relationship which constitutes the equivalent of a full-time position.

Darrin Uecker. RITA has an employment agreement with Darrin Uecker, RITA's Chief Technology Officer, which among other things provides for the payment of severance in certain circumstances. Mr. Uecker's agreement provides that if his employment with RITA is terminated without cause, and provided that he executes the standard form or release agreement releasing any claims he may have against RITA, Mr. Uecker will receive monthly severance payments, equal to $\frac{1}{12}$ th of his annual base salary and reimbursement for his continued medical coverage until the earlier of (i) six months after his termination date or (ii) such time as he accepts an offer of employment or consulting relationship which constitutes the equivalent of a full-time position.

Change of Control Agreements

RITA has entered into change of control agreements with its officers that provide the following benefits upon the sale or merger of RITA. In the event that RITA consummates a change of control transaction, 50% of any unvested options held by RITA's officers shall become fully vested and immediately exercisable and repurchase rights retained by RITA with respect to 50% of the restricted stock held by RITA's officers shall immediately lapse. In addition, on each one month anniversary following the effective date of a change of control transaction, $\frac{1}{12}$ th of the remaining unvested options held by RITA's officers shall become fully vested and immediately exercisable and repurchase rights retained by RITA with respect to $\frac{1}{12}$ th of any remaining restricted stock held by RITA's officers shall immediately lapse. These change of control

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

agreements have been amended so that the completion of the proposed merger with Horizon will not, in itself, trigger any of these benefits. RITA's officers remain entitled to benefits following the merger with Horizon, however, if they are terminated within 12 months from the transaction, as described below.

Table of Contents**Index to Financial Statements**

If the officer is involuntarily terminated within 12 months after the change of control transaction, all unvested options held by RITA's officers shall become fully vested and immediately exercisable and all repurchase rights retained by RITA with respect to the restricted stock held by RITA's officers shall immediately lapse. If the officer voluntarily resigns or is terminated for cause after the change of control, then the officer is not entitled to any acceleration of the vesting of options or lapse of repurchase rights with respect to restricted stock.

Stock Performance Graph

The following graph compares the cumulative total stockholder return data for RITA's stock since July 27, 2000 (the date on which RITA's stock was first registered under Section 12 of the Securities Exchange Act of 1934, as amended) to the cumulative return over such period of (i) the Nasdaq Stock Market (U.S.) Index and (ii) the Nasdaq Medical Equipment Index. The graph assumes that \$100 was invested on July 27, 2000, the date on which RITA completed the initial public offering of its common stock, in the common stock of RITA and in each of the comparative indexes. The graph further assumes that such amount was initially invested in the common stock of RITA at a per share price of \$12.00, the price to which such stock was first offered to the public by RITA on the date of its initial public offering, and reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

COMPARISON OF 12 MONTH CUMULATIVE TOTAL RETURN***AMONG RITA MEDICAL SYSTEMS, INC., THE NASDAQ STOCK MARKET (U.S.) INDEX****AND THE NASDAQ MEDICAL EQUIPMENT INDEX**

* \$100 invested on 7/27/00 in stock or index, including reinvestment of dividends. Fiscal years ending December 31.

	Cumulative Total Return				
	7/27/00	12/31/00	12/31/01	12/31/02	12/31/03
RITA Medical Systems, Inc.	100.00	70.83	55.58	42.08	37.08
Nasdaq Stock Market (U.S.)	100.00	63.93	50.74	35.08	52.45
Nasdaq Medical Equipment	100.00	86.84	95.40	77.21	114.19

Table of Contents**Index to Financial Statements*****Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The following table sets forth information known to RITA with respect to the beneficial ownership of RITA's common stock, as to (i) each person who is known to RITA to beneficially own more than 5% of RITA's common stock, (ii) each of RITA's directors, (iii) each of RITA's Named Executive Officers (as defined below), and (iv) all directors and executive officers as a group. The information set forth below is as of June 22, 2004.

5% Shareholders, Directors, Executive Officers and Directors and Executive Officers as a Group	Amount and Nature of Beneficial Ownership(1)	Percent of Common Stock(1)(2)
Entities Affiliated with Apax Partners, Inc. (3) 2100 Geng Road, Suite 150 Palo Alto, CA 94303	1,963,635	10.9%
Entities Affiliated with Morgan Stanley Venture Partners (4) 3000 Sand Hill Road Building 4, Suite 250 Menlo Park, CA 94025	1,636,362	9.1%
Entities Affiliated with Perkins Capital Management Inc. (5) 730 East Lake Street Wayzata, MN 55391	1,137,250	6.3%
Entities Affiliated with SF Capital Partners, Ltd. (6) 3600 South Lake Drive St. Francis, WI 53235	1,136,363	6.3%
Scott Halsted (7)	1,663,362	9.2%
Donald Stewart (8)	190,224	*
Trent Reutiman (9)	81,931	*
Vincent Bucci (10)	84,750	*
Randy Lindholm (11)	56,248	*
John Gilbert (12)	52,000	*
Lynn Saccoliti (13)	31,249	*
Stephen Pedroff (14)	22,916	*
Juan J. Soto (15)	22,916	*
Wesley E. Johnson (16)	8,749	*
Joseph DeVivo (17)	183,043	*
Darrin Uecker (18)	29,167	*
Barry Cheskin (19)		*
Stephen Williams (20)		*
Kenneth Waters (21)		*

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

All directors and executive officers as a group (15 persons) (22)

2,426,555

13.5%

* Less than 1%

- (1) The persons named in this table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable and except as indicated in the other footnotes to this table.
- (2) In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days after June 22, 2004 are deemed outstanding. Such shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person. Beneficial ownership calculations for 5% stockholders are based on publicly filed Schedules 13D or 13G, which 5% stockholders are required to file with the SEC, and which generally set forth ownership interests as of December 31, 2003.
- (3) Includes 1,607,489 shares, 336,623 shares and 19,523 shares held by APA Excelsior V, L.P., The P/A Fund III, L.P. and Patricof Private Investment Club II, respectively.

Table of Contents

Index to Financial Statements

- (4) Includes 1,435,988 shares, 137,874 shares and 62,500 shares held by Morgan Stanley Venture Partners III, L.P., Morgan Stanley Venture Investors III, L.P. and The Morgan Stanley Venture Partners Entrepreneur Fund L.P., respectively. Scott Halsted, a director of RITA, is a general partner of Morgan Stanley Venture Partners. Mr. Halsted disclaims beneficial ownership of the shares held by these entities except to the extent of his proportional interest in the entities.
- (5) Includes 209,000 shares as to which Perkins Capital Management, Inc. has sole power to vote or to direct the vote, and an additional 928,250 shares beneficially owned by Perkins Capital Management, Inc.
- (6) The foregoing amount of shares and percentage represent the combined indirect holdings of Michael A. Roth and Brian J. Stark, as joint filers. All of the foregoing shares are held directly by SF Capital Partners, Ltd., a British Virgin Islands company. Messrs. Roth and Stark are the founding members and direct the management of Staro Asset Management, L.L.C., a Wisconsin limited liability company, which (i) acts as investment manager and has sole power to direct the management of Shepherd Investments International, Ltd., a British Virgin Islands corporation, and (ii) acts as general partner and has sole power to direct the management of Stark Investments Limited Partnership, a Wisconsin limited partnership, which serves as the general partner of Stark Trading, a Wisconsin general partnership. Shepherd Investments International, Ltd. and Stark Trading are the controlling owners of SF Capital Partners, Ltd. Through Staro, Messrs. Roth and Stark possess sole voting and dispositive power over all of the foregoing shares.
- (7) Includes 1,435,988 shares, 137,874 shares and 62,500 shares held by Morgan Stanley Venture Partners III, L.P., Morgan Stanley Venture Investors III, L.P. and The Morgan Stanley Venture Partners Entrepreneur Fund L.P., respectively. Scott Halsted, a director of RITA, is a general partner of Morgan Stanley Venture Partners. Mr. Halsted disclaims beneficial ownership of the shares held by these entities except to the extent of his proportional interest in the entities. The figure shown further includes 27,000 shares issuable upon exercise of options exercisable within 60 days after June 22, 2004, such options being awarded to Mr. Halsted in consideration for his duties as a director of RITA.
- (8) Includes 145,024 shares issuable upon exercise of options exercisable within 60 days after June 22, 2004.
- (9) Includes 80,504 shares issuable upon exercise of options exercisable within 60 days after June 22, 2004.
- (10) Includes 67,626 shares issuable upon exercise of options exercisable within 60 days after June 22, 2004.
- (11) Includes 36,248 shares issuable upon exercise of options exercisable within 60 days after June 22, 2004.
- (12) Includes 52,000 shares issuable upon exercise of options exercisable within 60 days after June 22, 2004.
- (13) Includes 31,249 shares issuable upon exercise of options exercisable within 60 days after June 22, 2004.
- (14) Includes 22,916 shares issuable upon exercise of options exercisable within 60 days after June 22, 2004.
- (15) Includes 22,916 shares issuable upon exercise of options exercisable within 60 days after June 22, 2004.
- (16) Includes 8,749 shares issuable upon exercise of options exercisable within 60 days after June 22, 2004.
- (17) Includes 173,043 shares issuable upon exercise of options exercisable with 60 days after June 22, 2004.
- (18) Includes 29,167 shares issuable upon exercise of options exercisable within 60 days after June 22, 2004.
- (19) Mr. Cheskin resigned from his positions with RITA in May 2003.
- (20) Mr. Williams resigned from his position with RITA in November 2003.
- (21) Mr. Waters resigned from his position with RITA in July 2003.
- (22) Includes 696,441 shares issuable upon exercise of options exercisable within 60 days after June 22, 2004.

Certain Relationships and Related Party Transactions

Indemnification of Directors and Executive Officers

RITA has entered into indemnification agreements with its officers and directors containing provisions which may require RITA, among other things, to indemnify its officers and directors against a number of liabilities that may arise by reason of their status or service as officers or directors (other than liabilities arising from willful misconduct of a culpable nature) and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling RITA pursuant to the foregoing provisions, RITA has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Table of Contents

Index to Financial Statements

Other Relationships

Vincent Bucci, a member of RITA's board of directors, is the President of Health Policy Associates, Inc. In 2003, Health Policy Associates, Inc. provided consulting services to us in a variety of areas related to FDA regulations including clinical studies, regulatory affairs and quality assurance and was paid approximately \$55,000.

Randy Lindholm, a member of RITA's board of directors, began providing consulting services to RITA in April 2003 pursuant to a consulting agreement that was amended in August 2003. During 2003, RITA paid Mr. Lindholm approximately \$164,000 in fees for his consulting services. In addition, in connection with these consulting services, Mr. Lindholm was granted options to purchase an aggregate of 35,000 shares of RITA's common stock: 25,000 of the shares vest at a rate of $\frac{1}{48}$ th per month from April 25, 2003 and 10,000 of the shares vest at a rate of $\frac{1}{24}$ th per month from August 5, 2003. From January 1, 2004 through June 30, 2004, Mr. Lindholm will be available to RITA for two days per month and will be paid a fee of \$3,000 per day of service. If RITA requests additional days of services, Mr. Lindholm will be paid \$5,000 per additional day of service per month.

Audit Committee Report

The RITA Audit Committee is composed of three independent directors and operates under a written charter originally adopted by the RITA board of directors in May 2000 and most recently amended in March 2004. A copy of this charter is attached as Annex D to this joint proxy statement / prospectus. The members of the RITA Audit Committee are John Gilbert, Scott Halsted and Wesley Johnson (chairman). RITA's board of directors has determined that all members of the RITA Audit Committee are independent directors under the rules of the Nasdaq National Market and each of them is able to read and understand fundamental financial statements. RITA's board of directors has determined that Mr. Johnson qualified as an audit committee financial expert as defined by the rules of the SEC.

The purpose of the RITA Audit Committee is to oversee the accounting and financial reporting processes of RITA and audits of its financial statements. The RITA Audit Committee selects, subject to stockholder ratification, an accounting firm to be engaged as RITA's independent accountants. The independent accountants are responsible for performing an independent audit of the RITA's financial statements in accordance with generally accepted auditing standards and to issue a report thereon. RITA's management is responsible for RITA's internal controls and the financial reporting process. The RITA Audit Committee is responsible for, among other things, monitoring and overseeing these processes, reviewing and discussing annual and quarterly financial statements of RITA and approving all professional services to be provided to RITA by its independent accountants.

The RITA Audit Committee held seven meetings during the fiscal year 2003. The RITA Audit Committee had a year-end meeting in March 2004 with management and RITA's independent registered public accounting firm, PricewaterhouseCoopers LLP. Management represented to the RITA Audit Committee that RITA's financial statements were prepared in accordance with generally accepted accounting principles. The RITA Audit Committee reviewed and discussed the audited financial statements for fiscal year 2003 with management and the independent accountants.

The RITA Audit Committee discussed with the independent accountants the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees.

The RITA Audit Committee has received and reviewed the written disclosures and the letter from the independent registered public accounting firm, PricewaterhouseCoopers LLP as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. Additionally, the RITA Audit Committee has discussed with PricewaterhouseCoopers LLP the issue of its independence from RITA.

Table of Contents**Index to Financial Statements**

Based on its review of the audited financial statements and the various discussions noted above, the RITA Audit Committee recommended to the RITA board of directors that the audited financial statements be included in RITA's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

The RITA Audit Committee:

John Gilbert

Scott Halsted

Wesley Johnson

Principal Accountant Fees and Services

The following is a summary of the expenses RITA incurred with PricewaterhouseCoopers LLP, RITA's independent registered public accounting firm, for professional services rendered for the fiscal years ended December 31, 2003 and December 31, 2002.

Fee Category	Year ended December 31,	
	2003	2002
Audit Fees	\$ 191,300	\$ 165,750
Audit-Related Fees	7,500	
Tax Fees	16,746	113,275
All Other Fees		
Total Fees	\$ 215,546	\$ 279,025

Audit Fees. Consists of fees billed for professional services rendered for the audit of RITA's consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings or engagements.

Audit-Related Fees. Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of RITA's consolidated financial statements and are not reported under Audit Fees. These services include employee benefit plan audits, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Tax Fees. Consists of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and international tax compliance, customs and duties and international tax planning.

All Other Fees. Consists of fees for products or services other than those described above.

Additional Information

Additional information regarding RITA can be found in its annual report on Form 10-K for the year ended December 31, 2003, as amended, and in its subsequent quarterly reports on Form 10-Q and current reports on Form 8-K filed with the SEC, the contents of which are incorporated herein by reference. See *Where You Can Find More Information* on page 170.

Table of Contents**Index to Financial Statements*****About Horizon***

Founded in 1990, Horizon is a specialty medical device company focused on developing, manufacturing, marketing and distributing vascular access products, including implantable ports, hemodialysis catheters, central venous catheters, needle infusion sets, peripherally inserted central venous catheters and other accessories used in vascular medical procedures. Horizon also markets a line of acute and chronic dialysis catheters used for kidney failure patients.

Vascular access ports are implantable devices used for the central venous administration of chemotherapy, antibiotics, blood samples and diagnostic tests. Central venous access facilitates a more systemic, long-term delivery of treatment agents, while mitigating certain harsh side effects of certain treatment protocols and eliminating the need for repeated access to peripheral veins. Once implanted in the body, a port can be utilized for up to approximately 2,000 accesses depending upon needle gauge size and the port size. Horizon's vascular access ports are used primarily in systemic or regional short-and long-term cancer treatment protocols that require frequent infusions of highly concentrated or toxic medications (such as chemotherapy agents) and frequent blood samplings. Horizon's lines of vascular access ports consist of the following families of products: (1) the Vortex® family of ports including Vortex®VTX®, LifePort®VTX®, TriumphVTX® and Vortex®MP; (2) LifePort®; (3) Triumph-1®; (4) Infuse-a-Port®; and (5) TitanPort.

Horizon also manufactures and markets hemodialysis and apheresis catheters. Hemodialysis catheters are used to treat patients suffering from renal failure who are required to undergo short-term (acute) care or long-term (chronic) hemodialysis, a process involving the removal of waste products from the blood by passing a patient's blood through a dialysis machine. Stem cell apheresis is a protocol for treating certain forms of mid- and late-stage cancers, particularly breast cancer. The typical apheresis procedure involves inserting a catheter into a patient through which (1) blood is withdrawn from the patient, cycled through an apheresis machine in which stem cells are removed from the blood and the blood is reinfused into the body, (2) high doses of chemotherapy agents, as well as antibiotics and blood products, are administered to the patient over extended periods of time, and (3) the previously removed stem cells are subsequently reintroduced into the patient. Horizon's catheters include the following families of products: (1) Circle C® chronic and acute hemodialysis catheters, including the new LifeJet and LifeJet F-16 chronic hemodialysis catheters; (2) triple lumen central venous catheters; and (3) peripherally inserted central venous catheters, including the new LifeValve® Platinum catheter. Horizon also sells the LifeGuard™ safety infusion needle, which is designed for use with vascular access ports.

Horizon Directors

The following table sets forth certain information regarding the individuals currently serving on the Horizon board of directors.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Harold Blue	42	Director
James E. Brands	66	Director
Marshall B. Hunt	48	Director
David A. Ku, Ph.D., M.D.	48	Director
Robert L. Priddy	57	Director
Robert D. Tucker	70	Director
Robert J. Wenzel	53	Director

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Harold Blue, 42, joined Horizon's board of directors in March 2003. Mr. Blue has been president of Commonwealth Group Holdings, LLC, a merchant banking operation, since June 2000. From 1993 until June 2000, he served as the Chairman and Chief Executive Officer of ProxyMed, Inc., an electronic healthcare transaction processing services company. Mr. Blue currently serves on the board of directors of Notify Technology Corp. (where he also serves on the compensation committee), a communications application service

Table of Contents**Index to Financial Statements**

provider of wireline and wireless messaging services, Inoveris LLC, a manufacturer of CDs and DVDs as well as a provider of supply-chain services, and Commonwealth Group Holdings.

James E. Brands, 66, joined Horizon's board of directors in April 2003. Mr. Brands is the founder of Brands & Co., which provides business and financial consulting services, and has been active as Principal in such business from time to time since 1982. From April 1999 until September 2001, Mr. Brands served as Senior Executive Vice President of Able Telcom Holding Corp., whose principal businesses were development of telecommunications networks and intelligent highway systems throughout the United States and in other parts of the world. From November 1997 until April 1999, he was the Chief Financial Officer of Wilson Pest Control, a consolidation of companies providing pest control services.

Marshall B. Hunt, 48, has been a director since Horizon's inception in 1990 and is a co-founder of Horizon. He served as Horizon's Chief Executive Officer from Horizon's inception in 1990 until January 2004, except for the period from October 23, 2001 through March 15, 2002. During this period, Mr. Hunt continued to serve as an employee of Horizon (but not as an officer or director, as required by a forbearance agreement with a previous lender to Horizon entered into in 2001), and was responsible for identifying and exploring refinancing opportunities. Mr. Hunt has served as Horizon's Chairman of the Board since 1997 (except for the period from October 23, 2001 through March 15, 2002). Prior to co-founding Horizon, Mr. Hunt co-founded Cardiac Medical, Inc., or CMI, a distributor of cardiac pacemakers, in 1987, and served as its Chief Executive Officer until October 1997. Mr. Hunt currently serves as Secretary of CMI. In 1981, Mr. Hunt founded Hunt Medical Systems, Inc., a distributor of pacemaker products, and served as its President from 1981 to 1987. From 1979 through 1981, Mr. Hunt held various sales and management positions with American Hospital Supply Corporation.

David A. Ku, Ph.D., M.D., 48, joined Horizon's board of directors in October 2003. Dr. Ku is a Regents Professor of Mechanical Engineering at the Georgia Institute of Technology and a vascular surgeon. Dr. Ku has served in such role for more than the last five years. He has been the Fulbright Gastprofessor in Munich, Germany, and a Fellow in Cardiovascular Pathology at the University of Chicago. In addition, Dr. Ku is a licensed medical doctor in the state of Georgia. Dr. Ku holds patents on a number of devices, has been published in numerous medical journals, and has done extensive research in the areas of Bioengineering and Fluid Mechanics.

Robert L. Priddy, 57, joined Horizon's board of directors in October 2003. Mr. Priddy is currently Chairman and CEO of RMC Capital, LLC, an investment firm. He founded that company in 1995. Mr. Priddy was also the Chairman and CEO of ValuJet Airlines from its inception in 1993 to its merger with AirTran Airways in 1997. Mr. Priddy was also a founder of Atlantic Southeast Airlines and Florida Gulf Airlines. He is on the board of directors of AirTran Holdings, Bankserv, Inoveris LLC, and Microsulis Limited. Mr. Priddy is also a General Partner in the ComVest II private equity fund. This fund specializes in corporate restructuring.

Robert D. Tucker, 70, joined Horizon's board of directors in March 2002. Since February 1996, Mr. Tucker has served as Chairman and Chief Executive Officer of Maximum Benefits, LLC, a telecommunications company founded by Mr. Tucker in 1995, which markets long distance and internet services. From May 1997 to January 2001, Mr. Tucker served as President and Chief Executive Officer of Specialty Surgicenters, Inc., a developer, owner and manager of outpatient surgery centers.

Robert J. (Bob) Wenzel, 53, currently serves as Horizon's President, Chief Operating Officer and Interim Chief Executive Officer. Mr. Wenzel became Chief Operating Officer of Horizon in May 2002 and was named President, effective July 1, 2003. He assumed the role of Interim Chief Executive Officer in January 2004. Between 2001 and 2002, Mr. Wenzel was a consultant with Impact Consulting Group in Chanhassen, Minnesota, where he provided assistance to distressed small- to medium-sized organizations by assisting management in the development and implementation of business plans. In addition, Mr. Wenzel served as Chief Operating Officer for Virtual Fund, Inc. from 1991 until 2001 and as President of ColorSpan Corporation (formally known as LaserMaster) between 1989 and 2000.

Table of Contents**Index to Financial Statements*****Horizon Executive Officers and Key Employees***

The following tables set forth information regarding the executive officers and key employees of Horizon during fiscal year 2003.

Name	Executive Officer		
	Age	Position	Since
Robert J. Wenzel	53	President, Chief Operating Officer and Interim Chief Executive Officer	2002
Robert R. Singer	39	Vice President Sales	1999
L. Bruce Maloy	40	Vice President Administration and Secretary	1998
Elaine G. Swygert	42	Corporate Controller	2004

Robert J. (Bob) Wenzel, 53, currently serves as Horizon's President, Chief Operating Officer and Interim Chief Executive Officer. Mr. Wenzel is also a member of Horizon's board of directors. Mr. Wenzel became Chief Operating Officer of Horizon in May 2002 and was named President, effective July 1, 2003. He assumed the role of Interim Chief Executive Officer in January 2004. Between 2001 and 2002, Mr. Wenzel was a consultant with Impact Consulting Group in Chanhassen, Minnesota, where he provided assistance to distressed small- to medium-sized organizations by assisting management in the development and implementation of business plans. In addition, Mr. Wenzel served as Chief Operating Officer for Virtual Fund, Inc. from 1991 until 2001 and as President of ColorSpan Corporation (formally known as LaserMaster) between 1989 and 2000.

Robert R. Singer, 39, has served as Horizon's Vice President of Sales since 1999. Mr. Singer joined Horizon in 1990 as a sales representative in East Tennessee. In 1991, he was transferred to Atlanta to cover the Georgia territory. Prior to assuming his current position, Mr. Singer served as National Sales Manager from 1997 to 1999. Mr. Singer began his sales career in 1987 as an account executive with Mixon-Baker Financial in Atlanta.

L. Bruce Maloy, 40, joined Horizon in 1990 in its sales and marketing department and has served as the Vice President of Administration of Horizon since 1996 and Secretary since 2004. From 1990 to 1996, Mr. Maloy served in various capacities at Horizon, including Regional Manager from 1991 to 1993, National Sales Manager from 1993 to 1995, and Director of Marketing from 1995 to 1996.

Elaine G. Swygert, 42, has served as Horizon's Corporate Controller since September 2000 and was named an executive officer by Horizon's board of directors in February 2004. From joining Horizon in September 1999 to September 2000, she served as Director of Budgets, Planning and Credit/Collections. Prior to joining Horizon, from 1993-1999, she was a co-owner and manager of a family owned business, Four Point L.P. Gas Company, Inc., a propane marketer. From 1990-1993, Mrs. Swygert was Financial Reporting Manager for Sales Technologies, a sales force automation division of Dun & Bradstreet Corporation. Other experience includes Assistant Controller and SEC Compliance Manager of IMTECH from 1988-1990 and from 1985-1988, as well as various staff accountant positions, including Senior Accountant with Coopers & Lybrand, now PricewaterhouseCoopers LLP. Mrs. Swygert is a Certified Public Accountant.

Key Employees

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Name	Age	Position	Since
Michael J. Fowler	42	Vice President of Manufacturing	2001
A. David Smith	33	President of Engineering	2000

Michael J. Fowler, 42, became Vice President of Manufacturing for Horizon in September 2001. He joined Horizon as Director of Manufacturing in March 1999. Prior to joining Horizon, he was a Senior Manufacturing Engineer and between 1992 and 1999 served in various manufacturing and plant support functions with the medical division of C. R. Bard, Inc., a developer, manufacturer and marketer of vascular, urological and

Table of Contents

Index to Financial Statements

oncological diagnosis and intervention products. Additionally, from 1989 to 1992, Mr. Fowler was a Senior Industrial Engineer with Baxter Healthcare Corporation.

A. David Smith, 33, became Horizon's Vice President of Engineering in November 2000. From May 1998 until November 2000, he was an engineering manager for Horizon. Mr. Smith began working for Horizon in June 1997 as a production supervisor.

Director Compensation

Cash Compensation. Each non-employee director of Horizon (excluding Messrs. Blue, Hunt and Priddy) receives a fee of \$3,000 for each meeting of Horizon's board of directors attended in person and \$1,000 for each meeting of a committee of Horizon's board of directors attended (except for committee meetings held on the same day as board meetings and except that Mr. Tucker receives no fees for attending meetings of the Executive Committee). Directors are reimbursed for travel and other expenses incurred in connection with attendance at meetings of Horizon's board of directors or committees thereof. Directors who attend meetings of Horizon's board of directors by teleconference receive an additional \$500 for each such meeting so attended. Directors who are also employees of Horizon, as well as Messrs. Blue, Priddy and Hunt, receive no additional compensation for service as directors. In addition, commencing in March 2004, Mr. Brands receives \$10,000 per month for serving as Chairman of the special committee appointed by the Horizon board of directors to evaluate the proposed merger with RITA, as described elsewhere in this joint proxy statement/prospectus. In June 2004, the Horizon board of directors approved Horizon's one-time payment of \$17,500 to each of James E. Brands and Robert D. Tucker prior to the consummation of the merger for providing certain services to Horizon related to the merger in their capacities as directors.

Options. On March 16, 2002, Mr. Tucker received options to acquire 65,000 shares of Horizon's common stock at an exercise price of \$0.85 per share. 20,000 shares of Horizon's common stock underlying these options vested and became exercisable immediately upon grant. 25,000 shares of Horizon's common stock underlying these options vest and become exercisable at 800 shares for each meeting of the Executive Committee attended by Mr. Tucker as a member of such committee. Beginning in 2003, the remaining 20,000 of these options vest in three equal annual installments at the earlier of Horizon's annual meeting of shareholders or June 1 of such year, in the event Mr. Tucker has continued as a director of Horizon until such vesting dates.

On September 27, 2002, T. Lee Provow received options to acquire 40,000 shares of Horizon's common stock at an exercise price of \$0.985 per share. 20,000 shares of Horizon's common stock underlying these options became exercisable immediately upon grant. All options have expired as Mr. Provow resigned from Horizon's board of directors on March 7, 2003.

On February 25, 2003, Robert J. Simmons received options to acquire 20,000 shares of Horizon's common stock at an exercise price of \$0.43 per share, all of such options vested and are currently exercisable in full. Mr. Simmons resigned from Horizon's board of directors on March 28, 2003.

On April 3, 2003, Mr. Brands received options to acquire 60,000 shares of Horizon's common stock at an exercise price of \$0.35 per share. One-third of these options became exercisable immediately upon grant. An additional one-third of these options vested in four equal installments on June 30, 2003, September 30, 2003, December 31, 2003 and March 31, 2004. Beginning in 2004, the remaining one-third of these options vest in three equal annual installments at the earlier of Horizon's annual meeting of shareholders or June 1 of each year, in the event Mr. Brands has continued as a director of Horizon until such vesting dates.

On October 31, 2003, Dr. Ku received options to acquire 40,000 shares of Horizon's common stock at an exercise price of \$1.82 per share. One-half of these options became exercisable immediately upon grant. Beginning in 2004, the remaining one-half of these options vest in three equal annual installments at the earlier of Horizon's annual meeting of shareholders or June 1 of each year, in the event Dr. Ku has continued as a director of Horizon until such vesting dates.

Table of Contents

Index to Financial Statements

On February 25, 2003, Mr. Hunt was granted options to purchase 500,000 shares of Horizon's common stock at an exercise price of \$0.75 per share. The terms of such options provided that such options vest based on fiscal year 2003 net sales and EBITDA levels. Specifically, such options were to vest if the 2003 audited financial statements for fiscal year 2003 reflected that actual sales and actual EBITDA for the 2003 fiscal year were equal to or greater than sales and EBITDA for the 2003 fiscal year as described in the operating plan for the 2003 fiscal year which was approved by Horizon's board of directors on February 25, 2003. These sales and EBITDA targets were not achieved during fiscal 2003, and these options expired.

On October 21, 2003, Mr. Hunt was granted options to purchase 500,000 shares of Horizon's common stock at an exercise price of \$0.91 per share. These options vest only upon the occurrence of the sale of Horizon on or before July 31, 2007. If such a sale of Horizon has so occurred and the options vest, such options will be exercisable until October 21, 2013.

On October 21, 2003, Mr. Wenzel was granted options to purchase 500,000 shares of Horizon's common stock at an exercise price of \$0.91 per share. These options vest, if at all, upon a sale of Horizon at any time during the period that Mr. Wenzel is employed by Horizon or, if Mr. Wenzel's employment with Horizon is terminated without cause under his employment agreement, during the period that expires on the later of April 30, 2007 or 18 months after the last day of the stated term of his employment under any employment agreement between Mr. Wenzel and Horizon. If such a sale of Horizon has so occurred and the options vest, such options will be exercisable until October 21, 2013. Horizon and Mr. Wenzel amended the Option Agreement on April 14, 2004 in order to provide for a new vesting schedule for the option of one-third on January 1, 2005, one-third on January 1, 2006 and one-third on January 1, 2007 if Mr. Wenzel remains an employee of Horizon on such vesting dates.

On February 25, 2003, Mr. Peterson, a director of Horizon through October 2003, was granted options to purchase 425,000 shares of Horizon's common stock at an exercise price of \$0.75 per share. The terms of such options provided that such options vest based on fiscal year 2003 net sales and EBITDA levels. Specifically, such options were to vest if the 2003 audited financial statements for fiscal year 2003 reflected that actual sales and actual EBITDA for the 2003 fiscal year were equal to or greater than sales and EBITDA for the 2003 fiscal year as described in the operating plan for the 2003 fiscal year which was approved by Horizon's board of directors on February 25, 2003. These sales and EBITDA targets were not achieved during fiscal 2003, and these options expired.

On October 21, 2003, A. Gordon Tunstall received options to acquire 20,000 shares of Horizon's common stock at an exercise price of \$0.91 per share, all of which options vested and are currently exercisable in full. Mr. Tunstall resigned from Horizon's board of directors on October 31, 2003.

On October 21, 2003, H. Ross Arnold, III received options to acquire 20,000 shares of Horizon's common stock at an exercise price of \$0.91 per share, all of which options vested and are currently exercisable in full. Mr. Arnold resigned from Horizon's board of directors on October 31, 2003.

Director Meetings

Horizon's board of directors met 13 times during fiscal year 2003. During fiscal 2003, each director attended at least 75% of all such meetings and applicable committee meetings during the time such individual was serving as a member of Horizon's board of directors and any applicable committee thereof.

Table of Contents**Index to Financial Statements*****Committees of Horizon's Board of Directors***

Horizon's board of directors has established an Executive Committee, an Audit Committee, and a Compensation Committee. The current members of each of these committees are set forth in the following table and denoted by an asterisk * :

BOARD COMMITTEE MEMBERSHIP

Name	Executive Committee	Compensation Committee	Audit Committee
Harold Blue	*	*	
James E. Brands		*	*
Marshall B. Hunt			
Dr. David A. Ku		*	*
Robert L. Priddy			
Robert D. Tucker	*		*
Robert J. Wenzel	*		

Horizon's board of directors has not established a Nominating Committee. In considering nominees to serve as directors, Horizon's board of directors takes into account the following criteria, among other things:

- (i) whether the member or potential member has demonstrated character and integrity, high-level managerial experience in a complex organization or experience dealing with complex problems, and has sufficient time to devote to the business and affairs of Horizon;
- (ii) the member or potential member's independence;
- (iii) whether the member or potential member has particular industry expertise or specialized skills to contribute to Horizon's board of directors;
- (iv) whether an existing member has reached retirement age or a term limit as may be established by Horizon's board of directors;
- (v) whether the member or potential member contributes to the diversity of background and experience of Horizon's board of directors as a whole;
- (vi) whether the member or potential member is free from conflicts of interests with Horizon; and
- (vii) whether the member or potential member would be considered an audit committee financial expert under the rules and regulations of the SEC, and financially sophisticated as defined in the rules and regulations of the American Stock Exchange.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

The independent members of Horizon's board of directors, in considering nominees for Horizon's board of directors, will evaluate potential members in light of the foregoing criteria, in addition to such other criteria which Horizon's board of directors deems appropriate or reasonable. After consideration of all such factors, the independent directors will select nominees for membership on Horizon's board of directors and recommend that the full Horizon board of directors approve such nominees and, as appropriate, submit such nominees to a shareholder vote at the annual meeting of Horizon's shareholders.

In addition, nominations for directors may be submitted by Horizon's shareholders in accordance with Georgia law and Horizon's bylaws as in effect from time to time. Horizon's board of directors will utilize the procedures and criteria set forth above in its analysis of whether a shareholder-nominated potential board member is to be recommended to Horizon's shareholders for election.

Executive Committee. Prior to October 31, 2003, Horizon's Executive Committee consisted of three members of Horizon's board of directors, who, pursuant to an agreement entered into in connection with the Recapitalization were: (i) a director designated by ComVest who served as Chairman of Horizon's Executive

Table of Contents

Index to Financial Statements

Committee, (ii) the independent director designated by ComVest; and (iii) Marshall B. Hunt. Pursuant to the Securityholders Agreement, this Executive Committee structure terminated effective October 31, 2003. On February 24, 2004, Horizon's board of directors constituted a new Executive Committee.

Currently, Horizon's Executive Committee is comprised of Mr. Tucker, Mr. Wenzel and Mr. Blue. Horizon's Executive Committee, to the fullest extent permitted by law and Horizon's Amended and Restated Bylaws, has and may exercise, when Horizon's board of directors is not in session, all powers of Horizon's board in the management of the business and affairs of Horizon. Horizon's Executive Committee shall retain its power so long as Mr. Tucker, Mr. Wenzel and Mr. Blue comprise the membership of Horizon's Executive Committee. The affirmative vote of all of the members of Horizon's Executive Committee is required in order to take action.

During 2003, Horizon's Executive Committee met nine times and approved action by written consent on 12 occasions.

Compensation Committee. Horizon's Compensation Committee was responsible for reviewing and approving the compensation arrangements for Horizon's executive officers and for administering Horizon's 1998 Stock Incentive Plan until the recapitalization transaction was completed on March 16, 2002, which we refer to as the Recapitalization at which point Horizon's Executive Committee assumed responsibility for such administration. During 2003, Horizon's Compensation Committee did not meet. Following the dissolution of Horizon's Executive Committee in October 2003, Horizon's Compensation Committee resumed these duties.

The current members of Horizon's Compensation Committee are Mr. Brands, Dr. Ku, and Mr. Blue. Mr. Brands and Dr. Ku are independent as such term is defined under Section 121A of the American Stock Exchange Rules and Section 10(m) of the Exchange Act.

Audit Committee. Horizon's Audit Committee is responsible for nominating Horizon's independent registered public accounting firm for approval by Horizon's board of directors, reviewing the scope, results and costs of the audit with Horizon's independent registered public accounting firm, and reviewing the financial statements and accounting practices of Horizon. Horizon's Audit Committee is governed by a written charter adopted by Horizon's board of directors. During 2003, Horizon's Audit Committee met five times. The members of Horizon's Audit Committee are Dr. Ku, Mr. Tucker, and Mr. Brands. Horizon's board of directors has determined through the exercise of its business judgment that Mr. Brands is an audit committee financial expert as defined in the rules and regulations of the SEC and is financially sophisticated as defined in the rules and regulations of the American Stock Exchange. Mr. Brands, Dr. Ku, and Mr. Tucker are all independent as such term is defined in both the rules and regulations of the SEC and the rules and regulations of the American Stock Exchange.

Table of Contents**Index to Financial Statements*****Executive Compensation***

The following table sets forth information concerning total compensation earned or paid to the Chief Executive Officer and certain other executive officers of Horizon for services rendered to Horizon during each of the last three fiscal years. This joint proxy statement/prospectus refers to such officers as the Horizon Named Executive Officers .

Name and Principal Positions	Fiscal	Salary	Bonus(1)	Other Annual Compensation(2)	Long-Term Compensation
	Year				Securities Underlying Options(3)(#)
Marshall B. Hunt (4)					
Chairman of the Board and Former Chief Executive Officer	2003	\$ 289,734	\$ 183,064		1,000,000
	2002	272,979	527,430		4,500,000
	2001	268,125		\$ 28,586	
Robert J. Wenzel (5)					
President, Chief Operating Officer and Interim Chief Executive Officer	2003	228,148	104,100		500,000
	2002	129,546	55,000		600,000
	2001				
William E. Peterson, Jr. (6)					
Former President and Secretary	2003	168,750	38,400	23,101	425,000
	2002	225,000	539,738		1,000,000
	2001	219,375			
Robert R. Singer					
Vice President Sales	2003	155,201	32,017		55,000 (7)
	2002	150,000	26,667		25,000
	2001	146,250	20,000		2,100
L. Bruce Maloy					
Vice President Administration	2003	115,000	46,613		55,000 (7)
	2002	115,000	31,961		63,500
	2001	112,125	66,882		

- (1) Amounts include paid and unpaid bonuses pertaining to each year and commissions paid during each year. With respect to the bonuses paid to Mr. Hunt during fiscal 2003, see "How was the Chief Executive Officer compensated?" under "Report of the Compensation Committee" below.
- (2) Horizon provides the executive officers listed herein with certain group life, health, medical and other non-cash benefits generally available to all salaried employees and certain auto allowances and other benefits. The amount for Mr. Hunt in 2001 includes \$14,532 for automobile allowances. No other such compensation exceeded 10% of the total annual salary and bonus for any named executive officer in any year for which a dollar amount is not disclosed.
- (3) See "Option Grants in Last Fiscal Year" below with respect to 2003 option grants.
- (4) Mr. Hunt served as Horizon's Chief Executive Officer until January 16, 2004.
- (5) Mr. Wenzel became an executive officer of Horizon in May 2002.
- (6) Mr. Peterson served as Horizon's President until June 30, 2003 and as Secretary until January 30, 2004.
- (7) 30,000 of these options were granted to vest at the rate of options for 10,000 shares of Horizon common stock per quarter during the second, third, and fourth quarter of 2003 if Mr. Singer and Mr. Maloy satisfied certain management business objectives for each such quarter. Options for 26,300 shares for Mr. Maloy and 26,800 shares for Mr. Singer were earned pursuant to such management business objectives. Such options will vest over a period of three years from the grant date with one-third vesting on May 30, 2004, one-third on

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

May 30, 2005, and the remainder on May 30, 2006 if the employee remains employed with Horizon through each such vesting date. Mr. Singer and Mr. Maloy each entered into an agreement with Horizon on May 3, 2004 that provides for such options to become fully exercisable immediately prior to the completion of the merger with RITA.

Table of ContentsIndex to Financial Statements*Option Grants During Fiscal 2003*

The following table sets forth information with respect to option grants to the Horizon Named Executive Officers during fiscal 2003 and the potential realizable value of such option grants:

Name	Number of Options Granted	% of Total Options Granted to Employees in Fiscal Year(1)	Exercise Price (\$/Share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(7)		
					5%	10%	
Marshall B. Hunt	1,000,000	37.46%	500,000	0.75	2/25/13(2)	\$ 286,147	\$ 725,153
			\$ 0.91		7/31/07(3)	235,835	597,653
			500,000				
Robert J. Wenzel	500,000	18.73%	500,000	0.91	(4)	286,147	725,153
			\$				
William E. Peterson, Jr.	425,000	15.92%	425,000	0.75	2/25/13(2)	200,260	508,005
			\$				
Robert R. Singer	55,000	2.1%	30,000	0.58	5/30/13(5)	9,776	24,773
			\$ 0.91		10/21/13(6)	14,307	36,258
			25,000				
			\$				
L. Bruce Maloy	55,000	2.1%	30,000	0.58	5/30/13(5)	9,593	24,311
			\$ 0.91		10/21/13(6)	14,307	36,258
			25,000				
			\$				

- (1) Options to purchase a total of 2,669,667 shares of Horizon's common stock were granted to employees of Horizon in fiscal 2003. Options to purchase an aggregate of 925,000 shares of Horizon's common stock granted to Messrs. Hunt and Peterson were not granted under the 1998 Incentive Stock Plan, as amended, and the remaining 1,744,677 options were granted under such stock plan.
- (2) Such options were to vest based on fiscal year 2003 net sales and EBITDA levels. Specifically, such options were to vest if the 2003 audited financial statements for fiscal year 2003 reflected that actual sales and actual EBITDA for the 2003 fiscal year were equal to or greater than sales and EBITDA for the 2003 fiscal year as described in the operating plan for the 2003 fiscal year which was approved by Horizon's board of directors on February 25, 2003. These sales and EBITDA targets were not achieved during fiscal 2003, and these options expired.
- (3) These options vest only upon the occurrence of the sale of Horizon (as such term is defined in the option agreement governing these options) on or before July 31, 2007. If such a sale of Horizon has so occurred and the options vest, such options will be exercisable until October 21, 2013.
- (4) These options were to vest, if at all, upon a sale of Horizon (as such term is defined in the option agreement governing these options) at any time during the period that Mr. Wenzel is employed by Horizon or, if Mr. Wenzel's employment with Horizon was terminated without

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

cause, during the period that expired on the later of April 30, 2007 or 18 months after the last day of the stated term of his employment under any employment agreement between Mr. Wenzel and Horizon. If such a sale of Horizon had so occurred and the options vested, such options would be exercisable until October 21, 2013. Horizon and Mr. Wenzel amended the Option Agreement on April 14, 2004 in order to provide for a new vesting schedule for the options of one-third on January 1, 2005, one-third on January 1, 2006 and one-third on January 1, 2007 if Mr. Wenzel remains an employee of Horizon on such vesting dates.

- (5) The terms of these options provided that such options would be earned at the rate of 10,000 shares per calendar quarter during the second, third, and fourth quarter of 2003 only if Mr. Singer and Mr. Maloy satisfied certain management business objectives for each such quarter. Options for 26,300 shares for Mr. Maloy and 26,800 shares for Mr. Singer were earned pursuant to such management business objectives. Such options will vest over a period of three years from the grant date with one-third vesting on May 30, 2004, one-third on May 30, 2005, and the remainder on May 30, 2006 if the employee remains employed with Horizon through each such vesting date. Mr. Singer and Mr. Maloy each entered into an agreement with Horizon on May 3, 2004 that provides for such options to become fully exercisable immediately prior to the completion of the merger with RITA.
- (6) Each option will vest over three years from the date of the grant with one-third on October 21, 2004, one-third on October 21, 2005, and the remainder on October 21, 2006 if the employee remains employed with

Table of Contents**Index to Financial Statements**

Horizon through each such vesting date. Each option that has not vested and become exercisable will vest and become exercisable in full upon the earlier of (i) a sale of Horizon (as such term is defined in the option agreement governing these options) or (ii) upon Horizon's payment of the \$14,763,000 senior subordinated convertible notes issued in connection with the Recapitalization. Mr. Singer and Mr. Maloy each entered into an agreement with Horizon on May 3, 2004 that provides for such options to become fully exercisable immediately prior to the completion of the merger with RITA.

- (7) Potential realizable value assumes that the stock price increases from the date of grant until the end of the option term (10 years) at the annual rate specified (5% and 10%). The 5% and 10% assumed annual rates of appreciation are mandated by SEC rules and do not represent Horizon's estimate or projection of the future price of its common stock. Horizon does not believe that this method accurately illustrates the potential value of a stock option.

Option Exercises and Values for Fiscal Year 2003

The following table sets forth certain information with respect to option exercises during fiscal 2003 by each of the Horizon Named Executive Officers and the status of their options at December 31, 2003.

Name	Number of Shares Acquired Upon Exercise of Option	Value Realized Upon Exercise	Number of Unexercised		Value of Unexercised	
			Securities Underlying		In-the-Money	
			Options 12/31/03		Options 12/31/03(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Marshall B. Hunt	0	0	3,122,850	1,377,150	\$ 3,109,361	\$ 888,366
William E. Peterson, Jr.	0	0	1,000,000	0	1,010,000	
Robert J. Wenzel	0	0	220,945	879,055	127,581	526,919
Robert R. Singer	0	0	68,600	51,800	49,596	37,334
L. Bruce Maloy	0	0	107,500	51,300	67,225	36,894

- (1) In accordance with SEC rules, values are calculated by subtracting the exercise price from the fair market value of the underlying common stock. For purposes of this table, fair market value is deemed to be \$1.46, the rounded average of the high and low common stock price reported for American Stock Exchange transactions on December 31, 2003. At December 31, 2003, the exercise prices of all options held by the Horizon Named Executive Officers ranged from \$0.44 to \$14.50.

Employment Agreements

Marshall B. Hunt. Mr. Hunt is Horizon's Chairman of the Board and Horizon's former Chief Executive Officer. While no longer an employee of Horizon, the SEC requires this joint proxy statement/prospectus to include a description of the compensation paid by Horizon to Mr. Hunt pursuant to the terms of his employment arrangements. The following section details such compensation.

In connection with the Recapitalization, Horizon entered into an employment agreement with Mr. Hunt on March 16, 2002. Pursuant to such agreement, Mr. Hunt's base salary was established at \$270,000, with the opportunity to earn an annual bonus of 100% of base salary if the annual increase in Horizon's earnings per share was 35% or more and 50% of base salary if the annual increase in Horizon's earnings per share was at

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

least 25% but less than 35%. Further, Mr. Hunt's employment agreement provided that Mr. Hunt was entitled to participate in all compensation, benefit and insurance programs maintained by Horizon in which executive officers were eligible to participate and for certain other benefits, including reimbursement for reasonable family medical and dental expenses which were not covered by insurance, an automobile lease and certain reimbursements for country club dues. The term of Mr. Hunt's employment agreement was 12 months (until March 16, 2003). If Mr. Hunt was terminated by Horizon without cause (as defined in the Mr. Hunt's employment agreement) either during the term of his employment agreement or thereafter, then he would have been entitled to one year severance of his base salary and certain employee benefits.

Table of Contents**Index to Financial Statements**

By amendment, effective November 15, 2002, the term of Mr. Hunt's employment agreement was extended to April 1, 2004, Mr. Hunt's base salary was increased to \$283,500 per year, Horizon's Executive Committee granted options to Mr. Hunt to purchase 1,000,000 shares of Horizon's common stock (as described below), and the annual bonus calculation described above was replaced with a new bonus calculation for 2003. Under the bonus calculation for 2003, Mr. Hunt was entitled to an annual bonus based upon Horizon's achievement during 2003 of certain levels of net sales and EBITDA when compared with Horizon's net sales and EBITDA in its 2003 operating plan approved by its board of directors, as follows: (i) if Horizon's actual annual net sales during 2003 were greater than 50% of net sales for 2003 as reflected in the 2003 operating plan, Mr. Hunt was entitled to a bonus of $\frac{1}{2}$ of his base salary in 2003 times the applicable bonus percentage, and (ii) if Horizon's actual annual EBITDA for 2003 was greater than 50% of the EBITDA for 2003 as reflected in the 2003 operating plan, then Mr. Hunt was entitled to a bonus of $\frac{1}{2}$ of his base salary in 2003 times the applicable bonus percentage. This applicable bonus percentage was determined by dividing actual annual net sales by net sales for 2003 as reflected in the 2003 operating plan (and actual annual EBITDA by EBITDA for 2003 as reflected in the 2003 operating plan): where the result of such division was greater than 50%, but less than 76%, the applicable bonus percentage was 50%, where the result of such division was 76% or more, but less than 100%, the bonus percentage was 75%, and where the result of such division was 100% or greater, the applicable bonus percentage was 100%.

In connection with his employment agreement, Mr. Hunt was granted options to purchase 3,500,000 shares of Horizon's common stock at the exercise price of \$0.45 per share, of which 2,500,000 shares vested and became exercisable immediately with a term of 10 years. The terms of such options provide that the remaining 1,000,000 shares would vest and become exercisable after the earliest to occur of the following: (i) January 1, 2004, provided that Horizon's net income before any provision for income taxes was at least \$8 million for the fiscal year ending December 31, 2003, which amount is to be adjusted appropriately in the event that Horizon sells any of its operating assets or divisions and reduces its debt, (ii) the date on which Horizon consummates a merger, consolidation or sale or disposition of all or substantially all of its stock or assets, or (iii) the date on which Horizon terminates the employment of Mr. Hunt for other than good cause (as defined in Mr. Hunt's employment agreement) if such termination date were to have occurred prior to January 1, 2004. In an amendment to the terms of the options granted to Mr. Hunt on November 15, 2002, the vesting requirement in clause (i) above was modified to provide that the options representing 1,000,000 shares vest and become exercisable on January 1, 2004 based upon Horizon's achievement during 2003 of certain levels of EBITDA under Horizon's 2003 operating plan, as follows: If the actual EBITDA for 2003 was greater than 50% of the 2003 operating plan EBITDA, then the number of shares which would vest would be calculated by multiplying 1,000,000 times the vesting percentage. The vesting percentage was determined by dividing actual EBITDA for 2003 by EBITDA as reflected in the 2003 operating plan; where the result of such division was greater than 50%, but less than 76%, the vesting percentage was 50%, where the result of such division was 76% or more, but less than 100%, the vesting percentage was 75%, and where the result of such division was 100% or greater, the vesting percentage was 100%.

By amendment to Mr. Hunt's employment agreement effective October 21, 2003, the term of such employment agreement was extended through January 31, 2006 (subject to the right of Horizon to terminate the such agreement upon notice with cause (as defined therein) or upon 120 days prior notice without cause or the right of Mr. Hunt to terminate the agreement upon 120 days prior written notice). Mr. Hunt's salary was increased to \$315,000. Such amendment also outlined the bonus structure for Mr. Hunt for fiscal years 2004 and 2005. Such structure is irrelevant, as Mr. Hunt is no longer an employee of Horizon. The remainder of Mr. Hunt's rights and benefits under his employment agreement remained unchanged.

Under Mr. Hunt's employment agreement, if a change in control event were to have occurred at any time while Mr. Hunt was receiving severance payments from Horizon, then he would have been entitled to receive, in lieu of such severance compensation and benefits, his base salary for each of the three years following such change in control event. A change in control event was defined as one of the following transactions occurring prior to March 16, 2005: (i) the adoption of a plan of merger or consolidation as a result of which the holders of

Table of Contents**Index to Financial Statements**

the outstanding voting stock of Horizon as a group receive less than fifty percent of the voting stock of the surviving or resulting corporation, or (ii) the sale of substantially all of the assets of Horizon, and as a result of either transaction the shareholders of Horizon receive cash and/or securities valued on the date of the transaction at \$3.00 or more per share. This provision, among others, was superseded by the separation agreement described below.

On January 14, 2004, Horizon and Mr. Hunt entered into a separation agreement in connection with Mr. Hunt's resignation as Chief Executive Officer of Horizon. Such agreement generally supersedes and replaces Mr. Hunt's employment agreement. Pursuant to Mr. Hunt's separation agreement, Horizon agreed to provide Mr. Hunt with the following severance payments: (i) a bonus equal to \$181,084 (representing the 2003 bonus Mr. Hunt was entitled to), (ii) a bonus equal to \$105,000, representing a portion of the 2004 bonus payable to Mr. Hunt, payable on April 1, 2005, (iii) salary equal to \$105,000, payable in installments between January 1, 2004 and April 30, 2004, (iv) salary equal to \$315,000, payable in installments between May 1, 2004 and April 30, 2005, (v) a bonus equal to \$128,267, payable on January 1, 2005, and (vi) a bonus equal to \$52,816, payable in installments between January 15, 2005 and April 30, 2005. In addition, Horizon will reimburse Mr. Hunt for certain automobile expenses and certain reasonable medical and dental expenses not covered by insurance for a period continuing through April 2005.

Also, under Mr. Hunt's separation agreement, Horizon affirmed its obligations to Mr. Hunt under (i) the non-qualified stock option agreement dated March 15, 2002, (ii) the non-qualified stock option agreement dated March 15, 2002 (as amended on November 15, 2002), (iii) the stock option agreement contained in the November 15, 2002 amendment to Mr. Hunt's employment agreement, (iv) the non-qualified stock option agreement dated February 23, 2003, and (v) the stock option agreement dated October 21, 2003. Notwithstanding the above, Mr. Hunt's separation agreement provides that (i) only 500,000 shares (out of a possible 1,000,000) have vested or will vest under the March 15, 2002 non-qualified stock option agreement (as amended on November 15, 2002); and (ii) Mr. Hunt will have until January 16, 2006 to exercise the options for 1,000,000 shares granted on November 15, 2002 pursuant to Horizon's 1998 Stock Incentive Plan.

William E. Peterson, Jr. Mr. Peterson is Horizon's former President. While no longer an employee of Horizon, the SEC requires this joint proxy statement/prospectus to include a description of the compensation paid by Horizon to Mr. Peterson pursuant to the terms of his employment arrangements. The following section details such compensation.

In connection with the Recapitalization, Horizon entered into an employment agreement with Mr. Peterson on March 16, 2002. Pursuant thereto, Mr. Peterson's base salary was established at \$225,000, with the opportunity to earn an annual bonus of 100% of base salary if the annual increase in Horizon's earnings per share was 35% or more and 50% of base salary if the annual increase in Horizon's earnings per share was at least 25% but less than 35%. Mr. Peterson's employment agreement provided that Mr. Peterson was entitled to participate in all compensation, benefit and insurance programs maintained by Horizon in which executive officers were eligible to participate and for certain other benefits, including reimbursement for reasonable family medical and dental expenses which were not covered by insurance, automobile leases and certain reimbursements for country club dues. The term of Mr. Peterson's employment agreement was six months (September 16, 2002). If Mr. Peterson was terminated by Horizon without cause (as defined in Mr. Peterson's employment agreement) either during the term of his employment agreement or thereafter, then he would have been entitled to one year severance of his base salary and certain employee benefits.

By amendment, effective September 16, 2002, the term of Mr. Peterson's employment agreement was extended to March 16, 2003, and such agreement was amended to provide that if Horizon terminated his employment without good cause (as defined in therein) or if Mr. Peterson terminated his employment by leaving Horizon at any time from September 17, 2002 through March 16, 2003, then Horizon would continue to pay Mr. Peterson his base salary for 12 months after such termination, plus any unpaid bonus for 2002, and provide certain employee benefits during such period. By amendment to Mr. Peterson's employment agreement, effective

Table of Contents

Index to Financial Statements

March 7, 2003, the term of such agreement was extended to December 31, 2003 and the annual bonus calculation described above was replaced with a new bonus calculation for 2003. Under the bonus calculation for 2003, Mr. Peterson had the opportunity to earn quarterly bonuses of \$20,000 if management business objectives established for him by the Chief Executive Officer of Horizon and by the Executive Committee, both for the quarter in question and for the year to date through the end of such quarter, were satisfied. Further, such amendment provided that if Mr. Peterson's employment with Horizon ended via a termination by Horizon without good cause or if Mr. Peterson left Horizon, between March 7, 2003 and December 31, 2003, then he would be entitled, in addition to other compensation due him, to receive his normal base salary for 12 months following such termination.

In connection with his employment agreement, Mr. Peterson was granted options to purchase 1,000,000 shares of Horizon's common stock at the exercise price of \$0.45 per share. Such options vested and were exercisable immediately and have a term of 10 years.

Pursuant to an amendment to Mr. Peterson's employment agreement dated June 17, 2003, Mr. Peterson agreed to relinquish the title of President effective June 30, 2003 and the term of such agreement was extended to January 31, 2004. Under such amendment, effective June 30, 2003, Mr. Peterson transitioned to Vice-Chairman of Horizon and his salary was reduced to \$112,500. Further pursuant to such amendment, upon the resignation of Mr. Peterson or the termination of Mr. Peterson by Horizon without good cause prior to January 31, 2004, Mr. Peterson would remain entitled to the continued provision of a \$225,000 salary for a period of one year following the end of his employment.

Effective January 30, 2004, Mr. Peterson ended his employment with Horizon. As already noted, Mr. Peterson remains entitled to severance of \$225,000 through January 30, 2005. In addition, through such period, Mr. Peterson remains entitled to participate in all compensation, benefit and insurance programs maintained by Horizon in which executive officers are eligible to participate and certain other benefits, including reimbursement for reasonable family medical and dental expenses which are not covered by insurance, and automobile leases. Mr. Peterson was also entitled to any bonus earned by him prior to his resignation, but no such bonus was earned.

If a change in control event occurs at any time when Mr. Peterson is receiving severance payments from Horizon, then he is entitled to receive, in lieu of such severance compensation and benefits, his base salary for each of the three years following such change in control event. A change in control event is defined as one of the following transactions occurring prior to March 16, 2005: (i) the adoption of a plan of merger or consolidation as a result of which the holders of the outstanding voting stock of Horizon as a group receive less than 50% of the voting stock of the surviving or resulting corporation or (ii) the sale of substantially all of the assets of Horizon, and as a result of either transaction the shareholders of Horizon receive cash and/or securities valued on the date of the transaction at \$3.00 or more per share.

Robert J. Wenzel. Horizon entered into an employment agreement with Robert J. Wenzel dated May 8, 2002, which initially provided for Mr. Wenzel to serve as Horizon's Chief Operating Officer. The initial term of Mr. Wenzel's employment agreement expired on December 31, 2002. Under the terms of his employment agreement, Mr. Wenzel was eligible to earn bonus compensation of \$65,000 if the management business objectives established for him by Horizon's Chief Executive Officer and the Executive Committee of Horizon's board for the third and fourth quarters of 2002 were satisfied.

Pursuant to Mr. Wenzel's employment agreement, the Executive Committee has granted Mr. Wenzel options to purchase 250,000 shares of Horizon's common stock under Horizon's 1998 Incentive Stock Plan, as amended. 100,000 shares became exercisable on December 31, 2002 and an additional 50,000 shares became exercisable on December 31, 2003. The remaining 100,000 options become exercisable as follows: one-half on December 31, 2004 if Mr. Wenzel is an employee on such date, and the remaining one-half on December 31, 2005 if Mr. Wenzel is an employee on such date.

Table of Contents**Index to Financial Statements**

By amendment to his employment agreement, effective November 12, 2002, the term of Mr. Wenzel's employment was extended through December 31, 2003, his base salary for 2003 was increased to \$225,000 and his bonus compensation during 2003 was established as a quarterly bonus of \$20,000 if the management business objectives established for him by the Chief Executive Officer of Horizon and by the Executive Committee, both for the quarter in question and for the year to date through the end of such quarter, were satisfied. Pursuant to such amendment, the Executive Committee granted Mr. Wenzel options to purchase an additional 350,000 shares of Horizon's common stock under Horizon's 1998 Incentive Stock Plan, as amended. On December 31, 2003, 70,945 of these options became exercisable. The remaining options become exercisable as follows: 70,945 shares become exercisable on December 31, 2004 if Mr. Wenzel continues as an employee until that date, and 208,110 shares become exercisable on December 31, 2005 if Mr. Wenzel continues as an employee until such date.

By further amendment to Mr. Wenzel's employment agreement, effective October 31, 2003, the term of Mr. Wenzel's employment was extended through October 31, 2005 and his base salary was increased to \$250,000. Mr. Wenzel is entitled to participate in all benefit and insurance programs maintained by Horizon in which executive officers are eligible to participate, to have an automobile allowance, and to have a monthly commute expense allowance. Under the initial terms of such amendment, Mr. Wenzel could have earned quarterly bonuses during 2004 based on Horizon's achievement of net sales and/or EBITDA levels under Horizon's 2004 operating plan as approved by Horizon's board of directors. Mr. Wenzel's bonus schedule was as follows: (i) if Horizon's actual net sales during a calendar quarter were 95% or greater than, but less than 100%, of the net sales established by the 2004 operating plan for the same calendar quarter, then Mr. Wenzel would have been entitled to a \$6,250 bonus; (ii) if Horizon's actual net sales during a calendar quarter were 100% or greater than the net sales established by the 2004 operating plan for the same calendar quarter, then Mr. Wenzel would have been entitled to a \$12,500 bonus; (iii) if Horizon's actual EBITDA during a calendar quarter was 82% or greater than, but less than 100%, of EBITDA established by the 2004 operating plan for the same calendar quarter, then Mr. Wenzel would have been entitled to a \$6,250 bonus; and (iv) if Horizon's actual EBITDA during a calendar quarter was established by the 2004 operating plan for the same calendar quarter, then Mr. Wenzel would have been entitled to a \$12,500 bonus. Mr. Wenzel could have earned a net sales bonus and a EBITDA bonus.

By further amendment to Mr. Wenzel's employment agreement, dated February 25, 2004, Horizon and Mr. Wenzel agreed upon amended terms through which Mr. Wenzel's 2004 bonus shall be calculated. Under such amendment, Mr. Wenzel may earn quarterly bonuses during 2004 based on Horizon's achievement of net sales and/or EBITDA levels under the 2004 operating plan discussed above. Mr. Wenzel's bonus schedule is as follows: (i) if Horizon's actual net sales during a calendar quarter are 94% or greater than, but less than 100%, of the net sales established by the 2004 operating plan for the same calendar quarter, then Mr. Wenzel would be entitled to a \$6,250 bonus; (ii) if Horizon's actual net sales during a calendar quarter are 100% or greater than the net sales established by the 2004 operating plan for the same calendar quarter, then Mr. Wenzel would be entitled to a \$12,500 bonus; (iii) if Horizon's actual EBITDA during a calendar quarter is 75% or greater than, but less than 100%, of EBITDA established by the 2004 operating plan for the same calendar quarter, then Mr. Wenzel would be entitled to a \$6,250 bonus; and (iv) if Horizon's actual EBITDA during a calendar quarter is 100% or greater than the EBITDA established by the 2004 operating plan for the same calendar quarter, then Mr. Wenzel would be entitled to a \$12,500 bonus. In the event Horizon sells a product line or division during 2004 or in the event Horizon is acquired by a third party during 2004, then Mr. Wenzel's bonus for the quarter in which such event occurs shall be calculated using actual net sales and EBITDA through the month end immediately prior to such sale or acquisition and using net sales and EBITDA under the 2004 operating plan through such month end. Such amendment also establishes Mr. Wenzel's 2005 bonus structure. Such structure is substantially the same as the 2004 structure, except that the applicable bonus amounts of \$6,250 and \$12,500 are increased to \$7,500 and \$15,000, respectively. Moreover, during the period of October 1, 2005 through October 31, 2005, the Compensation Committee of Horizon's board of directors shall determine the bonus compensation earned by Mr. Wenzel rather than the applicable 2005 bonus structure.

On February 26, 2004, Horizon granted Mr. Wenzel options to purchase an additional 500,000 shares of Horizon's common stock at an exercise price of \$1.65 per share. One-third of such options shall vest and become

Table of Contents**Index to Financial Statements**

exercisable on each of January 1, 2005, January 1, 2006, and January 1, 2007. Such options will vest and become exercisable upon a change-in-control (as defined therein) of Horizon and expire 90 days following termination of Mr. Wenzel's employment.

Horizon must provide Mr. Wenzel with 120 days notice should it decide to terminate his employment without cause. Further, should Horizon terminate Mr. Wenzel's employment without good cause, he would be entitled to an additional bonus equal to the sum of all quarterly bonuses paid by Horizon to him for the four previous quarters and for further severance compensation of 12 months of base salary.

Robert Singer. Horizon entered into an employment agreement with Robert Singer dated June 21, 2001, which provided for Mr. Singer's continued employment as Vice President of Sales. Initially, Mr. Singer's employment agreement had a two-year term (subject to the right of Horizon to terminate the agreement upon notice with cause (as defined therein) or upon 30 days prior notice without cause or the right of Mr. Singer to terminate the agreement upon 90 days prior notice) and provided for an annual base salary of \$150,000. Under the terms of his employment agreement, Mr. Singer was eligible to earn bonus compensation of \$10,000 for each quarter during the term based upon whether Horizon's domestic sales during the calendar quarter exceeded the amount of sales in Horizon's operating plan for the quarter. Mr. Singer's employment agreement also provided that Mr. Singer was entitled to participate in all benefit and insurance programs maintained by Horizon in which executive officers were eligible to participate and to have an automobile allowance. Mr. Singer would be entitled to receive his base salary and benefits for a period of 12 months from the date of termination in the event his employment was terminated without cause (as defined in Mr. Singer's employment agreement), or for a period of three months from the date of termination where Mr. Singer's employment is terminated for failure to meet quarterly or annual sales goals established by Horizon. Mr. Singer's employment agreement also provided that Mr. Singer was entitled to a "stay put" bonus of \$50,000 in the event Horizon was acquired and he remained an employee of Horizon through the acquisition. In the event of an acquisition, Mr. Singer was entitled to severance compensation of his base salary and certain benefits payable over an 18 month period (i) if he complied with certain non-competition provisions and (ii) if he continued his employment through the acquisition and if he is not offered within 60 days after the acquisition a position of employment within a 50-mile radius of his home or his office in Manchester that was acceptable to him and he then resigned.

Pursuant to an amendment to Mr. Singer's employment agreement, Mr. Singer's term of employment was extended through June 21, 2004 (subject to the right of Horizon to terminate such agreement upon notice with cause (as defined therein) or upon 60 days prior notice without cause or the right of Mr. Singer to terminate the agreement upon 60 days prior notice), and his base salary was increased to \$160,000. In addition, Mr. Singer was eligible to earn a bonus of \$10,000 for each quarter during the term of his employment based upon Horizon's performance in terms of revenue and EBITDA and upon Mr. Singer's achievement of quarterly management business objectives established by the Chief Operating Officer of Horizon. If Mr. Singer's employment with Horizon continued after the term, Mr. Singer did not have an employment agreement with Horizon and Mr. Singer's employment was terminated without good cause (as defined in Mr. Singer's employment agreement), then Horizon was to continue to pay Mr. Singer his base salary for a period of six months following the effective date of termination. If Mr. Singer's employment was terminated for good cause, then Horizon was to continue to pay Mr. Singer his base salary for a period of 60 days. Under either scenario, Mr. Singer was still entitled to participate in all benefit and insurance programs maintained by Horizon in which executive officers were eligible to participate and to have an automobile allowance. Moreover, Mr. Singer was entitled to the "stay put" bonus described above in the event Horizon is acquired and he remained an employee through the acquisition.

On May 3, 2004, Horizon entered into a new employment agreement with Robert Singer, which provides for Mr. Singer's continued employment as Vice President of Sales through a term ending May 2, 2005 (subject to the right of Horizon to terminate the agreement upon notice with cause (as defined) or upon 60 days prior notice without cause or the right of Mr. Singer to terminate the agreement upon 60 days prior notice) and provides for an annual base salary of \$160,000. Under the terms of his employment agreement, Mr. Singer is eligible to earn bonus compensation of \$10,000 for each quarter during the term based upon his achievement of certain

Table of Contents**Index to Financial Statements**

management business objectives pursuant to Horizon's bonus plan in effect. Mr. Singer's employment agreement also provides that he is entitled to participate in all benefit and insurance programs maintained by Horizon in which executive officers are eligible to participate and to have an automobile allowance. Mr. Singer would be entitled to receive his base salary and certain benefits for a period of six months from the date of termination in the event his employment agreement is terminated without cause (as defined) or for a period of 60 days from the date of termination where Mr. Singer's employment is terminated for cause. In the event of an acquisition (as defined), Mr. Singer would be entitled to severance compensation in an amount equal to his base salary and certain benefits during a six-month period after the acquisition (i) if he complies with certain non-competition provisions and (ii) if he continues his employment through the acquisition and if he is not offered within 60 days after the acquisition a position of employment within a 50-mile radius of his home or a 50-mile radius of Horizon's office in Atlanta that provides for comparable compensation and benefits and comparable position as provided for in his employment agreement. If Mr. Singer's employment with Horizon continues after the term, Mr. Singer does not have an employment agreement with Horizon and Mr. Singer's employment is terminated without good cause (as defined), then Horizon shall continue to pay Mr. Singer's base salary for a period of six months and provide him with certain benefits during such period. Mr. Singer must comply with certain non-competition covenants during such period.

Bruce Maloy. On May 3, 2004, Horizon entered into a new employment agreement with Bruce Maloy, which provides for Mr. Maloy's continued employment as Director of Administration through a term ending May 2, 2005 (subject to the right of Horizon to terminate the agreement upon notice with cause (as defined) or upon 60 days prior notice without cause or the right of Mr. Maloy to terminate the agreement upon 60 days prior notice) and provides for an annual base salary of \$115,000. Under the terms of his employment agreement, Mr. Maloy is eligible to earn bonus compensation of \$10,000 for each quarter during the term based upon his achievement of certain management business objectives pursuant to Horizon's bonus plan in effect. Mr. Maloy's employment agreement also provides that he is entitled to participate in all benefit and insurance programs maintained by Horizon in which executive officers are eligible to participate and to have an automobile allowance. Mr. Maloy would be entitled to receive his base salary and certain benefits for a period of six months from the date of termination in the event his employment agreement is terminated without cause (as defined) or for a period of 60 days from the date of termination where Mr. Maloy's employment is terminated for cause. In the event of an acquisition (as defined), Mr. Maloy would be entitled to severance compensation in an amount equal to his base salary and certain benefits during a six-month period after the acquisition (i) if he complies with certain non-competition provisions and (ii) if he continues his employment through the acquisition and if he is not offered within 60 days after the acquisition a position of employment within a 50-mile radius of his home or a 50-mile radius of Horizon's office in Manchester that provides for comparable compensation and benefits and comparable position as provided for in his employment agreement. If Mr. Maloy's employment with Horizon continues after the term, Mr. Maloy does not have an employment agreement with Horizon and Mr. Maloy's employment is terminated without good cause (as defined), then Horizon shall continue to pay Mr. Maloy's base salary for a period of six months and provide him with certain benefits during such period. Mr. Maloy must comply with certain non-competition covenants during such period.

Executive Officers Severance And Bonus Agreements. Horizon was a party to a severance and bonus agreement dated November 12, 1999 with L. Bruce Maloy, which agreement was replaced by Mr. Maloy's employment agreement, dated May 3, 2004. Under this agreement, Mr. Maloy was entitled to a stay put bonus of \$50,000 in the event Horizon was acquired and Mr. Maloy remained an employee of Horizon through the acquisition. In the event of an acquisition, Mr. Maloy was also entitled to severance compensation (\$107,200) payable over a 12-month period (i) if he complied with certain non-competition provisions and (ii) if he continued his employment through the acquisition and was terminated after the acquisition without cause (as defined in the agreement) or if he was not offered within 30 days after the acquisition a position of employment within a 50-mile radius of his home that is acceptable to Mr. Maloy and he resigned.

Horizon is also a party to bonus agreements, entered into in the fourth quarter of 2003, with each of Mr. Maloy, Robert Singer and Elaine Swygert. Under these agreements, each such officer is entitled to receive a

Table of Contents**Index to Financial Statements**

stay-put bonus of \$25,000 in the event (i) Horizon pays in full the Convertible Notes issued by Horizon in the Recapitalization (for background on the Convertible Notes and the Recapitalization see Liquidity and Capital Resources below) or (ii) there has been a sale of Horizon (whichever occurs first), and such officer is employed by Horizon at such time. A sale of Horizon is defined as (a) a sale of all or substantially all of the assets of Horizon for cash or stock, or (b) a merger or consolidation of Horizon with another entity for cash or stock where the shareholders of Horizon immediately after such merger or consolidation own 35% or less of the stock of the surviving entity, or (c) a sale of a majority of the issued and outstanding stock of Horizon for cash or stock. On May 3, 2004, Horizon entered into a separate agreement with each of Messrs. Maloy and Singer and Ms. Swygart to provide that if the merger with RITA is completed, such 2003 bonus agreement will be terminated and a stay-put bonus of \$25,000 will be payable to the employee on December 31, 2004 if the employee continues his or her employment with Horizon or RITA through that time. This stay-put bonus is also payable to the employee if his or her employment is terminated without cause (as defined) before January 1, 2005 or if the employee resigns his or her employment for good reason (as defined) before that time. These agreements also provide that all of the employee's options granted by Horizon (to the extent earned by the employee) will accelerate and become fully exercisable immediately prior to the completion of the merger with RITA.

Equity Compensation Plan Information

The following table summarizes information as of December 31, 2003 relating to equity compensation plans of Horizon pursuant to which grants of options, restricted stock, or other rights to acquire shares may be granted from time to time.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by shareholders (1)	4,529,217	\$ 1.01	1,470,783
Equity compensation plans not approved by shareholders (2)	4,000,000	\$ 0.45	N/A

(1) Consists of grants under Horizon's 1998 Stock Incentive Plan, as amended.

(2) Consists of (i) a grant of options to purchase 3,000,000 shares of Horizon's common stock to Mr. Hunt and (ii) a grant of options to purchase 1,000,000 shares of Horizon's common stock to Mr. Peterson, each such grant having been made in connection with the Recapitalization. Options for 500,000 shares were granted to Mr. Hunt and options for 425,000 shares were granted to Mr. Peterson in February 2003, exercisable upon Horizon's achievement of financial goals in 2003. These goals were not obtained and these options expired.

Compensation Committee Interlocks and Insider Participation

Prior to October 31, 2003, Horizon's Executive Committee handled certain compensation matters with respect to senior executive officers of Horizon. During such time, Horizon's Executive Committee consisted of three members of Horizon's board of directors, who, pursuant to an agreement entered into in connection with the Recapitalization were: (i) a director designated by ComVest who served as Chairman of the Executive Committee, (ii) the independent director designated by ComVest; and (iii) Marshall B. Hunt. Mr. Hunt, Horizon's Chief Executive Officer during 2003, did not participate in deliberations concerning his compensation.

Pursuant to the Securityholders Agreement, this executive committee structure terminated effective October 31, 2003, and on February 24, 2004, Horizon's board of directors constituted a new Executive Committee. Currently, Horizon's Executive Committee is comprised of Mr. Tucker, Mr. Wenzel and Mr. Blue.

Table of Contents

Index to Financial Statements

Horizon's Executive Committee, to the fullest extent permitted by law and Horizon's Amended and Restated Bylaws, has and may exercise, when Horizon's board of directors is not in session, all powers of Horizon's board in the management of the business and affairs of Horizon. Horizon's Executive Committee shall retain its power so long as Mr. Tucker, Mr. Wenzel and Mr. Blue comprise the membership of Horizon's Executive Committee. The affirmative vote of all of the members of Horizon's Executive Committee is required in order to take action.

Report of the Compensation Committee on Executive Compensation

Horizon's Compensation Committee of Horizon's board of directors has furnished the following report on executive compensation for fiscal 2003. Until March 16, 2002, Horizon's Compensation Committee was responsible for reviewing and approving the compensation arrangements for Horizon's executive officers and for administering Horizon's 1998 Stock Incentive Plan, as amended, at which point Horizon's Executive Committee assumed responsibility for administration of such plan. Horizon's Compensation Committee was reconstituted in August 2003, at which time Horizon's Compensation Committee consisted of H. Ross Arnold, III, a former director of Horizon, and Mr. Brands. In October 2003, Horizon's Compensation Committee was again reconstituted to consist of Mr. Blue, Mr. Brands and Dr. Ku. In accordance with the listing standards of the American Stock Exchange, the Compensation Committee is currently solely responsible for determining Horizon's compensation of Horizon's executive officers.

General Compensation Policy. Horizon's compensation program for executives consists of the following key elements:

a base salary;

a performance-based annual or quarterly bonus; and

periodic grants of stock options.

Horizon's Compensation Committee believes that this compensation approach best serves the interests of Horizon and its shareholders. It enables Horizon to meet the requirements of the highly competitive environment in which Horizon operates, while ensuring that executive officers are compensated in a way that advances both the short- and long-term interests of Horizon's shareholders.

Base Salary. Base salaries for certain of Horizon's executive officers, as well as changes in such salaries, are set forth in the employment agreements entered into with Horizon, established by the Chief Executive Officer and approved by Horizon's Compensation Committee when established or increased. Base salaries for the Chief Executive Officer and President are determined by and reviewed periodically by Horizon's Compensation Committee. Horizon's Compensation Committee can revise upward the compensation structure for executive officers as it determines is necessary. The factors Horizon's Compensation Committee considers in evaluating the adequacy of compensation for Horizon's executive officers include competitive industry salaries, a subjective assessment of the nature of the position, the contribution and experience of the officer, and the length of the officer's service.

Annual or Quarterly Bonus. The variable annual or quarterly bonus permits individual performance to be recognized on an annual or quarterly basis, and is based, in significant part, on an evaluation of the contribution made by the officer to Horizon's performance (compensation and bonus arrangements applicable to Horizon's Chief Executive Officer and President, respectively, are described below). Typically, Horizon's

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

executive bonuses are based specifically on the achievement of either net sales and EBITDA levels and/or management business objectives established by Horizon's board of directors or by the Chief Executive Officer or the Chief Operating Officer.

Stock Options. Stock options relate a significant portion of long-term remuneration directly to stock price appreciation realized by all of Horizon's shareholders. Under the stock option guidelines adopted by Horizon's Compensation Committee, stock option grants may be made to executive officers upon initial employment, upon

Table of Contents

Index to Financial Statements

promotion to a new, higher level position that entails increased responsibility and accountability, in connection with the execution of a new employment agreement and/or when all previously granted stock options have either fully vested or are within 12 months of full vesting. Using these guidelines, the Chief Executive Officer or the Chief Operating Officer recommend the number of options to be granted, within a range associated with the individual's salary level, and present their recommendations to Horizon's Compensation Committee for review and approval. The Chief Executive Officer and/or the Chief Operating Officer may make recommendations that deviate from the guidelines where they deem it appropriate.

While options typically vest over a minimum two-year or three-year period, options granted to certain executive officers may have longer or shorter vesting periods. Options have been granted under Horizon's 1998 Stock Incentive Plan, as amended, to the Chief Executive Officer and to the Chief Operating Officer.

Compensation of the Chief Executive Officer. Marshall B. Hunt served as Horizon's Chief Executive Officer during 2003, continuing in such role until January 2004. Currently, Robert J. Wenzel serves as Horizon's Chief Operating Officer, President, and Interim Chief Executive Officer. This section outlines how Mr. Hunt was compensated during fiscal 2003.

As the former Chief Executive Officer, Marshall B. Hunt was compensated pursuant to the terms of an employment agreement which was entered into on March 16, 2002. The agreement, as amended, provided for an annual base salary of \$283,500. Mr. Hunt was entitled to an annual bonus for 2003 based upon Horizon's achievement during 2003 of certain levels of net sales and EBITDA when compared with Horizon's net sales and EBITDA in its operating plan for 2003 approved by Horizon's board of directors. By amendment to Mr. Hunt's employment agreement in October 2003, Mr. Hunt's base salary was increased to \$315,000. See "Employment Agreements" elsewhere in this joint proxy statement/prospectus for a summary of these terms.

Internal Revenue Code Limits on Deductibility of Compensation. Section 162(m) of the Code generally disallows a tax deduction to public corporations for compensation over \$1,000,000 paid for any fiscal year to the corporation's chief executive officer and four other most highly compensated executive officers as of the end of any fiscal year. No executive officer of Horizon received more than \$1,000,000 in compensation in fiscal year 2003 that will be subject to the Section 162(m) limitation on deductibility.

COMPENSATION COMMITTEE

James E. Brands

Dr. David A. Ku

Harold Blue

The foregoing report of the Compensation Committee shall not be deemed incorporated by reference by any general statement or reference to this joint proxy statement/prospectus into any filing under the Securities Act of 1933, as amended, or under the Security Exchange Act of 1934, as amended, except to the extent that Horizon specifically incorporates this information by reference, and shall not otherwise be deemed filed under such acts.

Table of Contents

Index to Financial Statements

Report of the Audit Committee

The Audit Committee of Horizon's board of directors is responsible for, among other things, reviewing with Horizon's independent registered public accounting firm the scope and results of their audit engagement. In connection with the audit of Horizon's 2003 fiscal year, Horizon's Audit Committee has, among other things:

reviewed and discussed with Horizon's management the audited financial statements included in Horizon's annual report on Form 10-K for the year ended December 31, 2003;

discussed with Grant Thornton LLP, Horizon's independent registered public accounting firm, the matters required by Statement of Accounting Standards No. 61 and No. 90; and

received from and discussed with Grant Thornton LLP the written disclosures and letter from Grant Thornton LLP required by Independence Standards Board Standard No. 1 regarding their independence.

Based on the review and the discussions described in the preceding bullet points, Horizon's Audit Committee recommended to Horizon's board of directors that the audited financial statements be included in Horizon's annual report on Form 10-K for the year ended December 31, 2003 which report was filed with the Securities and Exchange Commission on March 30, 2004.

During 2003, Robert Simmons served on the Audit Committee until resigning from Horizon's board of directors in March 2003 and when Mr. Brands was appointed to this vacancy in April 2003, he was appointed Chairman of the Audit Committee. Also, Mr. Arnold served on the Audit Committee until resigning from Horizon's board of directors in October 2003, at which time Dr. Ku was appointed to the Audit Committee.

The Audit Committee has adopted a revised Audit Committee Charter, a copy of which is attached hereto as Annex E. Horizon's board of directors has determined that all members of the Audit Committee are independent in accordance with the requirements of Section 121(A) of the American Stock Exchange Listing Standards and the requirements of Section 10(m) of the Securities Exchange Act of 1934, as amended, and Rule 10A-3 promulgated thereunder.

AUDIT COMMITTEE

James E. Brands, *Chairman*

Dr. David A. Ku

Robert D. Tucker

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

The foregoing report of the Audit Committee shall not be deemed incorporated by reference by any general statement or reference to this joint proxy statement/prospectus into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that Horizon specifically incorporates this information by reference, and shall not otherwise be deemed filed under such acts.

Table of Contents**Index to Financial Statements*****Performance Graph***

Set forth below is a line graph comparing the percentage change in the cumulative total shareholder return on Horizon's common stock against the cumulative total return of the Russell 2000 Growth Index and Horizon's peer group index. Horizon's peer group consists of Arrow International, Inc., C.R. Bard, Inc., Conmed Corp., and ICU Medical, Inc. The stock performance graph assumes \$100 was invested on January 1, 1999 and measures the return thereon at various points based on the closing price of Horizon's common stock on the dates indicated, assuming reinvestment of dividends.

	<u>1/1/99</u>	<u>12/31/99</u>	<u>12/29/00</u>	<u>12/29/01</u>	<u>12/31/02</u>	<u>12/31/03</u>
Horizon	\$ 100.00	\$ 58.82	\$ 8.94	\$ 10.1	\$ 16.24	\$ 33.18
Russell 2000	100.00	119.82	114.78	115.96	90.94	132.20
Peer Group	100.00	104.66	102.56	135.61	126.00	153.47

The Stock Performance Graph shall not be deemed incorporated by reference by any general statement incorporating by reference this joint proxy statement/prospectus into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent Horizon specifically incorporates this information by reference, and shall not otherwise be deemed filed under such acts.

Certain Relationships and Related Transactions

Harold Blue, who was appointed to Horizon's board of directors in March 2003, serves as the President of Commonwealth Associates Group Holdings, LLC., or CAGH. ComVest is an affiliated entity of Commonwealth. In connection with the Recapitalization, Horizon issued Convertible Notes to ComVest in the principal amount of \$4,400,000. During fiscal 2003, Horizon paid an aggregate of \$348,127 in interest to ComVest on such notes. For more background on the Recapitalization and the Convertible Notes, see [Liquidity and Capital Resources](#) below.

In April 2003, Horizon entered into an Exclusive Distributor Agreement with Medtronic, the beneficial owner of 16.6% of Horizon's common stock. Under such agreement, Horizon became the exclusive distributor

Table of Contents

Index to Financial Statements

commencing June 1, 2003 in the United States for Medtronic's IsoMe® constant flow infusion system for the delivery of chemotherapy agents for use in hepatic arterial infusion therapy for patients with colorectal and/or liver cancer. During 2003, Horizon paid an aggregate of \$320,575 to Medtronic in connection with this agreement.

During 2003, Tunstall Consulting, Inc., an affiliate of Gordon Tunstall, a director of Horizon from January 1998 through October 2003, provided consulting services to Horizon with respect to financial and certain related matters, including the Recapitalization. In 2003, Horizon incurred, and paid in its entirety, fees of \$66,000 to Tunstall Consulting, Inc. for consulting services rendered to Horizon.

In connection with the merger described elsewhere in this joint proxy statement/prospectus, Commonwealth, the parent entity of which is CAGH, provided advisory services to Horizon in connection with the execution of the merger agreement. These services are described in more detail in the sections of this joint proxy statement/prospectus entitled "Background of the Merger" and "The Merger - Commonwealth Advisory Services to Horizon."

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Horizon's directors and executive officers and persons who own more than 10% of a registered class of Horizon's equity securities to file with the SEC initial reports of ownership and statements of changes in ownership of common stock and other equity securities of Horizon. Based solely upon a review of such reports furnished to the Company and certain representations of such persons, all such persons complied with the Section 16(a) reporting requirements during 2003, except that: (1) Form 4s for Mr. Maloy were inadvertently filed late relating to (i) an option granted on September 27, 2002 for 40,000 shares which vested on March 27, 2003, (ii) an option for 30,000 shares granted on May 30, 2003 and (iii) an option granted on October 21, 2003 for 25,000 shares, (2) Form 4s for Mr. Singer were inadvertently filed late relating to (i) an option granted on May 30, 2003 for 30,000 shares, (ii) an option granted on October 21, 2003 for 25,000 shares, and (3) a Form 4 for Mr. Hunt was inadvertently filed late relating to an option granted on October 21, 2003 for 500,000 shares.

Table of Contents**Index to Financial Statements*****Security Ownership of Certain Beneficial Owners and Management***

Based upon a review of filings with the Securities and Exchange Commission, Horizon believes that each of the following individuals or entities is the beneficial owner of more than 5% of Horizon's common stock. The following table shows the amount of Horizon common stock beneficially owned (unless otherwise indicated) as of May 15, 2004 by: (i) Horizon's directors and nominees for director, (ii) the Horizon Named Executive Officers, (iii) Horizon's directors and executive officers as a group and (iv) each person known by Horizon to beneficially own more than 5% of Horizon's common stock. The percentages set forth below are based on 44,264,101 shares of Horizon's common stock outstanding as of May 15, 2004.

<u>Name(1)</u>	<u>Number of Shares Beneficially Owned(2)</u>	<u>Percent of Shares Outstanding</u>
Directors and Executive Officers:		
Robert J. Wenzel (3)	220,945	*
Robert R. Singer (4)	107,533	*
L. Bruce Maloy (5)	146,267	*
Elaine Swygert (6)	65,200	*
Harold Blue	258,000	*
James E. Brands (7)	46,667	*
Marshall B. Hunt (8)	7,511,198	15.6%
David R. Ku (9)	26,333	*
Robert Priddy (10)	2,529,334	5.8%
RMC Capital, LLC		
1640 Powers Ferry Rd Suite 125		
Marietta, Georgia		
Robert D. Tucker (11)	55,067	*
All current directors and executive officers as a group (10 persons)	10,767,878	22.1%
Shareholders Beneficially Owning Greater than 5% of Horizon's Common Stock:		
ComVest Venture Partners, L.P. (12)	9,975,000	23.0%
Attn: Carl Kleidman		
830 Third Avenue		
New York, New York 10022		
Commonwealth Associates Group Holdings, LLC (13)	11,132,396	25.6%
Attn: Carl Kleidman		
830 Third Avenue		
New York, New York 10022		

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

ComVest Management, LLC (14)	9,975,000	23.0%
------------------------------	-----------	-------

Attn: Carl Kleidman

830 Third Avenue

New York, New York 10022

Medtronic, Inc.	7,200,000	16.6%
-----------------	-----------	-------

710 Medtronic Parkway

Minneapolis, Minnesota 55932

Michael S. Falk (15)	11,132,396	25.6%
----------------------	------------	-------

c/o Commonwealth Associates Group Holdings, LLC

830 Third Avenue

New York, New York 10022

William E. Peterson, Jr. (16)	3,427,890	7.6%
-------------------------------	-----------	------

c/o Morgan Stanley

950 E. Paces Ferry Road

Suite 2700

Atlanta, GA 30326

Table of Contents

Index to Financial Statements

- * Represents less than 1% of Horizon's outstanding common stock
- (1) Except as otherwise indicated, the address of each of the executive officers and directors is the address of Horizon, which is One Horizon Way, P.O. Box 627, Manchester, Georgia 31816.
 - (2) Under the rules of the Securities and Exchange Commission, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of such security, or investment power, which includes the power to dispose of or to direct the disposition of such security. A person also is deemed to be a beneficial owner of any securities which that person has the right to acquire within 60 days. Under these rules, more than one person may be deemed to be a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as to which he or she has no economic or pecuniary interest. Except as set forth in the footnotes below, the persons named below have sole voting and investment power with respect to all shares of Horizon's common stock shown as being beneficially owned by them.
 - (3) Represents shares of Horizon's common stock that may be acquired upon the exercise of stock options exercisable within 60 days.
 - (4) Includes 77,533 shares of Horizon's common stock that may be acquired upon the exercise of stock options exercisable within 60 days.
 - (5) Includes 116,267 shares of Horizon's common stock that may be acquired upon the exercise of stock options exercisable within 60 days.
 - (6) Represents shares of Horizon's common stock that may be acquired upon the exercise of stock options exercisable within 60 days.
 - (7) Includes 46,667 shares of Horizon's common stock that may be acquired upon the exercise of stock options exercisable within 60 days.
 - (8) Includes 1,149,210 shares of Horizon's common stock owned by Hunt Family Investments, L.L.P., a Georgia limited liability limited partnership of which Mr. Hunt is the managing general partner, and 4,000,000 shares of Horizon's common stock that may be acquired upon the exercise of stock options exercisable within 60 days.
 - (9) Represents shares of Horizon's common stock that may be acquired upon the exercise of stock options exercisable within 60 days.
 - (10) In addition to the 1,200,000 shares beneficially owned by RMC Capital, LLC, which Mr. Priddy, a director of Horizon, beneficially owns as a manager of RMC Capital, LLC, Mr. Priddy may be deemed to beneficially own an additional 1,329,334 shares of Horizon's common stock, over which Mr. Priddy maintains sole voting and dispositive power.
 - (11) Represents shares of Horizon's common stock that may be acquired upon the exercise of stock options exercisable within 60 days.
 - (12) ComVest Management, LLC, or ComVest Management, is the general partner of ComVest, and ComVest Management is wholly-owned by Commonwealth Associates Group Holdings, LLC, or Commonwealth. ComVest may be deemed to be the beneficial owner of an aggregate of 9,975,000 shares of Horizon's common stock. ComVest, ComVest Management and Mr. Falk may be deemed to share such voting and disposition powers with respect to such 9,975,000 shares of common stock beneficially held by ComVest.
 - (13) Commonwealth as the ultimate parent entity, may be deemed to beneficially own 10,174,174 shares of Horizon's common stock. This number includes 199,174 shares of Horizon's common stock beneficially held by such entity and 9,975,000 shares beneficially owned by ComVest.
 - (14) ComVest Management, as the general partner of ComVest, may be deemed to beneficially own 9,975,000 shares of Horizon's common stock beneficially held by ComVest. ComVest Management and Mr. Falk may be deemed to share voting and disposition powers with respect to these shares of Horizon's common stock.
 - (15) Mr. Falk is the Chairman of Commonwealth Associates Group Holdings, LLC. Only Mr. Falk has the authority to vote or dispose of the shares. Mr. Falk may be deemed to be the beneficial owner of an aggregate of 11,132,396 shares of Horizon's common stock, as follows: Mr. Falk may be deemed to beneficially own the 9,975,000 shares of common stock beneficially owned by ComVest Venture Partners, L.P. (ComVest Venture Partners, L.P., ComVest Management, LLC and Mr. Falk may be deemed to share

Table of Contents**Index to Financial Statements**

such voting and disposition powers with respect to such 9,975,000 shares of Horizon's common stock), 6,488 shares of Horizon's common stock beneficially owned by Commonwealth Associates Group Holdings, LLC and 287,684 shares of Common Stock beneficially owned by Commonwealth Associates Group Holdings, LLC. Mr. Falk may be deemed to share voting and disposition powers with respect to 199,174 shares of Horizon's common stock beneficially held by Commonwealth Associates Group Holdings, LLC. In his capacity as Chairman and controlling equity owner of CAGH, Mr. Falk may be deemed to share indirect voting and dispositive power with respect to such entities' shares and may therefore be deemed to be the beneficial owner of such securities. Finally, Mr. Falk has the sole power to dispose of an aggregate of 958,222 shares of Horizon's common stock.

- (16) Includes 1,000,000 shares of Horizon's common stock that may be acquired upon the exercise of stock options exercisable within 60 days.

Business***Background***

Horizon was incorporated and began its operations in February 1990 as a distributor of medical devices and began to distribute vascular access devices in 1990. In November 1992, Horizon entered into a collaborative effort with a leading heart valve manufacturer to design and develop a new line of vascular access ports for Horizon. This new line of ports, the Triumph-1® line, was introduced in September 1994. Horizon continues to market a line of Triumph-1® vascular access ports and in September 2001, it transitioned the manufacturing of the Triumph-1® line in-house to Horizon's current manufacturing facility. Prior to that transition, since 1996, certain models in the Triumph-1® line had been manufactured for Horizon by ACT Medical. In May 1995, Horizon began to distribute the NeoStar Medical® line of hemodialysis catheters, and acquired that line in October 1995.

In March 1996, Horizon began construction of a 20,000 square foot manufacturing, distribution and administrative facility in Manchester, Georgia. Horizon began manufacturing the NeoStar Medical® product line at this facility in October 1996 and expanded this facility in 1998 and in 2000 to its current configuration of approximately 60,000 square feet. In July 1997, Horizon acquired the port business of Strato/Infusaid. The primary product lines obtained in the Strato/Infusaid acquisition included the LifePort® and Infuse-a-Port® vascular access ports and the Infuse-a-Cath® line of catheters. In 1998, Horizon made additional product acquisitions, including the Vortex®, TitanPort and OmegaPort® lines acquired from Norfolk Medical. In addition, in 1998 Horizon acquired the Columbia Vital Systems, Inc., or CVS distribution business and the Stepic Medical device distribution business of Stepic Corporation, or Stepic, which were combined as Stepic. In September 2002, Horizon divested the Stepic business. See Acquisitions and Divestitures below.

On October 9, 2000, Horizon completed the acquisition of certain assets used in the manufacture and sale of medical devices by Ideas for Medicine, Inc., or IFM, a wholly-owned subsidiary of CryoLife, Inc. This acquisition effectively completed the acquisition by Horizon of the IFM product line which was acquired in September of 1998. In addition to the purchase of assets, consisting primarily of inventory and leasehold improvements, Horizon also assumed control of IFM's approximately 30,000 square foot manufacturing facility in St. Petersburg, Florida and the 80 employees there. On March 30, 2001, Horizon sold the IFM business to Vascutech, Inc. and such entity assumed control of this facility. See Acquisitions and Divestitures below.

While Horizon has acquired products through the acquisitions described above, more recently Horizon has developed new products. Horizon's VTX® technology, which was introduced by Horizon in 2000, is featured in its Vortex® port, its new LifePort®VTX® titanium and plastic ports, and its new Triumph VTX® titanium and plastic ports. VTX® technology refers to the swirling blood flow produced by a uniquely rounded reservoir design and tangential outlet, which substantially reduces thrombosis or the build up of sludge from blood and drug products in the port reservoir. The square cornered reservoirs and perpendicular outlets that are common to other vascular access ports promote the formation of sludge, flush less efficiently, and provide chaotic blood flow. These conditions, in turn, cause complications that require additional procedures at

additional cost. Horizon introduced its new chronic hemodialysis catheter, LifeJet, in December 2001 and its LifeJet F-16 in January

Table of Contents

Index to Financial Statements

2003. Horizon's new safety infusion needle, LifeGuard[®] designed for use with vascular access ports, was released in June 2002 and its new central venous catheter, LifeValve[®], was released in October 2002.

In September 2003, Horizon launched a new central venous catheter, the LifeValve[®] Platinum, and in February 2004, Horizon launched its Vortex[®] MP port system which is designed for peripheral use. The Vortex[®] MP port system incorporates a rounded chamber and off-set stem to promote more efficient flushing. The Vortex[®]VTX[®] design has been clinically proven to significantly reduce complications, and the port is guaranteed against sludge buildup in the chamber of the port.

Recapitalization

On March 1, 2002, Horizon entered into a Note Purchase Agreement, or Note Purchase Agreement. The parties to the Note Purchase Agreement were ComVest, Medtronic and the Additional Note Purchasers. The Note Purchase Agreement was subsequently amended on October 21, 2003. This joint proxy statement/prospectus refers to the transactions contemplated by the Note Purchase Agreement as the Recapitalization. Under the Note Purchase Agreement, Horizon issued \$15 million of Senior Subordinated Convertible Notes, or Convertible Notes. Horizon began making quarterly interest payments on these Convertible Notes in June 2002. For the initial six-month period beginning June 2002, interest accrued at a rate of 6% per year. Currently, interest accrues at a rate of 8% per year and will continue to do so until the Convertible Notes are paid in full and mature on July 16, 2005. Horizon issued the Convertible Notes as follows: \$4.4 million to ComVest, \$4 million to Medtronic and \$6.6 million to the Additional Note Purchasers. For a summary of the material terms of the Convertible Notes and the Recapitalization, see Horizon Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources below.

LaSalle Credit Facility

On March 18, 2002, Horizon entered into a credit facility with LaSalle Bank and Credit, which RITA refers to as LaSalle or the Lender, pursuant to a Loan and Security Agreement, or the Loan Agreement, with Standard Federal Bank National Association acting by and through LaSalle, as such entity's agent. For the material terms of the Loan Agreement see Horizon Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources below.

Description of Business

Product Manufacturing and Sales

Horizon manufactures and/or markets vascular access products including implantable ports, hemodialysis catheters, central venous catheters, needle infusion sets, peripherally inserted central venous catheters and other accessories used in vascular procedures. Vascular access ports are implantable devices utilized for the central venous administration of a variety of medical therapies and for blood sampling and diagnostic purposes. Central venous access facilitates a more systemic delivery of treatment agents, while mitigating certain of the harsh side effects of certain treatment protocols and eliminating the need for repeated access to peripheral veins. Once implanted in the body, a port can be utilized for up to approximately 2,000 accesses depending upon needle gauge size and the port size. Horizon's vascular access ports are used primarily in systemic or regional short-and long-term cancer treatment protocols that require frequent infusions of highly concentrated or toxic medications

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

(such as chemotherapy agents, antibiotics or analgesics) and frequent blood samplings. Port sales totaled \$18.5 million, \$16.9 million and \$18.9 million for fiscal 2001, 2002 and 2003, respectively.

Horizon's lines of vascular access ports consist of the following families of products: (i) the Vortex® family of ports including Vortex® VTX®, LifePort® VTX®, and Triumph VTX®; (ii) LifePort®; (iii) Triumph-1®; (iv) Infuse-a-Port®; (v) OmegaPort®; (vi) TitanPort and (vii) the Vortex® MP Port system.

Horizon produces and markets hemodialysis and apheresis catheters. Hemodialysis catheters are used in the treatment of patients suffering from renal failure who are required to undergo short-term (acute) care or long-

Table of Contents

Index to Financial Statements

term (chronic) hemodialysis, a process involving the removal of waste products from the blood by passing a patient's blood through a dialysis machine. Stem cell apheresis is a protocol for treating certain forms of mid- and late-stage cancers, particularly breast cancer. The typical apheresis procedure involves the insertion of a catheter into a patient through which (i) blood is withdrawn from the patient, cycled through an apheresis machine in which stem cells (cells which perform a key role in the body's immune system) are removed from the blood and the blood is reinfused into the body, (ii) high doses of chemotherapy agents, as well as antibiotics and blood products, are administered to the patient over extended periods of time, and (iii) the previously removed stem cells are subsequently reintroduced into the patient. Horizon's catheters are used primarily in hemodialysis and apheresis procedures. Catheter sales totaled \$2.9 million, \$2.9 million and \$3.6 million for fiscal 2001, 2002 and 2003, respectively.

Horizon's catheters include the following families of products: (i) Circle[®] chronic and acute hemodialysis catheters, including the new LifeJet and LifeJet F-16 chronic hemodialysis catheters; (ii) long-term triple lumen central venous catheters; (iii) peripherally inserted central venous catheters and (iv) the LifeValve[®] Platinum central venous catheter, which was launched in September 2003. Horizon expects that its specialty hemodialysis and apheresis families of catheters will continue to benefit from unique designs, allowing some of the highest flow rates available in the market.

Horizon maintains a sales and marketing organization for its vascular access products of approximately 55 full-time employees and three independent specialty distributors employing over 15 sales representatives. Horizon's direct sales force, consisting of 43 direct representatives as of December 31, 2003, focuses primarily on vascular, general and oncological surgeons and interventional radiologists who implant vascular access devices and other physicians and clinicians who utilize vascular access devices in the delivery of treatments. Horizon's marketing strategy emphasizes the importance of building relationships with these medical professionals in order to provide such professionals with the benefits of Horizon's broad knowledge of vascular access products and procedures and focused clinical support. These relationships also facilitate Horizon's ability to modify its product lines in response to new clinical protocols and to meet its customers' changing needs. As of December 31, 2003, Horizon also had a network of approximately 20 active distributors in Europe and approximately 29 active international distributors outside of Europe. Horizon has placed an increased emphasis on expanding its direct sales force and anticipates continuing to do so in the near future. Additionally, Horizon has terminated relationships with certain of its third-party distributors.

Hospital chains and large buying groups have played, and are expected to continue to play, an increasingly significant role in the purchase of medical devices. In 1997, group purchasing organization, or GPO, purchasing accounted for approximately \$28 billion of sales in the medical products industry. In recent years, these groups have sought to narrow their list of suppliers. By acting as a supplier to a GPO, Horizon can operate its sales force much more efficiently. Horizon's direct sales force calls on physicians associated with these buying groups in order to improve compliance with these GPO's and improve market share. Although GPO's will continue to be a vital part of the GPO sales process, Horizon has seen great success in selling its new and differentiated technologies to the end users regardless of GPO affiliation.

Horizon is currently a party to a group purchasing agreement with AmeriNet Inc., as well as a number of regional and/or local Integrated Delivery Networks, or IDN, that serve small groups of hospitals or a single hospital. The AmeriNet purchasing agreement, which serves approximately 2,000 hospitals, runs through 2004 and covers substantially all of Horizon's products. Horizon pays administrative fees on sales through certain purchasing agreements (both GPO and IDN). During fiscal 2003, Horizon generated approximately \$2.7 million in sales on which administrative fees were paid. Horizon will continue to submit competitive product offering proposals to GPOs and IDNs looking to standardize their purchases of vascular access products. While Horizon is willing to enter into a GPO or IDN agreement, the majority of Horizon's sales are in GPO facilities with which Horizon is not affiliated.

Horizon has entered into a Distribution Agreement with Medtronic under which Horizon is distributing and selling Medtronic's IsoMe[®] constant flow infusion system for the delivery of chemotherapy agents for use in

Table of Contents

Index to Financial Statements

hepatic arterial infusion therapy for patients with colorectal liver cancer. On March 15, 2002, Horizon entered into a Co-Promotion Agreement, or Co-Promotion Agreement, with Medtronic under which Horizon had agreed to promote and provide technical advise for Medtronic's implantable drug delivery systems which are used for the treatment of hepatic arterial infusion and malignant pain. Such agreement was amended in April 2003 such that the IsoMed® infusion system was removed from the Co-Promotion Agreement with Medtronic, leaving the Medtronic SynchroMed® infusion system for the treatment of malignant pain as the only product under the Co-Promotion Agreement. The Co-Promotion Agreement expired on May 31, 2004. See Horizon Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Product Distribution

Through the operations Horizon acquired in the CVS and Stepic acquisitions (discussed below), distribution of medical devices was the largest revenue-generating segment of Horizon's business, comprising 55.1% of total revenues through the first nine months of fiscal 2002. Subsequent to consummating the Stepic acquisition in 1998, Horizon consolidated the CVS operations into Stepic to establish a centralized distribution operation. Prior to the sale of Stepic in September 2002, Horizon distributed a broad range of specialty medical products throughout the Northeast United States to hospitals and regional and hospital owned blood banks. As described below, Horizon sold substantially all of the assets of Stepic in September 2002.

Results by Industry Segment

Information relating to Horizon's industry segments on a historical basis, including revenues, gross profit and identifiable assets attributable to each segment for fiscal year 2002 is presented in Note 15 of the notes to Horizon's audited consolidated financial statements included herein.

Acquisitions and Divestitures

Vascular Access Products

On May 19, 1998, Horizon acquired the vascular access port product line of IFM, a wholly-owned subsidiary of CryoLife, Inc., and on September 30, 1998, Horizon completed the acquisition of certain medical device products, product lines and assets used in the manufacture and sale of such medical devices by IFM for \$15,000,000 in cash. The assets acquired included certain of the assets used by IFM to manufacture its product line. In this transaction, Horizon acquired several products including embolectomy catheters, carotid shunts, occlusion catheters and surgical instruments. In connection with the acquisition, Horizon and IFM entered into a Manufacturing Agreement pursuant to which, for a four year term, IFM agreed to manufacture exclusively for Horizon, and Horizon agreed to purchase from IFM a minimum of \$6,000,000 per year of the acquired products listed above.

On October 9, 2000, Horizon acquired certain additional assets from IFM, including inventory, leasehold improvements, and other fixed assets and assumed IFM's lease for its 30,000 square foot manufacturing facility located in St. Petersburg, Florida, pursuant to an Asset Purchase Agreement dated October 9, 2000. In connection with the October 2000 Asset Purchase Agreement, the Manufacturing Agreement between Horizon and IFM was terminated, and Horizon had no further obligation, after October 9, 2000, to purchase products from IFM. On March 30,

2001, Horizon completed the sale of the IFM business for an aggregate sale price of approximately \$8 million.

Medical Device Distribution

Effective October 15, 1998, Horizon completed the acquisition of the outstanding stock of Stepic. The assets held by Stepic included primarily accounts receivable and inventory derived from and used in the distribution of medical products. Horizon paid Stepic's shareholders \$8 million in cash at closing, paid \$2.4 million in

Table of Contents

Index to Financial Statements

December 1999, paid \$2.4 million between December 2000 and January 2001 and paid \$2.4 million between December 2001 and January 2002, all previously supported by standby letters of credit. In addition, Horizon agreed to pay up to an additional \$4.8 million under the terms of the Stock Purchase Agreement with Stepic upon the successful achievement of certain specified future earnings targets by Stepic. Of this amount, \$2.05 million was earned in 1999 and subsequently paid. In 2000, an additional \$1.2 million was earned and in 2001, an additional \$667,000 was earned. The balance owed under the Stock Purchase Agreement with Stepic was approximately \$1,665,000 as of March 15, 2002. On March 14, 2002, Horizon entered an agreement with two of the former Stepic shareholders, which replaced an earlier settlement agreement, pursuant to which Horizon paid \$100,000 on March 15, 2002 and will make monthly payments of approximately \$36,000 through March 15, 2006.

The Stepic acquisition, together with Horizon's acquisition of CVS in September 1998, allowed Horizon to form a medical device distribution business distributing general and emergency surgery, radiology, anesthesiology, respiratory therapy, blood filtration and critical care medical products, as well as products manufactured and distributed by Horizon.

On September 3, 2002, Horizon sold Stepic to Arrow International, Inc., or Arrow, for approximately \$12.6 million, consisting of \$11 million in cash, \$1.1 million placed in escrow and a note receivable in the amount of \$500,000. In addition, Horizon retained assets of approximately \$1.1 million in the transaction. Approximately \$7.8 million of the cash proceeds of the Stepic sale were used to pay down all amounts outstanding at closing under Horizon's revolving senior credit facility with LaSalle. Horizon used the remaining proceeds for working capital purposes. Arrow paid \$1.1 million of the cash purchase price into escrow, which sum was distributed to Horizon (in an amount equal to \$1,051,317 plus interest of \$904) and to Arrow (in an amount equal to \$48,683) in accordance with the terms of the Asset Purchase Agreement and Escrow Agreement entered into in connection with the Stepic sale. Finally, Arrow issued to Horizon a promissory note in the principal amount of \$500,000, which bore interest at an annual rate of 5%. Pursuant to the terms of this note, \$250,000 plus interest of \$3,664 was paid to Horizon on December 19, 2002 and the balance of \$250,000 plus interest of \$6,199 and was paid to Horizon on March 3, 2003.

Manufacturing

At Horizon's Manchester, Georgia facility, Horizon manufactures its complete line of ports; infusion sets; and Circle © hemodialysis catheters, and other miscellaneous catheters, and dialysis accessories, except for a peripherally inserted central venous catheter line and certain product accessories and component parts produced for Horizon by other manufacturers.

Horizon has received certification as an ISO 9001 medical device manufacturer for its Manchester facility. Horizon also has obtained the right to affix CE (Conformite Europeenne) marking to Horizon's product lines manufactured at the facility except for the LifeJe and LifeValve® products. CE marking is a European symbol of conformance to strict product manufacturing and quality system standards.

While Horizon believes it has a good relationship with each third party manufacturer that supplies certain component parts for Horizon's products or product accessories, there can be no assurance that such relationships will not deteriorate in the future or be terminated. Deterioration in or termination of these manufacturing relationships could cause Horizon to experience interruptions in its manufacturing and delivery processes and have a material adverse impact on its business, financial condition and operating results.

Furthermore, when the manufacturing arrangements with these third parties expire, Horizon will have to make other manufacturing arrangements or manufacture such component parts or product accessories at its facilities.

Table of Contents

Index to Financial Statements

Government Regulation

As a manufacturer and distributor of medical devices, Horizon is subject to regulation by, among other governmental entities, the FDA, and the corresponding agencies of the states and foreign countries in which Horizon sells its products. These regulations govern the introduction of new medical devices, the observance of certain standards with respect to the manufacturing, testing and labeling of such devices, the maintenance of certain records, the tracking of devices, and other matters. These regulations may have a material impact on Horizon's operations. The FDA pursues a rigorous enforcement program to ensure that regulated businesses, like that of Horizon, comply with applicable laws and regulations.

All medical device manufacturing establishments are required to be registered with the FDA. Similarly, all categories of medical devices marketed by a company in the United States are required to be listed. Horizon must update its establishment and listing information pursuant to FDA regulations. The FDA can take regulatory action against a company that does not provide or update its registration and listing information. Pursuant to the Food, Drug and Cosmetic Act, or FDC Act, medical devices intended for human use are classified into three categories, Classes I, II and III, on the basis of the controls deemed necessary by the FDA to reasonably assure their safety and effectiveness. Class I devices are subject to general controls (for example, labeling, premarket notification and adherence to good manufacturing practice regulations) and Class II devices are subject to general and special controls (for example, performance standards, postmarket surveillance, patient registries and FDA guidelines). Generally, Class III devices are those which must receive premarket approval from the FDA to ensure their safety and effectiveness (for example, life-sustaining, life-supporting and implantable devices, or new devices which have not been found substantially equivalent to legally marketed devices).

Some Class I devices and most Class II devices require premarket notification (510(k)) clearance pursuant to Section 510(k) of the FDC Act. Most Class III devices are required to have an approved premarket approval application. Obtaining premarket approval can take up to several years or more and involve preclinical studies and clinical testing. In contrast, the process of obtaining a 510(k) clearance typically requires the submission of substantially less data and generally involves a shorter review period, although obtaining a 510(k) clearance may involve the submission of a substantial volume of data, including clinical data, and may require a substantial review period. A 510(k) premarket notification clearance indicates that the FDA agrees with an applicant's determination that the product for which clearance has been sought is substantially equivalent in terms of safety and effectiveness to another medical device that has been previously marketed but does not indicate that the product is safe and effective. A premarket approval indicates that the FDA has approved as safe and effective a product to be marketed for the uses described in the approved labeling.

In addition to requiring clearance or approval for new products, the FDA may require clearance or approval prior to marketing products that are modifications of existing products. FDA regulations provide that new 510(k) clearances are required when, among other things, there is a major change or modification in the intended use of the device or a change or modification to a legally marketed device that could significantly affect its safety or effectiveness. A manufacturer is expected to make the initial determination as to whether a proposed change to a cleared device or to its intended use is of a kind that would necessitate the filing of a new 510(k) notification. Horizon has made certain modifications to its cleared devices for which it has determined that new 510(k) clearances are not required. There can be no assurance, however, that the FDA would concur with Horizon's conclusion that a particular change does not necessitate a new 510(k) application. If the FDA were to investigate and disagree with Horizon's determinations and conclude that one or more implemented changes requires a new 510(k), the FDA could take regulatory actions, such as issuance of a warning letter or requiring that Horizon cease marketing modified devices until new 510(k) notifications are cleared.

In order to conduct clinical trials of an uncleared or unapproved device, companies generally are required to comply with the FDA's Investigational Device Exemptions regulations. For significant risk devices, the Investigational Device Exemption regulations require FDA approval of an Investigational Device Exemption before a clinical study may begin. In its approval letter for significant risk Investigational Device Exemption studies, the agency may limit the number of patients that may be treated with the device and/or the number of

Table of Contents

Index to Financial Statements

institutions at which the device may be used. Device studies subject to the Investigational Device Exemption regulations, including both significant risk and non-significant risk device studies, are subject to various restrictions imposed by the FDA. Patients must give informed consent to be treated with an investigational device. The institutional review board of each institution where a study is being conducted must also approve the clinical study. The device generally may not be advertised or otherwise promoted.

Unexpected adverse experiences must be reported to the FDA. The company sponsoring the investigation must ensure that the investigation is being conducted in accordance with the Investigational Device Exemption regulations.

To date, Horizon's products have received FDA marketing clearances only through the 510(k) process. Certain future product applications, however, could require approval through the premarket approval process. In addition, future products may require approval of an Investigational Device Exemption. There can be no assurance that all necessary 510(k) clearances or premarket approval or Investigational Device Exemption approvals will be granted on a timely basis or at all. The FDA review process may delay Horizon's product introductions in the future. It is possible that delays in receipt of or failure to receive any necessary clearance or approval could have a material adverse effect on Horizon's operations. Pursuant to the FDA's Good Manufacturing Practices under the Quality System Regulations, Horizon must manufacture its products and maintain its records in a prescribed manner with respect to manufacturing, testing and control activities. Further, Horizon is required to comply with FDA requirements for labeling and promotion of its products. For example, the FDA prohibits cleared or approved devices from being marketed or promoted for uncleared or unapproved uses. The medical device reporting regulation requires that Horizon provide information to the FDA whenever there is evidence to reasonably suggest that one of Horizon's devices may have caused or contributed to a death or serious injury, or that there has occurred a malfunction that would be likely to cause or contribute to a death or serious injury if the malfunction were to recur. Additionally, the FDA imposes other requirements on medical device manufacturers, including reporting and record keeping requirements for device corrections and removals (recalls).

Medical device manufacturers and distributors are generally subject to periodic inspections by the FDA. If the FDA determines that a company is not in compliance with applicable laws and regulations, it can, among other things, issue a warning letter apprising the company of violative conduct, detain or seize products, issue a recall, enjoin future violations and assess civil and criminal penalties against the company, its officers or its employees. The FDA completed an inspection of Horizon's Manchester, Georgia facility and in September 2002 issued a Form FDA-483 specifying five items. Horizon has responded to such observations and has worked with the FDA to resolve these observations.

In addition, it is possible that clearances or approvals could be withdrawn in certain circumstances. Failure to comply with regulatory requirements or any adverse regulatory action could have a material adverse effect on Horizon's business, financial condition and results of operations. Medical device laws and regulations are also in effect in many of the countries in which Horizon does business outside the United States. These range from comprehensive device approval requirements for some or all of Horizon's medical device products to simple requests for product data or certifications. The number and scope of these requirements are increasing. Medical device laws and regulations are also in effect in many of the states in which Horizon does business. State and foreign medical device laws and regulations may have a material impact on Horizon. In addition, international sales of certain medical devices manufactured in the United States but not cleared or approved by the FDA for distribution in the United States are subject to FDA export requirements and policies, including a policy whereby Horizon provides a statement to the FDA certifying that the product to be exported meets certain criteria and the FDA issues a certificate to facilitate device export.

Federal, state and foreign laws and regulations regarding the manufacture, sale and distribution of medical devices are subject to future changes. For example the United States Congress recently enacted the Medical Device User Fee and Modernization Act of 2002, which included several significant amendments to the prior law

Table of Contents

Index to Financial Statements

governing medical devices. Additionally, the FDA made significant changes to its Good Manufacturing Practices regulations in 1996 and may make changes to other regulations as well. Horizon cannot predict what impact, if any, such changes might have on its business; however, such changes could have a material impact on Horizon and its business, financial condition and operating results.

Anti-Kickback Statute

Pursuant to 42 U.S.C. Section 1320a-7b(b), which this joint proxy statement/prospectus refers to as the *Anti-Kickback Statute*, the knowing and willful offer or receipt of any remuneration, directly or indirectly, in cash or in kind, in exchange for or which is intended to induce the purchase, lease or order of any good, facility, item or service for which payment may be made in whole or in part under a federal healthcare program, including Medicare and Medicaid, is prohibited. A violation of the *Anti-Kickback Statute* is a felony, punishable by fine, imprisonment or exclusion from the Medicare and Medicaid or other applicable federal healthcare programs. The *Anti-Kickback Statute* has been interpreted broadly by courts and administrative bodies. Certain regulations promulgated under the *Anti-Kickback Statute* (i.e., 42 C.F.R. Section 1001.952(j)) provide that prohibited remuneration under the *Anti-Kickback Statute* does not include any payment by a vendor of goods to a GPO, as defined in the regulations, if certain standards are met. Horizon believes that the GPOs with which Horizon has purchasing agreements comply in all material respects with such standards. As noted in *Legal Proceedings* below, in August 2002, Horizon received a subpoena from the Office of Inspector General of the Department of Health and Human Services requesting documents relating to Horizon's agreement with a GPO. Horizon has produced documents responsive to the subpoena. Horizon also believes that its business practices comply in all material respects with the *Anti-Kickback Statute*. There can be no assurance, however, that the government will not use a broad interpretation of such statute that could materially and adversely affect Horizon's operations.

Healthcare Reform

In recent years, several comprehensive healthcare reform proposals were introduced in the United States Congress. The intent of the proposals was, generally, to expand healthcare coverage for the uninsured and reduce the growth of total healthcare expenditures. While none of the proposals were adopted, healthcare reform may again be addressed by the current United States Congress. Certain states have made significant changes to their Medicaid programs and have adopted various measures to expand coverage and limit costs.

Implementation of government healthcare reform and other efforts to control costs may limit the price of, or the level at which reimbursement is provided for, Horizon's products. In addition, healthcare reform may accelerate the growing trend toward involvement by hospital administrators, purchasing managers and buying groups in purchasing decisions. This trend would likely include increased emphasis on the cost-effectiveness of any treatment regimen. These changes also may cause the marketplace in general to place increased emphasis on the utilization of minimally invasive surgical procedures and the delivery of more cost-effective medical therapies. Regardless of which additional reform proposals, if any, are ultimately adopted, the trend toward cost controls and the requirements of more efficient utilization of medical therapies and procedures will continue and accelerate. Horizon is unable at this time to predict whether any such additional healthcare initiatives will be enacted, the final form such reforms will take or when such reforms would be implemented.

Horizon's products are purchased principally by hospitals, hospital networks and hospital buying groups. During the past several years, the major third-party payors of hospital services (Medicare, Medicaid, private healthcare indemnity insurance and managed care plans) have substantially revised their payment methodologies to contain healthcare costs. These cost pressures are leading to increased emphasis on the price and cost-effectiveness of any treatment regimen and medical device. In addition, third-party payors, such as governmental programs, private indemnity insurance and managed care plans which are billed by hospitals for such healthcare services, are increasingly negotiating the prices charged for medical products and services and may deny reimbursement if they determine that a device was not used in accordance with

cost-effective treatment methods as determined by the payor, was experimental or was used for an unapproved application. There can be no

Table of Contents

Index to Financial Statements

assurance that in the future, hospital purchasing decisions or third party reimbursement levels will not adversely affect the profitability of Horizon's products.

Insurance

Horizon maintains insurance in such amounts and against such risks as it deems prudent, although no assurance can be given that such insurance will be sufficient under all circumstances to protect Horizon against significant claims for damages. The occurrence of a significant event not fully insured could materially and adversely affect Horizon's business, financial condition and results of operations. Moreover, no assurance can be given that Horizon will be able to maintain adequate insurance in the future at commercially reasonable rates or on acceptable terms.

Patents, Trademarks, Licenses and Proprietary Rights

Horizon believes that patents and other proprietary rights are important to its business. Horizon also relies upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain Horizon's competitive position.

Horizon currently owns United States patents and patent applications, as well as foreign patents and applications, which relate to aspects of the technology used in certain of Horizon's products, including the LifePort® family of vascular access ports, the Vortex® vascular access ports, the Infuse-a-Cath® family of central venous catheters and the Bayonet locking system used in the LifePort® and in the Vortex® port families of products. Horizon is also a party to license agreements with third parties pursuant to which Horizon has obtained, for varying terms, the right to develop, make, use and/or sell products that are covered under such license agreements in consideration for royalty payments. Horizon's products subject to such license agreements include the Circle C® chronic and certain acute catheters, which includes the LifeJet and LifeJet F-16 chronic catheters, and certain products in the development stage. There can be no assurance that Horizon or its licensors have or will develop or obtain additional rights to products or processes that are patentable, that patents will issue from any of the pending patent applications filed by Horizon or that claims allowed will be sufficient to protect any technology that is licensed to Horizon. In addition, no assurances can be given that any patents issued or licensed to Horizon or other licensing arrangements will not be challenged, invalidated, infringed or circumvented or that the rights granted thereunder will provide competitive advantages for Horizon's business or products. In any of such events, Horizon's business, results of financial condition and operating results could be materially adversely effected.

There has been substantial litigation regarding patent and other intellectual property rights in the medical devices industry. Although Horizon has not been a party to any material litigation to enforce intellectual property rights held by Horizon, or a party to any material litigation seeking to enforce rights alleged to be held by others, future litigation may be necessary to protect patents, trade secrets or know-how owned by Horizon or to defend Horizon against claimed infringement of the rights of others and to determine the scope and validity of the proprietary rights of Horizon and others. The validity and breadth of claims covered in medical technology patents involve complex legal and factual questions. Any such litigation could result in substantial cost to and diversion of effort by Horizon. Adverse determinations in any such litigation could subject Horizon to significant liabilities to third parties, could require Horizon to seek licenses from third parties and could prevent Horizon from manufacturing, selling or using certain of Horizon's products, any of which could have a material adverse effect on Horizon's business, results of operations and financial condition. Accordingly, Horizon may, in the future, be subject to legal actions involving patent and other intellectual property claims.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Horizon relies upon trade secrets and proprietary technology for protection of its confidential and proprietary information. There can be no assurance that others will not independently develop substantially equivalent proprietary information or techniques or that third parties will not otherwise gain access to Horizon's trade secrets or disclose such technology.

Table of Contents

Index to Financial Statements

Horizon also relies upon trademarks and trade names for the development and protection of brand loyalty and associated goodwill in connection with Horizon's products. Horizon's policy is to protect its trademarks, trade names and associated goodwill by, among other methods, filing United States and foreign trademark applications relating to Horizon's products and business. Horizon owns numerous United States and foreign trademark registrations and applications. Horizon also relies upon trademarks and trade names for which Horizon does not have pending trademark applications or existing registrations, but in which Horizon has substantial trademark rights.

Horizon's registered and unregistered trademark rights relate to the majority of Horizon's products, including the Circle® Infuse-a-Port®, Triumph-1®, Infuse-a-Cath®, LifePort®, Vortex®, VTX®, LifeJet, LifeGuard and LifeValve® product lines. There can be no assurance that any of Horizon's registered or unregistered trademarks or trade names will not be challenged, canceled, infringed or circumvented, or be declared generic, or be declared infringing on other third-party marks, or provide any competitive advantage to Horizon.

Environmental Compliance

Horizon is subject to various federal, state and local laws and regulations relating to the protection of the environment. In the course of its business, Horizon is involved in the handling, storage and disposal of materials which are classified as hazardous. Horizon believes that its operations comply in all material respects with applicable environmental laws and regulations. While Horizon continues to make capital and operational expenditures for protection of the environment, Horizon does not anticipate that those expenditures will have a material adverse effect on Horizon's business, financial condition and operating results.

Raw Materials

Horizon has arrangements with various suppliers to provide it with the quantity of component parts and materials necessary to assemble its products. Almost all of the components and materials used in Horizon's assembly process are available from a number of different suppliers, although certain components are purchased from a limited number of sources. While Horizon believes that there are alternative and satisfactory sources for its components and materials, a sudden disruption in supply from one of Horizon's existing suppliers could adversely affect Horizon's ability to deliver its products in a timely manner and could adversely affect Horizon's operating results.

Backlog

Delivery lead times for Horizon's products are very short at times and, consequently, Horizon routinely maintains an immaterial amount of order backlog which is generally filled within 60 days of the order date. Management currently believes that Horizon's backlog is not a reliable indicator of future financial or operating performance.

Research and Product Development

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Horizon presently engages in research and development activities. The principal focus of Horizon's research and development effort has been to identify and analyze the needs of vascular surgeons, physicians and clinicians, and to develop products that address these needs. Horizon views proposals from physicians and other healthcare professionals as an important source of potential research and development projects. Horizon believes that those end-users are often in the best position to conceive of new products and to recommend ways to improve the performance of existing products. Many of Horizon's product improvements have resulted from collaborative efforts with physicians and other healthcare professionals or other medical device manufacturers.

Research and development expenses accounted for approximately \$125,000 in 2001 (less than 1% of Horizon's net sales), \$654,000 in 2002 (3% of Horizon's net sales), and \$973,000 in 2003 (3% of Horizon's net

Table of Contents

Index to Financial Statements

sales). The 2001 amount was used primarily to incorporate the VTX[®] technology into Horizon's other line of ports, including LifePort[®] VTX[®] and Triumph VTX[®] and to develop Horizon's LifeJet chronic dialysis catheter. The 2002 amount was used primarily to develop the LifeGuard safety needle, the LifeValve[®] valved central venous catheter and the LifeJet chronic dialysis catheter. The 2003 amount was used primarily in the development of new catheter technologies and enhancements and improvements to existing products.

Competition

The markets for Horizon's product lines are highly competitive. Horizon faces substantial competition from a number of other manufacturers and suppliers of vascular access ports, dialysis and apheresis catheters and related ancillary products, including companies with more extensive research and manufacturing capabilities and greater technical, financial and other resources. In response to increased concerns about the rising costs of healthcare, United States hospitals and physicians are placing increasing emphasis on cost-effectiveness in the selection of products to perform medical procedures. Horizon believes that its products compete primarily on the basis of: (i) innovative product design, development and improvement; (ii) customer support; (iii) brand loyalty; and (iv) price. Horizon's competitors in the vascular access products business include Bard Access Systems, a division of C.R. Bard, Inc., and Sims, a division of Smiths Group plc. Horizon's competitors in its catheter products business include Medical Components, Inc., Bard, Inc., and Quinton, a division of Tyco International.

Employees

As of March 31, 2004, Horizon had approximately 145 full-time employees.

Availability of Company Information; Code of Ethics

Horizon's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments thereto are available on Horizon's website at www.hmpvascular.com. In addition, Forms 3, 4 and 5 which are filed by Horizon's officers, directors and other persons or entities required to file such forms are available on Horizon's website. Information contained in Horizon's website is not incorporated by reference into this joint proxy statement/prospectus.

Additionally, Horizon has adopted a Code of Business Conduct and Ethics, applicable to Horizon's officers, directors and employees, which includes the code of ethics applicable to Horizon's senior executive and financial officers.

Risks Relating to Horizon

Horizon's inability to introduce new products to the marketplace could adversely impact its operating results.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Although the vascular access product industry has not experienced rapid technological change historically, as Horizon's existing products become more mature, the importance of developing or acquiring (by purchase or licensing), manufacturing and introducing new products that address the needs of its customers will increase. The development or acquisition of any such products will entail considerable time and expense, including acquisition or licensing costs, research and development costs, and the time and expense required to obtain necessary regulatory approvals, which approvals are not assured, and any of which could adversely affect Horizon's business, results of operations or financial condition. There can be no assurance that such development activities will yield products that can be commercialized profitably or that any product acquisition can be completed on commercially reasonable terms or at all. Historically, many of Horizon's products have been developed in conjunction with third parties or acquired as a result of acquisitions completed by Horizon.

Recently, Horizon has introduced new products developed by Horizon. Horizon's inability to develop or acquire new products to supplement its existing product lines could have an adverse impact on Horizon's ability to fully implement its business strategy and further develop its operations.

Table of Contents

Index to Financial Statements

There can be no assurance that Horizon's cash flow from operations and cash available from external financing will be sufficient to meet its future cash flow needs, in which case Horizon would need to obtain additional financing.

As of March 31, 2004, Horizon had borrowing capacity of approximately \$3.6 million under its credit facility with LaSalle Business Credit. Any additional financing Horizon undertakes could involve issuances of debt or issuances of equity securities which would be dilutive to Horizon's shareholders, and any debt facilities could contain covenants that may affect Horizon's operations, including Horizon's ability to make future acquisitions.

Adequate additional funds, whether from the financial markets or from other sources, may not be available on a timely basis, on terms acceptable to Horizon or at all. Insufficient funds may cause Horizon difficulty in financing its accounts receivables and inventory and may result in delay or abandonment of some or all of Horizon's product development, licensing, marketing or research and development programs or opportunities, which could have a material adverse effect on Horizon's business, financial condition and operating results.

Additionally, Horizon is required to make periodic interest and principal payments on its outstanding indebtedness, including the convertible notes issued by Horizon in connection with its March 2002 recapitalization, the LaSalle credit facility described above and Horizon's promissory note payable to Bank of America. The maturity date of the convertible notes is July 16, 2005. If the merger is completed, the maturity date of a portion of the notes will be extended to July 2008. Failure to make any such required payments may result in an event of default and the acceleration of all outstanding indebtedness.

Certain shareholders of Horizon have the ability to exercise control over Horizon.

As of May 15, 2004, ComVest Venture Partners, L.P. and its affiliates collectively own approximately 25.6% of Horizon's outstanding common stock. Additionally, the holders of the convertible notes issued in connection with Horizon's March 2002 recapitalization have collectively converted their convertible notes into approximately 62% of Horizon's outstanding common stock (as a percentage of Horizon's common stock outstanding on May 15, 2004). Further, Medtronic has converted its convertible notes into 7.2 million shares of Horizon's common stock, representing 16.6% of Horizon's common stock. Finally, Marshall Hunt beneficially owns approximately 15.6% of Horizon's outstanding common stock as of May 15, 2004. If ComVest and its affiliates and Medtronic were to act together, they could have the power to effect the election of all of the members of Horizon's board of directors, the amendment of Horizon's Restated and Amended Articles of Incorporation and Horizon's bylaws, and effect or preclude fundamental corporate transactions involving Horizon, including the acceptance or rejection of proposals relating to a merger or the acquisition of Horizon by another entity. In addition, until Horizon's outstanding convertible notes are paid in full, the holders thereof have the right to approve a sale, merger or consolidation of Horizon. Pursuant to a securityholders agreement with ComVest, Medtronic and Marshall Hunt, ComVest and Medtronic currently have the power to designate five of Horizon's seven directors. Accordingly, these shareholders are able to exert significant influence over Horizon and its operations. Both Medtronic and ComVest have consented to the proposed merger in accordance with the terms of the agreement governing the convertible notes. In addition, the securityholders agreement has been amended to terminate upon the completion of the merger.

Horizon is dependent upon key personnel, the loss of any of which could materially adversely affect Horizon's business.

Horizon's success is substantially dependent on the performance, contributions and expertise of its executive officers and key employees. Horizon's recent success has been significantly dependent on the contributions of Robert J. Wenzel, Horizon's President, Chief Operating Officer

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

and Interim Chief Executive Officer, who is party to an employment agreement with Horizon which expires on October 31, 2005. Horizon does not maintain key man life insurance on Mr. Wenzel. Horizon is also dependent on its ability to attract, retain and motivate additional personnel. The loss of the services of any of Horizon's executive officers or other

Table of Contents

Index to Financial Statements

key employees or Horizon's inability to attract, retain or motivate the necessary personnel could have a material adverse effect on Horizon's business, financial condition and operating results.

Horizon must maintain its current third party manufacturing relationships, and be able to successfully establish new relationships, in order for Horizon's business to be successful.

While Horizon believes it has a good relationship with each third party that manufactures certain components for Horizon's products, there can be no assurance that such relationships will not deteriorate in the future. Deterioration in these manufacturing relationships could cause Horizon to experience interruptions in its manufacturing and delivery processes and have a material adverse impact on its business, financial condition and operating results. Furthermore, when arrangements with these third parties expire, Horizon will have to make other manufacturing arrangements or manufacture products or product parts at its facilities. The failure to effectively plan for the expiration of these agreements could also result in interruption of the manufacturing and delivery processes for these products and have a material adverse impact on Horizon's business, financial condition and operating results.

Horizon cannot assure that it will successfully complete the development and manufacture of products integral to Horizon's business.

Horizon's success will depend in part on its ability to manufacture its products in compliance with international and domestic standards such as ISO 9001, the FDA's Good Manufacturing Practices, or GMP, regulations and other applicable licensing and regulatory requirements in sufficient quantities and on a timely basis, while maintaining product quality and acceptable manufacturing costs. Horizon has historically outsourced the manufacturing of most of its product lines to third parties while remaining responsible for that work but, since 1998 and in subsequent years, has transitioned the manufacturing of Horizon's products to the Manchester facility. In the fourth quarter of 1996, Horizon transitioned the manufacturing of Horizon's Circle C[®] and central venous specialty catheter product lines into Horizon's manufacturing facility in Manchester, Georgia.

During 1998, Horizon transitioned the manufacturing of its LifePort[®], Infuse-a-Port[®] and Infuse-a-Cath[®] product lines to the Manchester facility from a facility in Norwood, Massachusetts. During 1999, Horizon transitioned the manufacturing of the Vortex[®] port, TitanPort and OmegaPort[®] product lines to the Manchester facility from Norfolk Medical. In 2001 and 2002, Horizon transitioned the manufacturing of the Triumph-1[®] port line to the Manchester facility from Act Medical as well as its infusion sets which had previously been manufactured by a third party. Horizon has undergone and expects to continue to undergo regular GMP inspections in connection with the manufacture of its products at Horizon's facilities. Horizon's success will depend, among other things, on its ability to efficiently manufacture different products and to integrate newly developed products with existing products. Horizon's failure to successfully commence the manufacturing of new products, to maintain or increase production volumes of new or existing products in a timely or cost-effective manner or to maintain compliance with ISO 9001, the CE Mark requirements, GMP regulations or other applicable licensing or regulatory requirements could have a material adverse effect on Horizon's business, financial condition and operating results.

Horizon relies on third party suppliers, the loss of which may interrupt its operations.

Horizon purchases raw materials and components for use in manufacturing its products from many different suppliers. There can be no assurance that Horizon will be able to maintain its existing supplier relationships or secure additional suppliers as needed. The loss of a major supplier, the deterioration of its relationship with a major supplier, changes by a major supplier in the specifications of the components used in

its products, or Horizon's failure to establish good relationships with major new suppliers could have a material adverse effect on Horizon's business, financial condition and operating results.

Table of Contents**Index to Financial Statements**

Horizon may fail to adequately protect its intellectual property and proprietary rights.

Horizon believes that its competitive position and success has depended, in part, on and will continue to depend on the ability of Horizon and its licensors to obtain patent protection for its products, to defend patents once obtained, to preserve its trade secrets and to operate without infringing upon patents and proprietary rights held by third parties, both in the United States and in foreign countries. Horizon's policy is to protect its proprietary position by, among other methods, maintaining United States and foreign patents and filing United States and foreign patent applications relating to technology, inventions and improvements that are important to the development of its business. Horizon owns numerous United States and foreign patents and patent applications. Horizon also is a party to license agreements with third parties pursuant to which it has obtained, for varying terms, the right to make, use and/or sell products that are covered under such license agreements in consideration for royalty payments. Some of Horizon's products are subject to such license agreements. There can be no assurance that Horizon or its licensors have or will develop or obtain additional rights to products or processes that are patentable, that patents will issue from any of the pending patent applications filed by Horizon or that claims allowed will be sufficient to protect any technology that is licensed to Horizon. In addition, no assurances can be given that any patents issued or licensed to Horizon or other licensing arrangements will not be challenged, invalidated, infringed or circumvented or that the rights granted thereunder will provide competitive advantages for Horizon's business or products. In such event Horizon's business, financial condition, and operating results could be materially adversely affected.

Asserting, defending and maintaining Horizon's patent rights could be difficult and costly and failure to do so may diminish Horizon's ability to compete effectively and may harm Horizon's operating results.

A number of medical device companies, physicians and others have filed patent applications or received patents to technologies that are similar to technologies owned or licensed by Horizon. There can be no assurance that Horizon is aware of all patents or patent applications that may materially affect its ability to make, use or sell its products. United States patent applications are confidential while pending in the United States Patent and Trademark Office, or PTO, (unless a foreign patent application related to the United States patent application is also filed, in which event the United States patent application is published 18 months after the earliest priority date), and patent applications filed in foreign countries are often first published six or more months after filing. Any conflicts resulting from third-party patent applications and patents could significantly reduce the coverage of the patents owned or licensed by Horizon and limit its ability of or its licensors' ability to obtain meaningful patent protection. If patents are issued to other companies that contain competitive or conflicting claims, Horizon may be required to obtain licenses to those patents or to develop or obtain alternative technology. There can be no assurance that Horizon would not be delayed or prevented from pursuing the development or commercialization of Horizon's products, which could have a material adverse effect on Horizon's operating results.

There has been substantial litigation regarding patent and other intellectual property rights in the medical device industry. Although Horizon has not been a party to any material litigation to enforce any intellectual property rights held by Horizon, or a party to any material litigation seeking to enforce any rights alleged to be held by others, future litigation may be necessary to protect patents, trade secrets, copyrights or know-how owned by Horizon or to defend Horizon against claimed infringement of the rights of others and to determine the scope and validity of the proprietary rights of Horizon and others. The validity and breadth of claims covered in medical technology patents involve complex legal and factual questions for which important legal principles are unresolved. Any such litigation could result in substantial cost to and diversion of effort by Horizon. Adverse determinations in any such litigation could subject Horizon to significant liabilities to third parties, could require Horizon to seek licenses from third parties and could prevent Horizon from developing, manufacturing, selling or using certain of Horizon's products, any of which could have a material adverse effect on its business, results of operations and financial condition.

Table of Contents

Index to Financial Statements

Horizon relies in part on confidentiality agreements to protect Horizon's proprietary technologies, and Horizon can not assure that these agreements will be effective.

Horizon relies on trade secrets and proprietary technology that Horizon seeks to protect, in part, through confidentiality agreements with employees, consultants and other parties. There can be no assurance that these agreements will not be breached, that Horizon will have adequate remedies for any breach, that others will not independently develop substantially equivalent proprietary information or that third parties will not otherwise gain access to Horizon's trade secrets.

Horizon relies on trademarks and trade names for the success of Horizon's business, and the loss of one or any of these marks or names could materially harm Horizon's business.

Horizon relies upon trademarks and trade names for the development and protection of brand loyalty and associated goodwill in connection with Horizon's products. Horizon's policy is to protect its trademarks, trade names and associated goodwill by, among other methods, filing United States and foreign trademark applications relating to Horizon's products and business. Horizon owns numerous United States and foreign trademark registrations and applications. Horizon also relies upon trademarks and trade names for which Horizon does not have pending trademark applications or existing registrations, but in which Horizon has substantial trademark rights. Horizon's registered and unregistered trademark rights relate to the majority of its products. There can be no assurance that any of Horizon's registered or unregistered trademarks or trade names will not be challenged, canceled, infringed, circumvented, or be declared generic or infringing of other third-party marks or provide any competitive advantage to Horizon.

Horizon is subject to product liability claims resulting from the operation of its business, and Horizon can not assure that it will not incur losses associated with such claims.

Because Horizon's products are intended to be used in healthcare settings on patients who are physiologically unstable and may be seriously or critically ill, Horizon's business exposes Horizon to potential product liability risks which are inherent in the medical device industry. In addition, many of the medical devices manufactured and sold by Horizon are designed to be implanted in the human body for extended periods of time. Component failures, manufacturing flaws, design defects or inadequate disclosure of product-related risks with respect to these or other products manufactured or sold by Horizon could result in injury to, or death of, a patient. The occurrence of such a problem could result in product liability claims and/or a recall of, safety alert relating to, or other FDA or private civil action affecting one or more of Horizon's products or responsible officials. Horizon maintains product liability insurance coverage in amounts that Horizon deems sufficient for Horizon's business. There can be no assurance, however, that such coverage will be available with respect to or sufficient to satisfy all claims made against Horizon or that Horizon will be able to obtain insurance in the future at satisfactory rates or in adequate amounts. Product liability claims or product recalls in the future, regardless of their ultimate outcome, could result in costly litigation and could have a material adverse effect on Horizon's business, results of operations and financial condition.

Horizon's sales are concentrated among a small number of significant customers, the loss of any of which may have a material adverse effect on Horizon's operating results.

Horizon's net sales to its three largest customers accounted for 19%, 15% and 18% of total sales (excluding discontinued operations of the Stepic distribution segment, which was sold in September 2002) during 2001, 2002 and 2003, respectively. The loss of, or significant curtailments of

purchases by, any of Horizon's significant customers could have a material adverse effect on Horizon's business, results of operations and financial condition.

Horizon's business is subject to changes in the regulatory and economic environment in the healthcare industry, which could adversely affect Horizon's business.

The healthcare industry in the United States continues to experience change. In recent years, several healthcare reform proposals have been formulated by members of Congress. In addition, state legislatures

Table of Contents**Index to Financial Statements**

periodically consider healthcare reform proposals. Federal, state and local government representatives will, in all likelihood, continue to review and assess alternative healthcare delivery systems and payment methodologies, and ongoing public debate of these issues can be expected. Cost containment initiatives, market pressures and proposed changes in applicable laws and regulations may have a dramatic effect on pricing or potential demand for medical devices, the relative costs associated with doing business and the amount of reimbursement by both government and third-party payors to persons providing medical services. In particular, the healthcare industry is experiencing market-driven reforms from forces within the industry that are exerting pressure on healthcare companies to reduce healthcare costs. Managed care and other healthcare provider organizations have grown substantially in terms of the percentage of the population in the United States that receives medical benefits through such organizations and in terms of the influence and control that they are able to exert over an increasingly large portion of the healthcare industry. Managed care organizations are continuing to consolidate and grow, increasing the ability of these organizations to influence the practices and pricing involved in the purchase of medical devices, including certain of the products sold by Horizon, which is expected to exert downward pressure on product margins. Both short-and long-term cost containment pressures, as well as the possibility of continued regulatory reform, may have an adverse impact on Horizon's business, results of operations and financial condition.

Horizon is subject to government regulation in the United States and internationally, which can be time consuming and costly to Horizon's business.

Horizon's products and operations are subject to extensive regulation by numerous governmental authorities, including, but not limited to, the FDA and state and foreign governmental authorities. In particular, Horizon must obtain specific clearance or approval from the FDA before it can market new products or certain modified products in the United States. The FDA administers the FDC Act. Under the FDC Act, most medical devices must receive FDA clearance through the Section 510(k) notification process, or 510(k), or the more lengthy premarket approval, or PMA, process before they can be sold in the United States. To obtain 510(k) marketing clearance, a company must show that a new product is substantially equivalent in terms of safety and effectiveness to a product already legally marketed and which does not require a PMA. Therefore, it is not always necessary to prove the actual safety and effectiveness of the new product in order to obtain 510(k) clearance for such product. To obtain a PMA, a company must submit extensive data, including clinical trial data, to prove the safety, effectiveness and clinical utility of Horizon's products. The process of obtaining such clearances or approvals can be time-consuming and expensive, and there can be no assurance that all clearances or approvals sought by Horizon will be granted or that FDA review will not involve delays adversely affecting the marketing and sale of Horizon's products. FDA's quality system regulations also require companies to adhere to certain GMP requirements, which include testing, quality control, storage, and documentation procedures. Compliance with applicable regulatory requirements is monitored through periodic site inspections by the FDA. In addition, Horizon is required to comply with FDA requirements for labeling and promotion of Horizon's products. The Federal Trade Commission also regulates most device advertising.

In addition, international regulatory bodies often establish varying regulations governing product testing and licensing standards, manufacturing compliance, such as compliance with ISO 9001 standards, packaging requirements, labeling requirements, import restrictions, tariff regulations, duties and tax requirements and pricing and reimbursement levels. Horizon's inability or failure to comply with the varying regulations or the imposition of new regulations could restrict Horizon's ability to sell its products internationally and thereby adversely affect Horizon's business, results of operations and financial condition.

Failure to comply with applicable federal, state or foreign laws or regulations could subject Horizon to enforcement actions, including, but not limited to, product seizures, injunctions, recalls, possible withdrawal of product clearances, civil penalties and criminal prosecutions against Horizon or its responsible officials, any one or more of which could have a material adverse effect on Horizon's business, results of operations and financial condition. Federal, state and foreign laws and regulations regarding the manufacture and sale of medical devices are subject to future changes, as are administrative interpretations of regulatory requirements. No assurance can

Table of Contents

Index to Financial Statements

be given that such changes will not have a material adverse effect on Horizon's business, results of operations and financial condition. From time to time, Horizon has received Form FDA-483s and Warning Letters from the FDA regarding Horizon's compliance with FDA regulations. On September 4, 2002, at the conclusion of the FDA's inspection of Horizon's facility in Manchester, Georgia, Horizon received a Form FDA-483 letter specifying five items. Horizon has responded to such observations and has worked with the FDA to resolve these observations. There can be no assurance Horizon will not receive additional Form FDA-483s or Warning Letters in the future or that Horizon will be able to reach an acceptable resolution of the issues raised in any such letters.

Horizon's operations are subject to the regulations imposed by the Anti-Kickback Statute.

Horizon's operations are subject to the rules and regulations imposed by the Anti-Kickback Statute. The Anti-Kickback Statute has been interpreted broadly by some courts, the Office of Inspector General within the Department of Health and Human Services, and administrative bodies. A violation of the Anti-Kickback Statute is a felony, punishable by fine, imprisonment or exclusion from the Medicare and Medicaid or other applicable federal healthcare programs. Despite the fact that there exist certain safe-harbors from governmental investigation under the Anti-Kickback Statute, practices that do not fall within a safe harbor may be subject to challenge by the Department of Health and Human Services and a violation of the Anti-Kickback Statute may occur even if only one purpose of a payment arrangement is to induce referrals or purchases reimbursable by a federal health care program. There can be no assurance that Horizon will not be subject to any such litigation or additional investigation in the future, which could be time-consuming and costly to Horizon, and divert management's attention from operating Horizon's business, each or any outcome of which could have a material adverse effect upon Horizon's business and financial condition.

Horizon's business is dependent upon reimbursement from government programs, such as Medicare and Medicaid, and Horizon may face limitations on such third-party reimbursement, which could harm Horizon's operating results.

In the United States, Horizon's products are purchased primarily by hospitals and medical clinics, which then bill various third-party payors, such as Medicare, Medicaid and other government programs and private insurance plans, for the healthcare services provided to patients. Government agencies, private insurers and other payors determine whether to provide coverage for a particular procedure and reimburse hospitals for medical treatment at a fixed rate based on the diagnosis-related group, or DRG, established by the United States Centers for Medicare and Medicaid Services, or CMS. The fixed rate of reimbursement is based on the procedure performed and is unrelated to the specific devices used in that procedure. If a procedure is not covered by a DRG, payors may deny reimbursement. In addition, third-party payors may deny reimbursement if they determine that the device used in a treatment was unnecessary, inappropriate or not cost-effective, experimental or used for a non-approved indication.

Reimbursement of procedures implanting Horizon's vascular access ports and catheter products is currently covered under a DRG. There can be no assurance that reimbursement for such implantation will continue to be available, or that future reimbursement policies of third party payors will not adversely affect Horizon's ability to sell its products on a profitable basis. Failure by hospitals and other users of Horizon's products to obtain reimbursement from third party payors, or changes in government and private third party payors' policies toward reimbursement for procedures employing Horizon's products, would have a material adverse effect on Horizon's business, results of operations and financial condition.

Horizon is subject to intense competition which could harm its business.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

The medical device industry is highly competitive and fragmented. Horizon currently competes with many companies in the development, manufacturing and marketing of vascular access ports, dialysis and apheresis catheters and related ancillary products. Some of these competitors have substantially greater capital resources, management resources, research and development staffs, sales and marketing organizations and experience in the

Table of Contents

Index to Financial Statements

medical devices industry than Horizon. These competitors may succeed in marketing their products more effectively, pricing their products more competitively, or developing technologies and products that are more effective than those sold or produced by Horizon or that would render some products offered by Horizon noncompetitive.

Horizon's business will be harmed if demand for its products declines due to a sustained economic downturn.

Sales of the products manufactured by Horizon may be adversely impacted by a deterioration in the general economic conditions in the markets in which Horizon's products are sold. Likewise, a deterioration in general economic conditions could cause Horizon's customers and/or third-party payors to choose cheaper methods of treatment not utilizing Horizon's products. A decline in Horizon's sales attributable to these factors could have a material adverse effect on Horizon's business, results of operations and financial condition.

Horizon has implemented anti-takeover provisions that could prevent a change in control that could be beneficial to Horizon's shareholders.

Certain provisions of Horizon's articles of incorporation and bylaws may delay or prevent a takeover attempt that a shareholder might consider in its best interest. Among other things, these provisions:

establish certain advance notice procedures for shareholder proposals to be considered at shareholders' meetings;

provide that only Horizon's board of directors or shareholders owning 70% or more of Horizon's outstanding common stock may call special meetings of the shareholders; and

establish supermajority voting requirements with respect to the amendment of certain provisions of Horizon's articles of incorporation and bylaws.

In addition, Horizon's board of directors can authorize and issue shares of preferred stock, no par value, issuable in one or more series, with voting or conversion rights that could adversely affect the voting or other rights of holders of Horizon's common stock. The terms of the preferred stock that might be issued could potentially prohibit Horizon's completion of any merger, reorganization, sale of all or substantially all of Horizon's assets, liquidation or other extraordinary corporate transaction without the approval of the holders of the outstanding shares of such stock. Furthermore, certain provisions of the Georgia Business Corporation Code may have the effect of delaying or preventing a change in control of Horizon.

Properties

Horizon's principal executive and administrative offices and manufacturing and development center is located in Manchester, Georgia in a 60,000 square foot facility. Horizon leases the Manchester facility and the 10.5 acre lot on which it is located from the Development Authority of the City of Manchester pursuant to three operating leases which expire in 2010 and under which Horizon pays monthly lease payments of

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

approximately \$15,800 in the aggregate. Horizon has an option to extend each of the three operating leases for an additional five-year term and an option to purchase the facility and/or the adjacent lot containing approximately seven acres. While Horizon considers the Manchester facility to be in good condition and adequate to meet Horizon's present and foreseeable needs, a significant increase in demand or production could render the Manchester facility inadequate.

Horizon owns a 6,400 square foot office condominium located in Atlanta, Georgia, which Horizon utilizes for administrative offices. Horizon considers this space to be in good condition and adequate to meet Horizon's present and foreseeable administrative office needs in Atlanta.

Table of Contents

Index to Financial Statements

Legal Proceedings

In May 2002, Horizon became aware of a Complaint for Declaratory Judgment filed in the United States District Court for the District of Massachusetts by LeMaitre Vascular, Inc., or LeMaitre, against one of Horizon's former distributors, Cardio Medical Products, Inc., or Cardio Medical. Horizon had a Distributorship Agreement with Cardio Medical for the IFM product line entered into prior to Horizon's sale of the IFM business on March 30, 2001 to LeMaitre. See Description of Business Acquisitions and Divestitures above. Under an Agreement with Horizon, LeMaitre agreed to continue selling the IFM product line to Cardio Medical as required by the Cardio Medical Distributorship Agreement for the remainder of its term through December 31, 2002, provided LeMaitre received from Cardio Medical confirmation of the terms of such agreement satisfactory to LeMaitre. In its suit for Declaratory Judgment, LeMaitre requested a declaration that its agreement with Horizon created no contractual rights between Cardio Medical and LeMaitre, and that LeMaitre has no obligation to sell its IFM products to Cardio Medical. In early June 2002, Cardio Medical answered LeMaitre's complaint, and asserted a counterclaim against Horizon and LeMaitre for breach of contract. The counterclaim alleged that Horizon breached the Distributorship Agreement between Cardio Medical and Horizon by (1) failing and refusing to sell IFM products to Cardio Medical (either directly or through LeMaitre); and (2) selling or allowing LeMaitre to sell IFM products directly to customers in the territory granted exclusively to Cardio Medical. In November 2003, this lawsuit was settled.

On August 8, 2002, Horizon received a subpoena from the Office of Inspector General of the Department of Health and Human Services requesting documents relating to Horizon's agreement with a group purchasing organization. Horizon has cooperated fully with the request and has produced documents responsive to the subpoena.

In November 2002, Horizon was served with a complaint filed in the United States District Court for the Northern District of Georgia by Chepstow Limited, or Chepstow, against Horizon, its former Chief Executive Officer, Marshall B. Hunt, its former President, William E. Peterson, Jr., and members of Mr. Hunt's family and a family limited partnership established by Mr. Hunt and his wife. Chepstow alleged that it had a judgment on a promissory note against Mr. Hunt, that it is engaging in post-judgment collection efforts, and that the defendant parties in this action had engaged with Mr. Hunt in fraudulent conveyances of Mr. Hunt's assets. Specifically, with respect to Horizon, Chepstow alleged that, in March 2002, Mr. Hunt transferred 225,000 shares of Horizon's common stock to his family limited partnership, that such transfer was a fraudulent conveyance under Georgia law, that Horizon assisted in such transfer, and that Horizon engaged in an unlawful conspiracy to hinder, delay or defraud Chepstow as Mr. Hunt's creditor. Chepstow sought to void such transfers and injunctive relief, compensatory damages, and punitive damages from the defendants, including Horizon. Horizon filed a motion to dismiss the action against Horizon. In July 2003, the court granted Horizon's motion to dismiss and dismissed the lawsuit against all parties. In August 2003, plaintiff filed a Notice of Appeal with respect to the court's dismissal and Horizon has filed its brief in connection with such appeal. Oral arguments were held on the appeal in January 2004. Horizon has entered into an agreement with Chepstow that if the appellate court should reverse the District Court's dismissal of the lawsuit as to Horizon, the continuation of the lawsuit in the District Court will be stayed pending Mr. Hunt's satisfaction of Chepstow's judgment against Mr. Hunt and will be dismissed upon Mr. Hunt's satisfaction of such judgment.

Horizon also is a party from time to time to other actions arising in the ordinary course of business which it deems immaterial. Although Horizon believes that it has defenses to the claims of liability or for damages in the actions against it, there can be no assurance that additional lawsuits will not be filed against Horizon or Horizon's subsidiaries. Further, there can be no assurance that the lawsuits will not have a disruptive effect upon the operations of Horizon's business, that the defense of the lawsuits will not consume the time and attention of Horizon's senior management and its subsidiaries, or that the resolution of the lawsuits will not have a material adverse effect on Horizon's operating results and financial condition. Horizon intends to vigorously defend or pursue each of the lawsuits.

Table of Contents

Index to Financial Statements

Horizon maintains insurance in such amounts and against such risks as it deems prudent, although no assurance can be given that such insurance will be sufficient under all circumstances to protect Horizon against significant claims for damages. The occurrence of a significant event not fully insured could materially and adversely affect Horizon's business, financial condition and results of operations. Moreover, no assurance can be given that Horizon will be able to maintain adequate insurance in the future at commercially reasonable rates or on acceptable terms.

Horizon Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion of the financial condition and results of operations of Horizon should be read in conjunction with Horizon's audited consolidated financial statements and the related notes thereto appearing elsewhere in this joint proxy statement/prospectus.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements made in Horizon's Management's Discussion and Analysis of Financial Condition and Results of Operation may constitute forward-looking statements within the meaning of the federal securities laws. Statements regarding future events and developments and Horizon's future performance, as well as management's expectations, beliefs, plans, estimates or projections relating to the future, are forward-looking statements within the meaning of these laws. All forward-looking statements are subject to certain risks and uncertainties that could cause actual events to differ materially from those projected.

Horizon's management believes that these forward-looking statements are reasonable. However, you should not place undue reliance on such statements. These statements are based on current expectations and speak only as of the date of such statements. Horizon undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise. Additional information concerning the risks and uncertainties facing Horizon, and other factors that you may wish to consider, is contained below in Management's Discussion and Analysis of Financial Condition and Results of Operations and is also contained in this joint proxy statement/prospectus under the section entitled Risk Factors and elsewhere and in Horizon's filings from time to time pursuant to the Securities Exchange Act of 1934, as amended.

Background

Horizon is a specialty medical device company focused on manufacturing and/or marketing vascular products. Horizon's oncology product lines include implantable vascular ports, tunneled catheters and stem cell transplant catheters used primarily in cancer treatment protocols. Horizon has a complete line of acute and chronic dialysis catheters used for kidney failure patients.

Horizon was incorporated and began its operations in February 1990 as a distributor of medical devices and began to distribute vascular access devices in 1990. In November 1992, Horizon entered into a collaborative effort with a leading heart valve manufacturer to design and develop a new line of vascular access ports for Horizon. This new line of ports, the Triumph-1[®] line, was introduced in September 1994. Horizon continues to market a line of Triumph-1[®] vascular access ports and in 2001, it transitioned the manufacturing of the port line in-house to its current manufacturing facility. Prior to that transition, since 1996, certain models in the Triumph-1[®] line had been manufactured for Horizon by ACT Medical. In May 1995, Horizon began to distribute the NeoStar Medical line of hemodialysis catheters and acquired that line in October

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

1995. In March 1996, Horizon began construction of a 20,000 square foot manufacturing, distribution and administrative facility in Manchester, Georgia. Horizon began manufacturing the NeoStar Medical® product line at this facility in October 1996 and expanded this facility in 1998 and in 2000 to its current configuration of approximately 60,000 square feet. In July 1997, Horizon acquired the port business of Strato/ Infusaid. The primary product lines obtained in the Strato/ Infusaid acquisition included the LifePort® and Infuse-a-Port® vascular access ports and the Infuse-a-

Table of Contents

Index to Financial Statements

Cath[®] line of catheters. In 1998, Horizon made additional product acquisitions, including the Vortex[®] port, TitanPort and OmegaPort[®] lines acquired from Norfolk Medical. In addition, Horizon's acquired the CVS and Stepic Medical device distribution businesses. Distribution of non-Horizon medical devices through Stepic during the first nine months of 2002 (through the sale of Stepic in September 2002) comprised approximately 55.1% of Horizon's revenue.

On October 9, 2000, Horizon completed the acquisition of certain assets used in the manufacture and sale of medical devices by IFM, a wholly-owned subsidiary of CryoLife. This acquisition effectively completed its acquisition of the IFM product line which was acquired in September of 1998. In addition to the purchase of assets, consisting primarily of inventory and leasehold improvements, Horizon also assumed control of IFM's approximately 30,000 square foot manufacturing facility in St. Petersburg, Florida and the 80 employees there. The IFM business was sold to Vascutech, Inc. on March 30, 2001, and Vascutech assumed control of such facility. The consideration for the sale of the IFM business consisted of cash in the amount of \$2,250,500 at closing, the assumption of approximately \$5,600,000 (as of December 31, 2000) of debt under the Note issued in connection with Horizon's October 2000 acquisition from IFM and a second installment cash payment of \$220,367, payable six months from the closing date. The second installment payment was not made, and Horizon initiated legal action against the purchaser. Horizon and the purchaser settled this lawsuit in August 2002.

While Horizon has acquired products through the acquisitions described above, more recently Horizon has developed new products. Horizon's VTX[®] technology, which was introduced by Horizon in 2000, is featured in its Vortex[®] port, its new LifePort[®]VTX[®] titanium and plastic ports, and its new Triumph VTX[®] titanium and plastic ports. VTX[®] technology refers to the swirling blood flow produced by a uniquely rounded reservoir design and tangential outlet, which substantially reduces thrombosis or the build up of sludge from blood and drug products in the port reservoir. The square cornered reservoirs and perpendicular outlets that are common to

other vascular access ports promote the formation of sludge, flush less efficiently, and provide chaotic blood flow. These conditions, in turn, cause complications that require additional procedures at additional cost. Horizon introduced its new chronic hemodialysis catheter, LifeJet, in December 2001 and its LifeJet F-16 in January 2003. Horizon's new safety infusion needle, LifeGuard, designed for use with vascular access ports, was released in June 2002 and its new central venous catheter, LifeValve[®], was released in October 2002.

On March 15, 2002, Horizon entered into the Co-Promotion Agreement with Medtronic under which Horizon promoted and provided technical advise for Medtronic's implantable drug delivery systems which are used for the treatment of hepatic arterial infusion and malignant pain. If Horizon breaches or fails to comply with its obligation under the Co-Promotion Agreement (after giving effect to any applicable cure periods), then Medtronic or 51% of the holders of the aggregate principal amount of the Convertible Notes issued pursuant to the Recapitalization may accelerate the due date for payment of the Convertible Notes (see Note 4 to the consolidated financial statements). The Co-Promotion Agreement expired on May 31, 2004.

On March 19, 2002, Horizon announced the completion of the Recapitalization that extinguished all of Horizon's senior debt and warrants held by Bank of America and substantially reduced Horizon's total outstanding debt.

On September 3, 2002, Horizon sold Stepic to Arrow for approximately \$12.6 million, consisting of \$11 million in cash, \$1.1 million placed in escrow and a note receivable in the amount of \$500,000. In addition, Horizon retained assets of approximately \$1.1 million in the transaction. Approximately \$7.8 million of the cash proceeds of the Stepic sale were used to pay down all amounts outstanding at closing under Horizon's credit facility (discussed below) with LaSalle Business Credit, Inc., or LaSalle. Horizon used the remaining proceeds for working capital purposes. Arrow paid \$1.1 million of the cash purchase price into escrow, which sum has been distributed to Horizon (in an amount equal to \$1,051,317 plus interest of \$904) and to Arrow (in an amount equal to \$48,683) in accordance with the terms of the Asset Purchase Agreement and Escrow Agreement entered into in connection with the Stepic sale. Finally, Arrow issued to Horizon a promissory note in the principal amount of \$500,000, which bore interest at an annual rate of 5%. Pursuant to the terms of this note, \$250,000

Table of Contents

Index to Financial Statements

plus interest of \$3,664 was paid to Horizon on December 19, 2002 and the balance of \$250,000 plus interest of \$6,199 and was paid to Horizon on March 3, 2003.

On April 15, 2003, Horizon entered into an amendment to the Co-Promotion Agreement with Medtronic and on April 17, 2003, Horizon entered into an Exclusive Distributor Agreement with Medtronic. Under such Exclusive Distributor Agreement, Horizon became the exclusive distributor commencing June 1, 2003 in the United States for Medtronic's IsoMed® constant flow infusion system for the delivery of chemotherapy agents for use in hepatic arterial infusion therapy for patients with colorectal and/or liver cancer. The term of such Exclusive Distributor Agreement is for three years through May 31, 2006 with two renewal terms of one year each unless either party terminates the relationship prior to the commencement of either renewal term. Under the April 15 amendment to the Co-Promotion Agreement between Horizon and Medtronic, the IsoMed® infusion system was removed from the Co-Promotion Agreement (leaving the Medtronic SynchroMed® infusion system for the treatment of malignant pain as the only product under such Agreement) and the compensation structure in such agreement was modified. The Co-Promotion Agreement expired on May 31, 2004.

In September 2003, Horizon launched a new central venous catheter, the LifeValve® Platinum, and in February 2004, Horizon launched its Vortex® MP port system which is designed for either chest or peripheral use. The Vortex® MP port system incorporates a rounded chamber and off-set stem to promote more efficient flushing, and is small and low in profile.

Critical Accounting Policies

Horizon's management believes the following critical accounting policies, among others, affect the more significant judgments and estimates used in the preparation of Horizon's consolidated financial statements:

Horizon maintains allowances for doubtful accounts, which accounts for estimated losses resulting from the inability of Horizon's customers to make required payments. If the financial condition of Horizon's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Horizon writes down its inventory for estimated obsolescence or unmarketable inventory equal to the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Horizon reviews customer contracts to determine if all of the requirements for revenue recognition have been met prior to recording revenues from sales transactions.

Horizon estimates allowances for sales returns and rebates based on its experiences from historical customer returns and rebates. If actual future customer returns and rebates are less favorable than those projected by management, additional sales allowances may be required.

Effective January 1, 2002, Horizon adopted Statement of Financial Accounting Standards, or SFAS, No. 142, Goodwill and Other Intangible Assets, which supersedes Accounting Principles Board Opinion, or APB, No. 17. Upon the adoption of SFAS No. 142, Horizon recognized an impairment loss of approximately \$16.1 million related to its distribution reporting unit. If economic conditions

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

deteriorate and indicators of impairment become present, another adjustment to the carrying value of goodwill may be required. On January 1, 2002, Horizon adopted SFAS No. 144, Accounting for the Impairment of Disposal of Long-Lived Assets, which supersedes SFAS No. 121. Horizon will review long-lived assets for impairment under this standard, which does not substantially change the guidance in SFAS No. 121. The impact of adopting SFAS No. 144 did not have a material impact on Horizon's financial statements.

Effective as of January 1, 2003 and for the year then ended, Horizon has adopted SFAS No. 145. As a result and in accordance with Statement No. 145 and APB No. 30, the extraordinary loss on the extinguishment of debt

Table of Contents**Index to Financial Statements**

recognized in 2002 is reclassified from extraordinary items to a component of other income/(expense) in the continuing operations portion of Horizon's statement of operations. Horizon has determined that the item originally reported as extraordinary in the 2003 financial statements which relate to historical figures require revision in order to be presented in accordance with SFAS No. 145 and APB No. 30. The effect of this revision is to reclassify the extraordinary items to other income/expense from continuing operations. There was no effect on the balance sheet, shareholders' equity, net income or cash flow of Horizon.

Related Party Transactions

Certain recent significant related party transactions are summarized in Business above and Liquidity and Capital Resources below. For a more detailed discussion of Horizon's related party transactions, see Related-Party Transactions in Note 11 of the notes to Horizon's audited consolidated financial statements contained elsewhere herein.

Results of Operations

The following table sets forth for the periods indicated certain items contained in Horizon's consolidated statements of operations expressed as a percentage of net sales:

	Years Ended December 31,			Quarter Ended
	2001	2002	2003	March 31, 2004
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	46.2	43.0	40.2	40.4
Gross profit	53.8	57.0	59.8	59.6
Selling, general and administrative expenses	65.0	74.2	54.0	65.5
Income (loss) from operations	(11.2)	(17.2)	5.8	(5.9)
Other income (expense):				
Loss on early extinguishment of debt		(30.6)		
Interest expense, net	(8.9)	(13.1)	(8.5)	(8.0)
Other income (expense)	.30		(.10)	(0.1)
Loss before income taxes	(19.8)	(60.9)	(2.8)	(14.0)
Loss from continuing operations	(19.8)	(60.9)	(2.8)	(14.0)
Income (loss) from operations of discontinued distribution segment (including gain on disposal)	(0.9)	14.6		
Effect of a change in accounting principle pursuant to adoption of SFAS 142		(74.2)		

Net loss	(20.7)%	(120.5)%	(2.8)%	(14.0)%
----------	---------	----------	--------	---------

First Quarter of 2004 Compared to First Quarter of 2003

Net Sales. Net sales increased 16% to \$7.1 million for the first quarter of 2004 from \$6.1 million for the first quarter of 2003. This increase is primarily attributable to continued growth from the Vortex® family of products and increased traction by Horizon's direct sales force as they continue to expand their call points, combined with the addition of Medtronic's IsoMed® HAI product line in June 2003.

Gross Profit. Gross profit increased to \$4.2 million, or 59.6% of net sales, for the first quarter of 2004 from \$3.6 million, or 59.7% of net sales, for the first quarter of 2003. Gross margins remained stable, continuing to reflect the manufacturing efficiencies realized in Horizon's previous fiscal quarters.

Table of Contents**Index to Financial Statements**

Selling, General and Administrative Expenses. Selling, general and administrative expenses, or SG&A, increased to approximately \$4.6 million for the first quarter of 2004 compared with \$3.6 million for the first quarter of 2003. This increase is primarily attributable to a one-time charge of approximately \$1.026 million taken by Horizon in the first quarter of 2004 for separation payments payable to each of Horizon's former Chief Executive Officer and Horizon's former President, each of whom resigned his position with Horizon during the first quarter of 2004. SG&A as a percentage of net sales increased to 65% for the first quarter of 2004 from 60% for the first quarter of 2003 due primarily to the above-described separation payments. Exclusive of these one-time separation costs, SG&A remained stable for the first quarter of 2004 compared with the first quarter of 2003.

Interest Expense. Interest expense, net of interest income, decreased by approximately \$58,000 from \$627,662 for the first quarter of 2003 to \$569,574 for the first quarter of 2004. This decrease is the result of lower total outstanding debt in the first quarter of 2004.

Net Loss. The net loss for the first quarter of 2004 was \$995,770 or \$(.02) per share compared with a net loss of \$652,604 or \$(.02) per share for the first quarter of 2003. Excluding the effects of the one time separation related charges referred to above, net income for the first quarter of 2004 would have been \$29,810.

Earnings before Interest, Taxes, Depreciation, and Amortization, or EBITDA. EBITDA was \$(94,173) for the first quarter of 2004, compared with \$348,871 for the first quarter of 2003. In 2004, the contribution to gross profit from the increase in sales was more than offset by the one-time separation related charges referred to above, thus causing the decline in EBITDA as compared with the first three months of 2003.

EBITDA is a metric which management believes is a meaningful measurement of operating performance which allows analysts and investors to compare the performance of Horizon against other competitors in the healthcare industry. EBITDA is also one of the factors used in determining the Company's management performance bonuses. The calculation of EBITDA has no basis in Generally Accepted Accounting Principles, or GAAP, and may not be consistent with calculations of EBITDA used by other companies. Management believes that net income (loss) is the most directly comparable financial measure calculated and presented in accordance with GAAP. The reconciliation of EBITDA to net income (loss) is set forth below.

Reconciliation of EBITDA To Net Loss. The reconciliation of EBITDA to net loss, which management believes is the most directly comparable financial measure calculated and presented in accordance with GAAP, is as follows:

	Three Months Ended	Three Months Ended
	March 31, 2004	March 31, 2003
EBITDA	\$ (94,173)	\$ 348,871
Deduct:		
Depreciation & Amortization in Cost of Goods Sold	(33,418)	(51,674)
Depreciation & Amortization in Selling, General, and Administrative expenses	(298,605)	(322,139)
Interest expense, net	(569,574)	(627,662)
Net Loss	\$ (995,770)	\$ (652,604)

Income Taxes. Horizon generated income tax loss during the three months ended March 31, 2004 and 2003. Management currently believes that Horizon will continue in an income tax loss position throughout 2004. Horizon is entitled to the benefits of certain net operating loss, or NOL carryforwards. As of March 31, 2004, management has determined that it is appropriate to provide a valuation allowance to fully reserve deferred tax assets. Management will continually evaluate the valuation allowance on the deferred tax assets. As a result of the conversion to common stock of debt issued in the Recapitalization in 2002, Horizon had a change in control for income tax purposes. Section 382 of the Code restricts the utilization of NOL carryforwards and the benefit of

Table of Contents

Index to Financial Statements

certain built in losses when there has been a change in control as defined in the tax code. Management is in the process of determining the tax implications of the change of control.

Goodwill Impairment Loss. Upon the adoption of SFAS No. 142 on January 1, 2002, Horizon recognized an impairment loss of approximately \$16.1 million related to its distribution reporting unit. Horizon has identified two reporting units, the aforementioned manufacturing unit and the distribution unit. These reporting units are consistent with Horizon's previously identified reportable segments under SFAS No. 131. In applying the transitional impairment model prescribed by SFAS 142, Horizon used a discounted cash flow model to determine the fair value of the net assets of each of Horizon's reporting units. Significant assumptions utilized in the model were revenue growth rates, gross margin percentages, depreciation and amortization, capital expenditures, working capital requirements, and the appropriate discount rate. The fair value of Horizon's distribution reporting unit's net assets were less than the carrying value of those net assets; thus, Horizon proceeded to step 2 of the SFAS No. 142 impairment model, whereby Horizon allocated that fair value to the reporting unit's tangible and intangible net assets. Horizon utilized various methods to determine the fair value of the distribution unit's identifiable intangible assets, including discounted cash flows, royalty savings method, and the cost approach. Significant assumptions used in valuing these intangible assets included price premiums, expected effective tax rates, the discount rate, remaining useful lives of intangible assets, royalty rates, and residual values. A comparison of the implied fair value of goodwill, calculated from the allocation of fair value described above, to the carrying net book value of goodwill at January 1, 2002 yielded the impairment charge described above. Horizon applied the same methodology to its manufacturing unit and concluded that the goodwill associated with that reporting unit was not impaired.

Year Ended December 31, 2003 compared to Year Ended December 31, 2002

Net Sales. Net sales increased 29% to \$27.9 million in 2003 from \$21.7 million in 2002. The increase in sales is primarily attributable to continued growth in sales from new products introduced in the second half of 2002, the recent introduction of new products including the LifeValve® Platinum CVC and recently released LifeJet F-16 hemodialysis catheter, combined with the addition of Medtronic's IsoMed® HAI product line in June 2003. In addition, there was overall sales growth resulting from Horizon's direct sales expansion program implemented in late 2002 in which a larger portion of Horizon's sales is derived from its direct sales force, as compared to the past, which featured a larger mix of distributors and direct sales representatives.

Gross Profit. Gross profit increased 35% to \$16.7 million in 2003, from \$12.4 million in 2002. Gross margin increased to 60% in 2003 from 57% in 2001. The increase in gross profit is the result of increased manufacturing efficiencies, a more favorable product mix and the increase in net sales derived from Horizon's direct sales force versus the mix of distributor sales in the previous year.

SG&A. SG&A decreased to \$15.1 million in 2003 from \$16.1 million 2002. The decrease in SG&A was partially attributable to approximately \$3.0 million of Recapitalization-related expenses incurred in 2002, which were not recurring in 2003.

Exclusive of Recapitalization-related expenses, SG&A increased approximately \$1.7 million in 2003 compared to 2002. The increase in SG&A was attributable to increased research and development expenses and increased costs associated with the direct sales expansion program implemented in late 2002.

Loss on Early Extinguishment of Debt. In 2002, Horizon recorded a loss of approximately \$6.6 million on extinguishment of its Bank of America debt as a result of the Recapitalization during the first quarter of 2002. Horizon originally recorded this transaction as an extraordinary

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

loss. Horizon has adopted SFAS No. 145 effective as of January 1, 2003 and for the year then ended. As a result, and in accordance with Statement No. 145 and APB No. 30, the extraordinary loss on the extinguishment of debt recognized in 2002 is reclassified from extraordinary items to a component of other income (expense) in the continuing operations portion of Horizon's Statement of Operations. Horizon has determined that the item reported as extraordinary requires

Table of Contents**Index to Financial Statements**

revision in order to be presented in accordance with SFAS No. 145 and APB No. 30. The effect of this revision is to reclassify the extraordinary item to other income (expense) from continuing operations.

Interest Expense. Interest expense, net of interest income, decreased approximately \$473,000, or 17%, from \$2.8 million in 2002 to \$2.3 million in 2003. The decrease is primarily the result of lower outstanding debt in 2003.

Discontinued Operations. Income from operations of Horizon's discontinued distribution segment (Stepic) was \$3.1 million in 2002. Horizon sold Stepic on September 3, 2002.

EBITDA. EBITDA increased to \$3,054,112 for 2003 from \$(2,217,461) in 2002 due primarily to increased sales and resulting gross profits as discussed above, combined with non-recurring Recapitalization expenses experienced in 2002.

EBITDA is a metric which management believes is a meaningful measurement of operating performance which allows analysts and investors to compare the performance of Horizon against other competitors in the healthcare industry. EBITDA is also one of the factors used in determining Horizon's management performance bonuses. The calculation of EBITDA has no basis in GAAP and may not be consistent with calculations of EBITDA used by other companies. Management believes that net income (loss) is the most directly comparable financial measure calculated and presented in accordance with GAAP. The reconciliation of EBITDA to net income (loss) is set forth below.

Income Taxes. Horizon generated an income tax benefit during 2003 of approximately \$674,000 which was reduced by a valuation allowance on Horizon's deferred tax assets. Horizon's taxable income generated as a result of the extinguishment of its Bank of America debt pursuant to the Recapitalization during 2002 was fully offset by a net operating loss carryforward upon which a valuation allowance had previously been established in 2001. As a result of the conversion to common stock of debt issued in the Recapitalization, Horizon had a change in control for income tax purposes. Section 382 of the Code restricts the utilization of net operating loss carryforwards and the benefit of certain built-in losses when there has been a change in control as defined in the tax code. Horizon's management is in the process of determining the tax implications of the change of control. Horizon generated an income tax benefit of approximately \$3.2 million during 2002, which was reduced fully by a valuation allowance established on Horizon's deferred tax assets generated by the income tax benefit. The income tax benefit for 2002 consists of the federal and state benefits, adjusted for certain nondeductible items, reduced by a valuation allowance on Horizon's deferred tax assets.

Goodwill Impairment Loss. Upon the adoption of SFAS No. 142 on January 1, 2002, Horizon recognized an impairment loss of approximately \$16.1 million related to its distribution reporting unit. Horizon has identified two reporting units, the aforementioned manufacturing unit and the distribution unit. These reporting units are consistent with Horizon's previously identified reportable segments under SFAS No. 131. In applying the transitional impairment model prescribed by SFAS 142, Horizon used a discounted cash flow model to determine the fair value of the net assets of each of Horizon's reporting units. Significant assumptions utilized in the model were revenue growth rates, gross margin percentages, depreciation and amortization, capital expenditures, working capital requirements, and the appropriate discount rate. The fair value of Horizon's distribution reporting unit's net assets were less than the carrying value of those net assets; thus, Horizon proceeded to step 2 of the SFAS No. 142 impairment model, whereby Horizon allocated that fair value to the reporting unit's tangible and intangible net assets. Horizon utilized various methods to determine the fair value of the distribution unit's identifiable intangible assets, including discounted cash flows, royalty savings method, and the cost approach. Significant assumptions used in valuing these intangible assets included price premiums, expected effective tax rates, the discount rate, remaining useful lives of intangible assets, royalty rates, and residual values. A comparison of the implied fair value of goodwill, calculated from the allocation of fair value described above, to the carrying net book value of goodwill at January 1, 2002 yielded the impairment charge described above. Horizon applied the same methodology to its manufacturing unit and concluded that the goodwill associated with that reporting unit was not impaired.

Table of Contents**Index to Financial Statements*****Year Ended December 31, 2002 compared to Year Ended December 31, 2001***

Net Sales. Net sales decreased 12.1% to \$21.7 million in 2002 from \$24.7 million in 2001. The decrease in sales is primarily attributable to the fact that sales of the IFM product line (of approximately \$1.8 million in 2001) are not included in 2002 net sales as the product line was sold on March 30, 2001. In addition, there was a decline in sales to independent distributors in the 12 months ended December 31, 2002, due to Horizon's program in which a larger portion of Horizon's sales is to be derived from its direct sales force, as compared to the past, which featured a mix of distributors and direct sales representatives.

Gross Profit. Gross profit decreased 6.9% to \$12.4 million in 2002, from \$13.3 million in 2001. Gross margin increased to 57% in 2002 from 53.8% in 2001. The decrease in gross profit is the result of decreased sales, and the increase in gross margin percentage is the result of favorable manufacturing production efficiencies and lower distributor rebates as well as a favorable change in product mix for the 12 months ended December 31, 2002 compared to 2001.

SG&A. SG&A increased slightly to \$16.1 million in 2002 from \$16.0 million 2001. The increase in SG&A was fully attributable to Recapitalization expenses of approximately \$3 million incurred as a result of Horizon's Recapitalization. Exclusive of the Recapitalization expenses, SG&A decreased approximately \$2.9 million in 2002 from 2001. This decrease is the result of lower turnaround expenses, including consulting fees, public relations campaign fees and employment severances, as well as lower amortization expenses in 2002 resulting from Horizon's adoption of SFAS 142 (see Notes 2 and 5 to Horizon's audited consolidated financial statements included elsewhere herein). In addition, the decrease resulted from Horizon's cost reduction program implemented in 2002, which included lower salaries, travel and marketing expenses in 2002. SG&A expenses increased as a percentage of net sales to 74.2% in 2002 from 65% in 2001 due to decreased sales as well as the Recapitalization expenses in 2002 from 2001.

Extraordinary Loss. In 2002, Horizon recorded an extraordinary loss of approximately \$6.6 million on the extinguishment of its Bank of America debt as a result of the Recapitalization transaction during the first quarter of 2002. Horizon originally recorded this transaction as an extraordinary loss. Horizon has adopted SFAS No. 145 effective as of January 1, 2003 and for the year then ended. As a result, and in accordance with Statement No. 145 and APB No. 30, the extraordinary loss on the extinguishment of debt recognized in 2002 is reclassified from extraordinary items to a component of other income (expense) in the continuing operations portion of Horizon's Statement of Operations. Horizon has determined that the item reported as extraordinary requires revision in order to be presented in accordance with SFAS No. 145 and APB No. 30. The effect of this revision is to reclassify the extraordinary item to other income (expense) from continuing operations.

Interest Expense. Interest expense, net of interest income, increased approximately \$638,000 or 28.9% from \$2.2 million in 2001 to \$2.8 million in 2002. Upon completion of the Recapitalization in the first quarter of 2002, Horizon increased the amount of debt allocated to the manufacturing segment. Accordingly, the amount of interest attributable to this segment has been increased in the 12 months ended December 31, 2002 over the 12 months ended December 31, 2001. Interest expense for both periods attributable to the distribution segment has been reclassified and is now reported as part of the gain/loss from operations of discontinued operations. In addition, upon the completion of the Recapitalization, Horizon incurred increased deferred loan costs, the amortization of which is recorded as a component of interest expense. For the 12 months ended December 31, 2002, Horizon's amortization of deferred loan costs was approximately \$220,000 higher than in the 12 months ended December 31, 2001.

EBITDA. EBITDA for 2002 was \$(2,217,461) compared with \$(249,806) for 2001. The decrease was primarily attributable to recapitalization related charges incurred in 2002 of approximately \$3 million, offset by the increased gross profit achieved in 2002. The reconciliation of EBITDA to net income (loss) is set forth below.

Table of Contents**Index to Financial Statements**

Income Taxes. Horizon generated an income tax benefit of approximately \$3.2 million during the 12 months ended December 31, 2002 and approximately \$2 million during the 12 months ended December 31, 2001, each of which was reduced fully by a valuation allowance established on Horizon's deferred tax assets generated by the income tax benefit. The income tax benefit for both 2002 and 2001 consists of the federal and state benefits, adjusted for certain nondeductible items, reduced by a valuation allowance on Horizon's deferred tax assets.

Discontinued Operations. Income from operations of Horizon's discontinued distribution segment (Stepic) was \$3.2 million for the year ended December 31, 2002 compared to a loss of approximately \$231,000 for the year ended December 31, 2001. The increase in income from operations of the discontinued segment was due to lower interest and amortization expenses in 2002 compared to 2001. Additionally, in connection with the sale of Stepic on September 3, 2002, Horizon recognized a net gain on the sale of approximately \$2.1 million which is included in the income from discontinued operations in the year ended December 31, 2002.

Goodwill Impairment Loss. Upon the adoption of SFAS No. 142 on January 1, 2002, Horizon recognized an impairment loss of approximately \$16.1 million related to its distribution reporting unit. Prior to the sale of Stepic in September 2002, Horizon had identified two reporting units, the aforementioned manufacturing unit and the distribution unit. These reporting units were consistent with Horizon's previously identified reportable segments under SFAS No. 131. In applying the transitional impairment model prescribed by SFAS No. 142, Horizon used a discounted cash flow model to determine the fair value of the net assets of each of Horizon's reporting units. Significant assumptions utilized in the model were revenue growth rates, gross margin percentages, depreciation and amortization, capital expenditures, working capital requirements, and the appropriate discount rate. The fair value of Horizon's distribution reporting unit's net assets were less than the carrying value of those net assets; thus, Horizon proceeded to step 2 of the SFAS No. 142 impairment model, whereby Horizon allocated that fair value to the reporting unit's tangible and intangible net assets. Horizon utilized various methods to determine the fair value of the distribution unit's identifiable intangible assets, including discounted cash flows, royalty savings method, and the cost approach. Significant assumptions used in valuing these intangible assets included price premiums, expected effective tax rates, the discount rate, remaining useful lives of intangible assets, royalty rates, and residual values. A comparison of the implied fair value of goodwill, calculated from the allocation of fair value described above, to the carrying net book value of goodwill at January 1, 2002 yielded the impairment charge described above. Horizon applied the same methodology to its manufacturing unit and concluded that the goodwill associated with that reporting unit was not impaired.

Reconciliation of EBITDA to Net Income (loss). The following presents a reconciliation of EBITDA to net loss for the three fiscal years ended December 31, 2003, 2002 and 2001.

	Years Ended		
	2003	2002	2001
EBITDA	\$ 3,054,112	\$ (2,217,461)	\$ (249,806)
Depreciation and Amortization in Cost of Goods Sold	(179,206)	(220,950)	(338,362)
Depreciation and Amortization in Selling, General & Administrative Expenses	(1,289,679)	(1,317,829)	(2,096,344)
Interest expense, net	(2,372,619)	(2,845,894)	(2,207,431)
Loss on early extinguishment of debt		(6,641,015)	
Income (loss) from operations of discontinued distribution segment		3,174,623	(230,972)
Effect of a change in accounting principle pursuant to adoption of SFAS 142		(16,101,900)	
Net loss	\$ (787,392)	\$ (26,170,426)	\$ (5,122,915)

Table of Contents

Index to Financial Statements

Liquidity and Capital Resources

Horizon's principal capital requirements are to fund working capital requirements and capital expenditures for its existing facility. Historically, Horizon has used cash generated by operations, bank financing and, in 1998, proceeds from its initial public equity offering to fund its capital requirements. Additionally, Horizon requires capital to finance accounts receivable and inventory. Horizon's working capital requirements vary from period to period depending on its production volume, the timing of shipments and the payment terms offered to its customers.

Net Cash Provided by Operating Activities. Net cash provided by operating activities was \$91,884 for the three months ended March 31, 2004 compared with net cash used in operating activities of \$1,076 for the three months ended March 31, 2003. The decrease in net cash used in operations during 2004 compared to 2003 was attributable to a combination of improved accounts receivable collections, decreased inventory spending, and increased contribution from operations, exclusive of the one-time charge related to the separation payments in the first quarter of 2004, as described above, which are represented in the accrued liabilities on Horizon's balance sheet at March 31, 2004.

Net cash used in operating activities was \$4,643 for fiscal 2003 compared with \$4.1 million for fiscal 2002 and cash provided of \$6.4 million for fiscal 2001. The decrease in cash used in operations during 2003 compared to 2002 was primarily attributable to the Recapitalization-related transaction expenses paid in 2002 and the decrease of inventory during 2003, which were offset by increases in accounts receivable.

Net Cash Used in Investing Activities. Net cash used in investing activities was \$33,993 for the three months ended March 31, 2004, as compared to net cash used in investing activities of approximately \$158,000 for the first quarter of 2003. Cash used in investing activities in the first quarter of 2004 consisted of capital expenditures, offset by proceeds from the payment of the notes receivable from the former Vice Chairman of Horizon. Cash used in investing activities in 2003 consisted of cash paid for the acquisition of intangible assets as a result of Horizon's acquisition of a portion of the business of one of its former independent distributors. In addition, cash used in investing activities in 2003 included capital expenditures for Horizon's facilities and cash proceeds from the payment of the note issued by Horizon in connection with the sale of Horizon's distribution segment (Stepic) in September 2002.

Net cash used in investing activities was approximately \$526,566 for fiscal 2003 compared with cash provided of \$12.3 million for fiscal 2002 and \$2.4 million for fiscal 2001. Cash used in investing activities in 2003 consisted of capital expenditures and acquisition of intangibles assets as a result of Horizon's acquisition of a portion of the business of one of its former independent distributors. The decrease in cash provided by investing activities during 2003 compared to 2002 was attributable to 2002 proceeds from the disposition of the Stepic distribution segment and from proceeds from shareholders note receivables.

Net Cash Used in Financing Activities. Net cash used in financing activities was \$326,566 for the three months ended March 31, 2004 compared to net cash used in financing activities of \$457,068 for the first quarter of 2003. Financing activities in both 2004 and 2003 consisted primarily of principal payments on long term debt. In 2004, this was partially offset by the proceeds from the exercise of stock options and warrants of Horizon.

Net cash used in financing activities was \$1.4 million for fiscal 2003, compared with \$7.3 million for fiscal year 2002 and \$6.2 million for fiscal 2001. Financing activities in 2003 consisted primarily of principal payments of long-term debt. Financing activities in 2002 substantially consisted of debt issuance costs paid as part of the Recapitalization of approximately \$1.5 million as well as net proceeds from the issuance of long-term debt and payment of debt on to Bank of America, both pursuant to the Recapitalization. The decrease in cash used in financing

activities during 2003 compared to 2002 was primarily attributable to the Recapitalization.

Table of Contents

Index to Financial Statements

Indebtedness. On March 1, 2002, Horizon entered into certain agreements, including the Note Purchase Agreement, in connection with the Recapitalization. Horizon completed the Recapitalization on March 16, 2002. The following is a summary of certain material provisions of the Note Purchase Agreement and the Recapitalization:

On March 1, 2002, Horizon entered into a Note Purchase Agreement with ComVest, Medtronic, the Additional Note Purchasers. Under the Note Purchase Agreement, Horizon agreed to issue \$15 million of Convertible Notes. Interest on these Convertible Notes is payable quarterly beginning in June 2002 and accrues at a rate of 6% per year for the first six months and 8% per year thereafter until the notes are paid in full and mature on March 16, 2004. Horizon issued the Convertible Notes as follows: \$4.4 million to ComVest, \$4 million to Medtronic and \$6.6 million to the Additional Note Purchasers. On October 21, 2003, the maturity date of the Convertible Notes was extended to July 16, 2005.

The Note Purchase Agreement contains certain affirmative and negative covenants, including, but not limited to the following:

- the provision of quarterly and annual financial statements to the holders of the Convertible Notes;
- rights of inspection of Horizon's books and records;
- maintenance of properties and Horizon's corporate existence;
- restrictions on indebtedness, other than indebtedness relating to permitted liens and certain indebtedness to affiliates;
- restrictions on liens, except for certain purchase money liens, statutory liens, tax liens and judicial liens;
- restrictions on certain business combinations and disposition of Horizon's assets;
- restrictions on the sale or discount of receivables;
- restrictions on transactions with affiliates outside of the ordinary course of business;
- restrictions on making loans or advances to third-parties, and guarantees of third-party obligations;
- restrictions on entering into, or modifying any existing material contract of Horizon;
- restrictions on certain capital expenditures by Horizon;
- restrictions on Horizon's redemption of its securities; and

prohibitions on the ability to pay dividends.

Under the Note Purchase Agreement, the Events of Default include, but are not limited to, failure to pay an obligation when due, failure to comply with obligations under the Securityholders Agreement or the Co-Promotion Agreement with Medtronic, breach of any covenant which remains uncured for 15 days, bankruptcy, a change of control and failure to obtain shareholder approval of certain proposals related to the Recapitalization at Horizon's 2002 annual meeting of shareholders within 195 days of the closing date of the Recapitalization (March 16, 2002). On September 17, 2002, at Horizon's 2002 annual meeting of shareholders, Horizon's shareholders approved all such proposals relating to the Recapitalization. Generally, upon an event of default, the holders of a majority of the aggregate principal amount of Convertible Notes outstanding may declare the unpaid principal and interest on such notes immediately due and payable. Additionally, Medtronic may, upon a breach by Horizon of its obligations (after applicable cure periods) under the Co-Promotion Agreement or a breach of covenants in the Convertible Notes held by Medtronic, declare the unpaid principal and interest on such notes immediately due and payable. Pursuant to Amendment No. 4 to Note Purchase Agreement, the transactions contemplated by the merger and the merger agreement will not constitute events of default under the Note Purchase Agreement.

Table of Contents**Index to Financial Statements**

Also, if Horizon defaults under the Note Purchase Agreement, it will be in default under its Loan Agreement with LaSalle (as described below) pursuant to the cross-default provisions contained therein. At March 31, 2004, the aggregate amount of indebtedness which would be subject to acceleration under the Note Purchase Agreement, Horizon's credit facility with LaSalle (as described below) and a Junior Note in favor of Bank of America (as described below), causing the same to become immediately due and payable, was approximately \$17.2 million.

Pursuant to Amendment No. 4 to the Note Purchase Agreement, dated as of May 12, 2004, which was entered into in connection with the proposed merger with RITA as discussed elsewhere in this joint proxy statement/prospectus, (1) the maturity date of the Convertible Notes held by ComVest, Medtronic and Additional Noteholders who so elect has been extended to July 16, 2008 and (2) neither Medtronic nor the holders in majority aggregate principal amount of Convertible Notes outstanding shall be permitted to declare an Event of Default under the Note Purchase Agreement in respect of any breach, default or condition that occurs or exists prior to the expiration of the period beginning on May 12, 2004 and ending immediately before the effective time of the merger, unless such breach, default or condition giving rise to such Event of Default, either alone or together with any other breach, default or condition giving rise to any other Event of Default, has, or is reasonably likely to have, a material adverse effect (as defined in the Note Purchase Agreement).

The holders of the Convertible Notes have converted in the aggregate a total of \$270,000 of the Convertible Notes into 27,000,000 shares of Horizon's common stock at a conversion price of \$0.01 per share. An aggregate principal amount of \$14,763,000 of Convertible Notes remains outstanding as of March 31, 2004. This 27,000,000 shares also includes 3,300,000 shares which were issued to ComVest upon conversion of a Convertible Bridge Note issued to ComVest as part of the Recapitalization. ComVest converted this bridge note into 3,300,000 shares of Horizon's common stock at a conversion price of \$0.01 per share in 2002, and as a result of such conversion, this note has been extinguished.

Horizon may prepay the Convertible Notes, subject to no prepayment penalty on or before March 16, 2003, a prepayment penalty of 5% between March 17, 2003 and March 16, 2004, and no prepayment penalty through the maturity date of the Convertible Notes (July 16, 2005).

The fair value of the Convertible Notes, which was used in the determination of the extraordinary loss on early extinguishment of debt was \$33.3 million. As this value represents a substantial premium to the face value of the debt, Horizon recorded the debt at its face value of \$15 million, and recorded the premium of \$18.3 million as an increase to additional paid-in-capital. Horizon determined the fair value of the Convertible Notes by considering their two components, the non-convertible debt of \$14,730,000 and the convertible debt of \$270,000. The non-convertible debt component's carrying value of \$14,730,000 represents its fair value because, when considered with the convertible component, its terms yield a market rate of return. The convertible component's fair value was determined by multiplying the fair value of Horizon's stock by the number of shares into which this component is convertible.

Thus, 27,000,000 shares multiplied by \$0.68940 per share equals \$18,613,685. The sum of the non-convertible component's fair value of \$14,730,000 and the convertible component's fair value of \$18,613,685 equals the total debt instrument's fair value of \$33,343,685.

Horizon determined the fair value of its stock in a multiple-step process. First, Horizon computed its assumed fair value of \$13,762,977 at the date of the transaction by multiplying outstanding shares of 16,311,676 by the then current market price per share of \$0.84375, which resulted in a fair value of Horizon prior to any conversion of the convertible portion of the Convertible Notes. Horizon then added to this computed fair value \$16,095,909, which represents the difference between the old Bank of America debt of \$40,320,909 and the face value of the new debt of \$24,225,000. This \$16,095,909 difference was credited to additional paid-in-capital. Thus, the new fair value of Horizon, prior to any conversion, is \$29,858,886. Horizon then assumed full conversion of the convertible portion of the notes, which resulted in an additional 27,000,000 shares becoming outstanding. After conversion, Horizon would have 43,311,676 shares outstanding, which when divided into the new fair value of \$29,858,886, yields a new per share market value of \$0.68940.

Table of Contents**Index to Financial Statements**

On March 18, 2002, Horizon entered into a credit facility with LaSalle pursuant to a loan and security agreement, which this joint proxy statement/prospectus refers to as the Loan Agreement, with Standard Federal Bank National Association, acting by and through LaSalle, as such entity's agent. This joint proxy statement/prospectus refers to LaSalle and Standard Federal Bank National Association collectively as the Lender. Under the Loan Agreement, the Lender provided a \$20 million revolving loan and a \$2 million term loan. Effective December 23, 2002, in connection with an amendment to the Loan Agreement, the limit on the revolving portion of the credit facility with LaSalle was reduced to \$10 million. Both loan facilities will bear interest at the LaSalle Bank Prime Rate plus 2%, subject to an additional 2% that would be added to the interest rate upon the occurrence of an event of default (as discussed below).

As collateral, Horizon granted a security interest in all of Horizon's present and future assets, whether now or hereafter owned, existing, acquired or arising and wherever now or hereafter located, including, but not limited to: all accounts receivable; all chattel paper, instruments, documents and general intangibles including patents, patent applications, trademarks, trademark applications, trade secrets, trade names, goodwill, copyrights, copyright applications, registrations, licenses, software, franchises, customer lists, tax refund claims, claims against carriers and shippers, guaranty claims, contract rights, payment intangibles, security interests, security deposits, and indemnification rights; all inventory; all goods including equipment, vehicles, and fixtures; all investment property; all deposit accounts, bank accounts, deposits and cash; all letter-of-credit rights; certain commercial tort claims; all property of Horizon in control of the Lender or any affiliate thereof; and all additions, substitutions, replacements, products, and proceeds of the aforementioned property including proceeds from insurance policies and all books and records relating to Horizon's business.

The Loan Agreement contains affirmative and negative covenants. The affirmative covenants require Horizon to, among other things, maintain accurate and complete records, notify the Lender of major business changes, comply with relevant laws, maintain proper permits, conduct relevant inspections and audits, maintain adequate insurance with the Lender named as loss payee, keep collateral in good condition, use proceeds only for business purposes, pay required taxes, maintain all intellectual property, maintain a checking account with LaSalle, hire a Chief Operating Officer with experience in the medical products industry within 90 days of the date of the Loan Agreement (which has been done), grant the Lender the right to conduct appraisals of the collateral on a bi-annual basis, and deliver a survey of the property located at Horizon's offices on Northside Parkway in Atlanta within 60 days of the date of the Loan Agreement (which has been done). The negative covenants restrict Horizon's ability to, among other things, make any guarantees, incur additional indebtedness, grant liens on its assets, enter into business combinations outside the ordinary course of business, pay dividends, make certain investments or loans, allow its equipment to become a fixture to real estate or an accession to personal property, alter its lines of business, settle accounts, or make other fundamental corporate changes.

Effective December 23, 2002, Horizon and the Lender amended the Loan Agreement to, among other things, amend certain financial maintenance covenants. These covenants, include, but are not limited to, the following:

maintaining Tangible Net Worth of \$7,500,000 for the quarters ending December 31, 2002, March 31, 2003, June 30, 2003 and September 30, 2003, and \$8,000,000 for the quarter ending December 31, 2003 and each quarter thereafter (Tangible Net Worth is defined as Horizon's shareholders' equity including retained earnings less the book value of all intangible assets, prepaid and non-cash items arising from the transactions contemplated by the Loan Agreement and goodwill impairment charges recorded as a result of SFAS No. 142 as determined solely by the Lender on a consistent basis plus the amount of any LIFO reserve plus the amount of any debt subordinated to the Lender);

maintaining fixed charge coverage (ratio of EBITDA to fixed charges) of 0.15 to 1.0 for the fiscal quarter ending December 31, 2002, 0.3 to 1.0 for the fiscal quarters ending March 31, 2003, June 30, 2003 and September 30, 2003, 0.50 to 1.0 for the fiscal quarter ending December 31, 2003, 0.75 to 1.0 for the fiscal quarter ending March 31, 2004 and 1.0 to 1.0 for the fiscal quarter ending June 30, 2004 and for each fiscal quarter thereafter, which was revised in the April 2004 amendment described below to 0.50 to 1.0 for the fiscal quarter ending March 31, 2004 and each fiscal quarter after March 31, 2004;

Table of Contents

Index to Financial Statements

maintaining EBITDA, based on the immediately preceding four fiscal quarters, of \$750,000 on December 31, 2002, \$1,350,000 on March 31, 2003, \$1,475,000 on June 30, 2003 and September 30, 2003, \$2,500,000 on December 31, 2003, \$3,675,000 on March 31, 2004 and \$4,900,000 on June 30, 2004 and each fiscal quarter thereafter, which was revised in the April 2004 amendment described below to \$2,000,000 on each of March 31, 2004, June 30, 2004 and September 30, 2004 and \$2,250,000 on December 31, 2004 and thereafter; and

limiting capital expenditures to no more than \$1,500,000 during any fiscal year.

The December 23, 2002 amendment also established a \$10 million revolving loan limit and provided that, commencing January 1, 2003, Horizon shall pay to the Lender an annual facility fee of \$100,000. As of March 31, 2004 and December 31, 2003, Horizon had \$3.6 million and \$2.8 million, respectively, available for borrowing under the revolving portion of its credit facility with LaSalle. As of March 31, 2004 and December 31, 2003, Horizon had \$666,667 and \$833,333, respectively, in borrowings outstanding under the term portion of its credit facility with LaSalle. Horizon had no borrowings outstanding under the revolving portion of its credit facility with LaSalle as of March 31, 2004 and December 31, 2003.

As of March 31, 2004, Horizon believes it was in compliance with all covenants in the Loan Agreement, as amended, set forth above.

In April 2004, Horizon amended the Loan Agreement to, among other things, (i) amend the termination provisions of the Loan Agreement to provide Horizon the ability to terminate the Loan Agreement prior to the end of the term thereof by paying in full all outstanding liabilities at such time (subject to a prepayment penalty under certain circumstances) and (ii) modify certain financial covenants contained therein. The financial covenants amended in the April 2004 amendment are set forth above.

Horizon believes it has available cash resources to meet its working capital needs through fiscal year 2004.

The Loan Agreement also specifies certain events of default, including, but not limited to, failure to pay obligations when due, failure to direct its account debtors to make payments to an established lockbox, failure to make timely financial reports to the Lender, the breach by Horizon or any guarantor of any obligations with any other Person (as defined in the Loan Agreement) if such breach might have a material adverse effect on Horizon or such guarantor, breach of representations, warranties or covenants, loss of collateral in excess of \$50,000, bankruptcy, appointment of a receiver, judgments in excess of \$25,000, any attempt to levy fees or attach the collateral, defaults or revocations of any guarantees, institution of criminal proceedings against Horizon or any guarantor, occurrence of a change in control, the occurrence of a material adverse change or a default or an event of default under certain subordinated debt documents. Upon the occurrence of any event of default, the Lender may accelerate Horizon's obligations under the Loan Agreement.

Horizon must repay the term portion of the Loan Agreement in 36 equal monthly installments of \$55,556 commencing April 2002. The Loan Agreement will automatically renew for one-year terms unless (i) LaSalle or Standard Federal Bank demands repayment on the termination date, (ii) the due date is accelerated as a result of an event of default, (iii) Horizon gives 90 days notice of its intent to terminate and pays all amounts due in full, (iv) Horizon terminates the Loan Agreement prior to the end of the term by giving 10 days notice to Lender of its intent to terminate and pays all amounts due in full or (v) the Lender elects to terminate on or after February 1, 2004 as a result of a termination event. A termination event is defined as the failure of Medtronic, ComVest or any Additional Note Purchaser to extend the maturity date (March 15, 2004) of the Convertible Notes at least thirty days past the date of the original term (March 17, 2005) or any applicable renewal term. In October 2003, the maturity date of the Convertible Notes was extended to July 16, 2005.

Pursuant to the Loan Agreement, Horizon also issued to LaSalle and Standard Federal Bank warrants to purchase up to an aggregate of 748,619 shares of common stock at an exercise price of \$.01 per share. Horizon recorded the estimated fair value of the warrant as of March 18, 2002 of approximately \$695,000, determined using

Table of Contents**Index to Financial Statements**

the Black-Scholes model (using weighted average assumptions as follows: dividend yield of 0%, expected life of 3 years, expected volatility of 112.2% and a risk free interest rate of 2.43%) as a reduction of the gain on early extinguishment of debt. Effective as of April 30, 2004, these warrants have been exercised in full and cancelled.

A Junior Note issued in favor of Bank of America in the amount of \$2 million bears interest at a rate of 6% per annum, payable monthly beginning April 2002, and matures on March 15, 2007. Beginning on May 1, 2003, a principal payment on such note of \$22,500 is payable on the first day of each month until its maturity.

Contractual Obligations. Horizon's approximate total scheduled future payments under contractual obligations and indebtedness outstanding as of December 31, 2003 are as follows:

	<u>2004</u>	<u>2005(1)</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>	<u>Total</u>
Long-Term Debt	\$ 1,396,825	\$ 15,629,034	\$ 382,693	\$ 987,500	\$	\$	\$ 18,396,052
Operating Leases	225,749	217,437	202,852	201,744	189,560	243,246	1,280,588
Total	\$ 1,622,574	\$ 15,846,471	\$ 585,545	\$ 1,189,244	\$ 189,560	\$ 243,246	\$ 19,676,640

- (1) Long-Term Debt for 2005 does not include the amount of \$112,693 pursuant to obligations payable to former shareholders of Stepic, which is, pursuant to its terms, accelerated upon payment of the Convertible Notes. Such amounts are currently reflected in the table as coming due subsequent to 2005. Any borrowings, if at all, under the revolving portion of Horizon's credit facility with LaSalle outstanding at the time the Convertible Notes are paid will also be accelerated and payable immediately.

Quantitative and Qualitative Disclosures About Market Risk

Like other companies, Horizon is exposed to market risks relating to fluctuations in interest rates. Borrowings under Horizon's credit facility with LaSalle accrue interest at annual rate of prime plus 2%, plus an additional 2% upon the occurrence of an event of default thereunder. As of March 31, 2004, Horizon had \$666,667 outstanding under the term loan portion of its credit facility with LaSalle. If market interest rates were to increase immediately and uniformly by 10% from levels as of March 31, 2004, the additional interest expense would be considered immaterial to Horizon's interim condensed consolidated financial position, results of operations and cash flows.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On November 12, 2002, Horizon notified the firm of PricewaterhouseCoopers LLP that, by decision of the Audit Committee of Horizon's board of directors, it would be dismissed effective November 14, 2002. Effective November 15, 2002, Horizon appointed Grant Thornton LLP as its independent registered public accountants to replace the firm of PricewaterhouseCoopers LLP. The decision to dismiss PricewaterhouseCoopers LLP and to retain Grant Thornton LLP as Horizon's independent registered public accountants was made by the Audit Committee of Horizon's board of directors, and then concurred in and approved by the Executive Committee of Horizon's board of directors.

The reports of PricewaterhouseCoopers LLP on Horizon's financial statements for the fiscal years ended December 31, 2000 and 2001 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles, except that the report of PricewaterhouseCoopers LLP dated February 26, 2002 (except for Notes 6, 9, 12 and 17, as to which the date was April 15, 2002) accompanying Horizon's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, contained the following paragraph:

The accompanying consolidated financial statements have been prepared assuming that Horizon will continue as a going concern. As discussed in Note 17 to the consolidated financial statements, Horizon's senior loan agreement requires compliance with certain financial covenants the compliance with which cannot be objectively determined. This matter raises substantial doubt about Horizon's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Table of Contents

Index to Financial Statements

In PricewaterhouseCoopers LLP's report dated February 26, 2002 (except for Notes 6, 9, 12 and 17, as to which the date was April 15, 2002, and Note 18, as to which the date was September 9, 2002) accompanying Horizon's Registration Statement on Form S-1/A, as filed with the Securities and Exchange Commission on September 11, 2002, the paragraph referred to above was removed.

During Horizon's fiscal years ended December 31, 2001 and 2000, and the subsequent interim period through November 14, 2002, there were no disagreements with PricewaterhouseCoopers LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to the satisfaction of PricewaterhouseCoopers LLP, would have caused PricewaterhouseCoopers LLP to make reference to the matter in their report.

During Horizon's fiscal years ended December 31, 2001 and 2000, and the subsequent interim period through November 14, 2002, there were no reportable events (as such term is defined in Item 304(a)(i)(v) of Regulation S-K). Horizon requested, and received from, PricewaterhouseCoopers LLP a letter, dated November 14, 2002, addressed to the Commission stating that it agreed with the above statements.

During Horizon's fiscal years ended December 31, 2001 and 2000, and the subsequent interim period through November 14, 2002, Horizon did not consult Grant Thornton LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on Horizon's consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Horizon has retained Grant Thornton LLP as independent registered public accountants since November 15, 2002 for fiscal years 2003 and 2002. From January 1, 2002 until November 14, 2002, Horizon retained PricewaterhouseCoopers LLP as its independent public accountants.

Table of Contents

Index to Financial Statements

INFORMATION ABOUT THE MEETINGS AND VOTING

The RITA Annual Meeting

RITA's board of directors is using this joint proxy statement/prospectus to solicit proxies from the holders of RITA common stock for use at the annual meeting of RITA stockholders. RITA is first mailing this joint proxy statement/prospectus and accompanying form of proxy to RITA stockholders on or about June 29, 2004. RITA's annual meeting will be held at Heller Ehrman White & McAuliffe LLP, located at 2775 Sand Hill Road, Menlo Park, California 94025 on Thursday, July 29, 2004, starting at 10:00 a.m., local time.

At the annual meeting, RITA stockholders will be asked to consider and vote on the following items:

A proposal to approve the issuance of shares of RITA common stock pursuant to the merger agreement;

A proposal to approve an amendment to RITA's certificate of incorporation to increase the number of authorized shares of RITA common stock from 100,000,000 to 150,000,000 and to clarify the authority of RITA's board of directors to fix the terms of preferred stock;

The election of two Class I directors to serve until the annual meeting of stockholders for the year ending December 31, 2007;

The ratification of the appointment of PricewaterhouseCoopers LLP as RITA's independent registered public accounting firm for the fiscal year ending December 31, 2004; and

Any other business properly brought before the meeting.

RITA's board of directors unanimously recommends that RITA stockholders vote FOR each of these proposals and FOR the nominee described herein. Detailed descriptions of each of these proposals is set forth below:

Proposal 1: Approval of the issuance of shares of RITA common stock pursuant to the merger agreement

At RITA's annual meeting, RITA stockholders will be asked to approve the issuance of up to 22,589,680 shares of RITA common stock pursuant to the merger agreement. Stockholder approval of the issuance of these shares of RITA common stock is a condition to closing the merger, which cannot be waived by the parties. Approval of the proposal to issue shares of RITA common stock in the merger requires the affirmative vote of a majority of the shares present in person or by proxy at RITA's annual meeting and entitled to vote on the proposal.

Proposal 2: Approval of the amendment to RITA's certificate of incorporation

At RITA's annual meeting, RITA stockholders will be asked to approve an amendment to RITA's certificate of incorporation to increase the number of authorized shares of RITA common stock from 100,000,000 to 150,000,000 and to clarify the authority of RITA's board of directors to fix the terms of preferred stock as provided in Article IV(b) of RITA's certificate of incorporation. The amendment to RITA's certificate of incorporation provides for the authorization of 50,000,000 additional shares of RITA common stock. As of June 22, 2004, 18,039,158 shares of RITA common stock were issued and outstanding, approximately 4,170,997 shares of RITA common stock were reserved for issuance, and a maximum of 22,589,680 shares of RITA common stock will be issued pursuant to the merger agreement.

RITA's board of directors believes that it is in the best interests of RITA to have additional authorized shares of common stock available for possible future financings, possible future acquisition transactions and other purposes. RITA's board of directors believes that having such additional authorized shares of common stock available for issuance in the future should give RITA greater flexibility and may allow such shares to be

Table of Contents

Index to Financial Statements

issued without the expense and delay of stockholders' special meetings. Despite the additional flexibility afforded by the increase in authorized shares, the issuance of additional shares will dilute the voting power of existing stockholders. Other than in connection with the proposed merger with Horizon and the possible issuance of shares described in the section entitled "Risk Factors - Risks Relating to the Merger" on page 18 of this joint proxy statement/prospectus, or as otherwise described in this joint proxy statement/prospectus, RITA is not a party to any agreement, arrangement or undertaking with respect to the issuance of any additional shares of common stock.

If the amendment to RITA's certificate of incorporation relating to the increase in authorized shares of common stock and to clarify the authority of RITA's board of directors to fix the terms of preferred stock is approved by the stockholders at the annual meeting, a certificate of amendment will be filed with the Delaware Secretary of State so that Article IV of RITA's certificate of incorporation will read in its entirety as follows:

ARTICLE IV

(A) The Corporation is authorized to issue two classes of stock to be designated, respectively, Common Stock and Preferred Stock. The total number of shares which the Corporation is authorized to issue is One Hundred and Fifty-Two Million (152,000,000) shares, each with a par value of \$0.001 per share. One Hundred and Fifty Million (150,000,000) shares shall be Common Stock and Two Million (2,000,000) shares shall be Preferred Stock.

(B) The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized, by filing a certificate pursuant to the applicable law of the state of Delaware and within the limitations and restrictions stated in this Certificate of Incorporation, to fix the designation, powers, preferences and rights of the shares of any wholly unissued series of Preferred Stock and the qualifications, limitations and restrictions thereof; and to increase or decrease the number of shares of any series subsequent to the issuance of shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

Approval of the proposal to amend RITA's certificate of incorporation requires the affirmative vote of a majority of the outstanding shares entitled to vote on the proposal.

Proposal 3: The election of two Class I directors

RITA's certificate of incorporation requires that the board of directors be divided into three classes, with each class serving staggered three-year terms. Currently, the RITA board of directors has six members, with two Class I directors, two Class II directors, and two Class III directors. If the merger is completed, the RITA board of directors will be expanded to nine members, with three additional nominees initially to be selected by Horizon. Currently, the RITA board of directors expects that the three Horizon director designees will be equally divided among the three classes of directors.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

The Class I directors, whose terms expire at the Annual Meeting, are Scott Halsted and Vincent Bucci; the Class II directors, whose terms expire at the RITA 2005 annual meeting, are John Gilbert and Wes Johnson; and the Class III directors, whose terms expire at the RITA 2006 annual meeting, are Joseph DeVivo and Randy Lindholm. Messrs. Halsted and Bucci, the current Class I directors, are the nominees for re-election at the Annual Meeting and have consented to serve an additional three-year term if elected.

If a quorum is present at the annual meeting, the two nominees receiving the highest number of affirmative votes will be elected as the Class I directors. Unless marked otherwise, proxies received from RITA stockholders will be voted FOR the election of the nominee named herein.

Table of Contents

Index to Financial Statements

On or before the completion of the merger, RITA will expand its board of directors, by resolution of the board, from six members to nine members.

Proposal 4: The ratification of the appointment of PricewaterhouseCoopers LLP

The RITA Audit Committee has appointed PricewaterhouseCoopers LLP, or PwC, as RITA's independent registered public accounting firm for the fiscal year ending December 31, 2004 and is seeking stockholder ratification of this selection at the annual meeting. PwC has served as RITA's independent registered public accounting firm since 1994.

Selection of the independent registered public accounting firm is not required to be submitted to a vote of the stockholders for ratification. The Sarbanes-Oxley Act of 2002 requires the RITA Audit Committee to be directly responsible for the appointment, compensation and oversight of the audit work of the independent registered public accounting firm. However, the RITA board of directors is submitting this matter to the stockholders as a matter of good corporate practice. If the stockholders fail to vote on an advisory basis in favor of the appointment, the RITA Audit Committee will reconsider whether to retain PwC, and may retain that firm or another without re-submitting the matter to the stockholders for a vote. Even if RITA stockholders vote on an advisory basis in favor of the appointment, the RITA Audit Committee may, in its discretion, direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of RITA and its stockholders.

Record Date and Stockholders Entitled To Vote

RITA stockholders who hold their shares of record as of the close of business on June 22, 2004 are entitled to notice of and to vote at RITA's annual meeting. On the record date, there were 18,039,158 shares of RITA common stock outstanding and entitled to vote at the annual meeting, held by 81 holders of record. Each share of RITA common stock is entitled to one vote. Shares held by RITA in its treasury are not voted.

Quorum Requirement

A quorum of RITA stockholders is necessary to convene the meeting. The presence in person or by proxy at the meeting of holders of a majority of the outstanding shares of RITA common stock entitled to vote at the meeting will constitute a quorum. Abstentions and broker non-votes count as present for establishing a quorum.

Voting Your Shares and Changing Your Vote

Voting Your Shares. You may vote in person at the annual meeting. You may also submit a proxy by mail if you do not attend the annual meeting. If you plan to attend the annual meeting and wish to vote in person, you will be given a ballot at the meeting. Please note, however, that if you are not the record holder of your shares and you wish to vote in person at the annual meeting, you must bring to the meeting a proxy from

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

the record holder of the shares authorizing you to vote at the meeting.

If your shares are registered in your name, you are encouraged to submit a proxy even if you plan to attend the annual meeting in person. Voting instructions are included on your proxy card. If you properly complete the proxy card, sign, date and return it in the enclosed envelope in time to vote, one of the individuals named as your proxy will vote your shares as you have directed.

If your shares are held in the name of a bank, broker or other fiduciary, you must provide the record holder with instructions on how to vote your shares. Please follow the instructions on the voting instruction card furnished by the record holder.

Changing Your Vote. If your shares are registered in your name, you may revoke your proxy at any time before the meeting. You may revoke your proxy by (i) timely delivering by mail a valid, subsequently-dated

Table of Contents

Index to Financial Statements

proxy, (ii) delivering notice of revocation of proxy in writing to RITA's corporate secretary or (iii) submitting a vote by ballot at the annual meeting. Attending the annual meeting in person will not revoke a previously submitted proxy unless you request that such action be taken.

If your shares are not registered in your name, you may change your vote by timely submitting a new voting instruction card.

How Proxies Are Counted

If you return a signed and dated proxy card but fail to indicate how the shares are to be voted, those shares represented by your proxy card will be voted for approval of all of the proposals identified on the proxy card. A valid proxy also gives the individuals named as proxies authority to vote in their discretion when voting the shares on any other matters that are properly presented for action at the RITA annual meeting. A properly executed proxy marked "ABSTAIN" will not be voted; however, it will be counted to determine whether there is a quorum present at the annual meeting and it will count as voting power present at the meeting. A proxy marked "ABSTAIN" will have the same effect as a "no" vote on the proposals to be voted upon at the RITA annual meeting.

Other Business; Adjournments

RITA is not currently aware of any other business to be acted upon at the annual meeting. If, however, other matters are properly brought before the annual meeting, or any adjournment thereof, your proxies include discretionary authority on the part of the individuals appointed to vote your shares or act on those matters according to their best judgment.

Adjournments may be made for the purpose of, among other things, soliciting additional proxies. Any adjournment may be made from time to time by approval of the holders of shares representing a majority of the shares entitled to vote on the motion to adjourn the meeting without further notice other than by an announcement made at the meeting. If a quorum is not present or represented by proxy at the annual meeting, the stockholders entitled to vote have the power to adjourn the meeting.

Proposals For 2005 Annual Meeting

To have a proposal included in the RITA proxy statement for the 2005 annual meeting of stockholders, the proposal must be submitted before February 25, 2005 to RITA Medical Systems, Inc., 967 North Shoreline Blvd., Mountain View, California 94043, Attn: Corporate Secretary.

RITA Stockholder Account Maintenance

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

RITA's transfer agent is U.S. Stock Transfer. All communications concerning accounts of RITA stockholders of record, including address changes, name changes, inquiries as to requirements to transfer shares of common stock and similar issues can be handled by calling U.S. Stock Transfer at (800) 835-8778.

Cost of Solicitation

RITA and Horizon will share equally the cost of filing, printing and mailing this joint proxy statement/prospectus. In addition to this mailing, proxies may be solicited by directors, officers or employees of RITA in person or by telephone or electronic transmission. None of the directors, officers or employees will be directly compensated for such services. RITA may engage a proxy solicitation firm in connection with the solicitation of proxies for the annual meeting.

The extent to which these proxy-soliciting efforts will be necessary depends entirely upon how promptly proxies are submitted. You should submit your proxy without delay. RITA also reimburses brokers and other nominees for their expenses in sending these materials to you and getting your voting instructions.

Table of Contents

Index to Financial Statements

The Horizon Annual Meeting

This joint proxy statement/prospectus is being furnished in connection with the solicitation of proxies from the holders of Horizon common stock by Horizon's board of directors relating to the merger proposal, the election of directors, the ratification of Horizon's independent registered public accountants and any other matters to be voted upon at the Horizon annual meeting and at any adjournment or postponement of the meeting. Horizon mailed this joint proxy statement/prospectus to its shareholders beginning June 29, 2004. Horizon's annual meeting will be held at the offices of King & Spalding LLP, 191 Peachtree Street, Atlanta, Georgia 30303 on Thursday, July 29, 2004, starting at 1:00 p.m. local time.

What Will Be Voted Upon

At Horizon's annual meeting, Horizon shareholders will be asked to consider and vote on the following items:

A proposal to approve the merger agreement and the merger;

The election of seven individuals to serve as members of Horizon's board of directors until Horizon's 2005 annual meeting of shareholders;

The ratification of Grant Thornton LLP as Horizon's independent registered public accountants for the fiscal year ending December 31, 2004; and

Such other matters as properly may come before the annual meeting.

The merger agreement and Georgia law require that the holders of at least a majority of Horizon's outstanding shares of common stock must vote to approve the merger agreement and the merger. Approval of the other Horizon annual meeting matters is not a condition to the merger. If the merger is completed, the other Horizon annual meeting matters will, as a result, be superseded.

Record Date and Shareholders Entitled to Vote

Horizon shareholders who hold their shares of record as of the close of business on June 23, 2004, are entitled to notice of and to vote at Horizon's annual meeting. On the record date, there were 44,313,068 shares of Horizon common stock outstanding and entitled to vote at the annual meeting, held by 126 holders of record.

Quorum Requirement

In order to have a quorum, a majority of the shares of Horizon common stock that are outstanding and entitled to vote at the annual meeting must be represented in person or by proxy. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting. If a quorum is not present, a majority of the shares that are represented may adjourn or postpone the annual meeting.

Vote Required for Approval

Required Vote for Approval and Adoption of the Merger Agreement and the Merger. The merger agreement proposal must be approved by the affirmative vote of at least a majority of the shares of Horizon common stock that are outstanding and entitled to vote at the annual meeting. Each share of Horizon stock is entitled to cast one vote. As of the Horizon record date, Horizon directors and executive officers and their affiliates beneficially owned and were entitled to vote 6,348,532 outstanding shares of Horizon common stock representing 14.32% of Horizon outstanding common stock. All of these shareholders have entered into voting agreements pursuant to which they have committed to vote the shares held by them in favor of the issuance of the RITA shares of common stock pursuant to the merger.

Table of Contents

Index to Financial Statements

Required Vote for Election of Directors. The affirmative vote of a plurality of the votes cast by the shares entitled to vote at Horizon's annual meeting is required for the election of directors. Plurality means that the seven individuals who receive the largest number of votes cast are elected as directors. Abstentions and broker non-votes will be counted for the purposes of establishing a quorum, but will have no effect on the outcome of the election of directors.

Required Vote for the Ratification of Horizon's Independent Registered Public Accounting Firm. The affirmative vote of a majority of the votes cast on this proposal at Horizon's annual meeting is required to ratify the appointment of the independent registered public accounting firm. The affirmative vote of a majority of the votes cast on this proposal at the Horizon annual meeting is required to ratify the appointment of the independent registered public accountants.

Voting Your Shares and Changing Your Vote

Voting Your Shares. You may vote by completing and mailing the enclosed proxy card in accordance with the procedures discussed below or you may vote in person at the annual meeting. If you do not vote, it will have the same effect as voting against the merger agreement. If you choose to vote by proxy, your completed proxy card must be received by Horizon's corporate secretary by July 28, 2004.

If you plan to attend the annual meeting and wish to vote in person, you will be given a ballot at the meeting. Please note, however, that if you are not the record holder of your shares and you wish to vote in person at the annual meeting, you must bring to the meeting a proxy from the record holder of the shares authorizing you to vote at the meeting.

If your shares are registered in your name, you are encouraged to submit a proxy even if you plan to attend the annual meeting in person. To grant your proxy, complete the proxy card, sign, date and return it in the enclosed envelope. To be valid, a returned proxy card must be signed.

If your shares are held in the name of a bank, broker, or other fiduciary, you must provide the record holder with instructions on how to vote your shares. Please follow the instructions on the voting instruction card furnished by the record holder.

Changing Your Vote. If your shares are registered in your name, you may revoke your proxy at any time before the meeting. You may revoke your proxy by delivering notice of revocation of proxy in writing to the Secretary of Horizon or by mailing, or delivering at the meeting, a subsequently dated proxy or delivering a ballot in person at the meeting. Attending the meeting in person will not itself revoke a previously submitted proxy.

If your shares are not registered in your name, you may change your vote by a timely submission of a new voting instruction card.

How Proxies Are Counted

If you return a signed and dated proxy card but do not indicate how the shares are to be voted, those shares represented by your proxy card will be voted for approval of the merger proposal, for the election of the seven director nominees, for ratification of Grant Thornton LLP as Horizon's independent public accounts and for any proposal to adjourn the annual meeting to solicit additional votes relating to the merger. A valid proxy also gives the individuals named as proxies authority to vote in their discretion when voting the shares on any other matters that are properly presented for action at the Horizon annual meeting. A properly executed proxy marked "ABSTAIN" will not be voted. However, it will be counted to determine whether there is a quorum present at the annual meeting. Accordingly, since the affirmative vote of at least a majority of the shares outstanding and entitled to vote at the Horizon annual meeting is required to approve the merger proposal, a proxy marked "ABSTAIN" will have the effect of a vote against this proposal. Broker non-votes (*i.e.*, shares held by brokers

Table of Contents

Index to Financial Statements

which are represented at a meeting but with respect to which the broker is not empowered to vote on a particular proposal) will be counted for purposes of determining whether there is a quorum at the Horizon annual meeting. However, brokers cannot vote the shares that they hold beneficially either for or against the merger proposal without specific instructions from the person who beneficially owns those shares. Therefore, if a broker holds your shares and you do not give your broker instructions on how to vote your shares, this will have the same effect as voting against the merger proposal. Brokers also may not vote on any proposal to adjourn the meeting to solicit additional proxies in favor of the merger agreement, and broker non-votes will have no effect on any such adjournment proposal. Abstentions and Broker non-votes will have no effect on the outcome of the proposals relating to the election of directors and the ratification of Horizon's independent registered public accountants, other than being counted in the establishment of a quorum.

Cost of Solicitation

Horizon and RITA will share equally the cost of filing, printing and mailing this joint proxy statement/prospectus. In addition to solicitation by mail, telephone or other means, Horizon will make arrangements with brokerage houses and other custodians, nominees and fiduciaries to send proxy material to beneficial owners. Horizon will, upon request, reimburse these institutions for their reasonable expenses. In addition, certain officers, directors and employees of Horizon and RITA may solicit proxies. These individuals will not receive any consideration in connection with these services.

HORIZON SHAREHOLDERS SHOULD NOT SEND IN THEIR STOCK CERTIFICATES WITH THE PROXY CARDS. SOON AFTER THE MERGER IS COMPLETED, YOU WILL RECEIVE WRITTEN INSTRUCTIONS ON HOW TO EXCHANGE YOUR HORIZON STOCK CERTIFICATES FOR SHARES OF RITA COMMON STOCK.

Board Recommendations

Proposal 1. The Merger Agreement and the Merger

As discussed elsewhere in this joint proxy statement/prospectus, Horizon shareholders are considering and voting to approve and adopt the merger agreement and the merger. Horizon shareholders should read carefully this joint proxy statement/prospectus in its entirety for more detailed information concerning the merger agreement and the merger. In particular, Horizon shareholders are directed to the merger agreement which is attached as Annex A to this joint proxy statement/prospectus.

The Horizon board of directors recommends a vote FOR approval of the merger agreement and the merger.

If the merger is completed, the other Horizon annual meeting matters will, as a result, be superseded as of the effective time of the merger. Approval of the other Horizon annual meeting matters is not a condition of the merger.

Proposal 2. Election of Directors

Horizon's board of directors currently consists of seven directors. Each director's term expires at each annual meeting of Horizon shareholders. As such, at each annual meeting Horizon shareholders must elect seven individuals to serve as Horizon's board of directors until the following year's annual meeting.

Pursuant to the Securityholders Agreement entered into by and among Horizon, ComVest, Medtronic, Standard Federal Bank, National Association and Marshall B. Hunt, which amended an agreement originally entered into in connection with the Recapitalization, ComVest currently has the right to appoint two designees and one additional director who is independent in accordance with the rules and regulations of the American Stock Exchange to Horizon's board of directors. Additionally, Medtronic has the right to designate one

Table of Contents

Index to Financial Statements

independent director to Horizon's board of directors. ComVest and Medtronic have the right to jointly designate one independent director; and Horizon's board of directors has the right to designate two members of Horizon's senior management as directors. Effective October 31, 2003, the board of directors appointed Dr. David Ku, Robert L. Priddy and Robert J. Wenzel to its board of directors, concurrently with the resignations of directors H. Ross Arnold, III, William E. Peterson, Jr. and A. Gordon Tunstall from Horizon's board of directors. Pursuant to the terms of the Securityholders Agreement, the current membership of Horizon's board of directors is comprised as follows: (i) ComVest has designated Messrs. Blue and Priddy as its directors and Mr. Brands as an independent director; (ii) Medtronic has designated Mr. Tucker as an independent director; (iii) ComVest and Medtronic have jointly designated Dr. Ku as an independent director; and (iv) Horizon's board of directors has designated Mr. Wenzel and Mr. Hunt as management directors.

In the event the merger is not completed, Horizon intends to amend these provisions of the Securityholders Agreement in order to comply with the rules and regulations of the American Stock Exchange which require a listed company's board of directors be comprised of at least a majority of independent directors.

Horizon's board of directors has nominated the individuals described below to be elected by Horizon's shareholders to serve as directors for a term expiring at Horizon's 2005 annual meeting of shareholders and until their successors are duly elected and qualified. Each such director currently serves as a director of Horizon.

Election of the nominated directors is not a condition to the merger. If the merger is completed, this proposal will be superseded.

The Horizon board of directors recommends that the shareholders vote **FOR the election of the following nominees for director:**

Harold Blue

James E. Brands

Marshall B. Hunt

Dr. David A. Ku

Robert L. Priddy

Robert D. Tucker

Robert J. (Bob) Wenzel

Biographical and other information about these seven director-nominees is contained under the heading "Horizon - Horizon Directors" in this joint proxy statement/prospectus.

Each of the nominees has consented to serve a one year term if elected by Horizon's shareholders. If any of them should become unavailable to serve as a director, Horizon's board of directors may designate a substitute nominee. In that case, the persons named as proxies will vote for the substitute nominee designated by Horizon's board of directors. In no event will proxies be voted for the election of more than seven nominees to Horizon's board of directors.

Table of Contents**Index to Financial Statements*****Proposal 3. Ratification of Horizon's Registered Independent Public Accounting Firm for the Fiscal Year ending December 31, 2004***

Audit Fees and Other Fees. Aggregate fees billed to Horizon for fiscal years 2003 and 2002 by Grant Thornton LLP were:

	Fiscal Year	
	2003	2002
Audit Fees	\$ 110,755	\$ 115,958
Audit Related Fees (a)	67,336	0
Tax Services (b)	21,725	40,275
All Other Fees	0	0

-
- (a) For fiscal year 2003, includes fees for 401(k) plan review, quarterly review of Horizon's interim financial statements and work performed in connection with testing the impairment of certain of Horizon's assets.
- (b) Includes fees for tax return preparation and corporate tax planning.

Aggregate fees billed to Horizon for fiscal years 2003 and 2002 by PricewaterhouseCoopers LLP were:

	Fiscal Year	
	2003	2002
Audit Fees	\$ 0	\$ 182,305
Audit Related Fees (a)	25,891	67,547
Tax Services	0	0
All Other Fees	0	0

-
- (a) For fiscal year 2003, includes fees related to the provision of required accountants' consents in connection with Horizon's Annual Report on Form 10-K for the 2002 and 2003 fiscal years, and for fiscal year 2002, includes fees related to Horizon's Registration Statement on Form S-1 prepared in connection with the Recapitalization, 401(k) plan review and successor auditor review.

All audit related services, tax services and other services provided to Horizon during the 2002 and 2003 fiscal years were pre-approved by the Audit Committee. The Audit Committee charter specifically authorizes the Audit Committee to delegate to one or more of its members pre-approval authority with respect to permitted services. In addition, the Audit Committee considered whether the provision of non-audit services by each of PricewaterhouseCoopers LLP and Grant Thornton LLP is compatible with maintaining auditor independence.

Horizon believes that the fees reflected above payable to Grant Thornton LLP for the 2003 fiscal year are representative of future fees likely to be billed to Horizon.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Ratification of the appointment of Grant Thornton LLP is not a condition to the merger. If the merger is completed, this proposal will be superseded.

Horizon's board of directors recommends a vote FOR the ratification of the appointment of Grant Thornton LLP to serve as Horizon's independent registered public accountants for the fiscal year ending December 31, 2004.

Other Matters

As of the date of this joint proxy statement/prospectus, Horizon's board of directors is not aware of any matters that will be presented for consideration at Horizon's annual meeting other than as described in this joint proxy statement/prospectus. If any other matters come before Horizon's annual meeting, or any adjournments or

Table of Contents

Index to Financial Statements

postponements thereof, and are voted upon, the enclosed proxies will confer discretionary authority on the individuals named as proxies to vote the shares represented by the proxies as to any other matters. The individuals named as proxies intend to vote in accordance with their best judgment as to any other matters.

Shareholder Proposals

If the merger is not completed, Horizon will hold a 2005 annual meeting of shareholders. Shareholders interested in presenting a proposal for inclusion in the proxy statement relating to Horizon's annual meeting of shareholders in 2005 may do so by following the procedures prescribed in Rule 14a-8 under the Securities Exchange Act of 1934 and Horizon's bylaws. To be eligible for inclusion, shareholder proposals must be received by Horizon's Corporate Secretary no later than February 25, 2005. Any shareholder proposal to be considered at next year's annual meeting of shareholders but not included in the proxy statement must be received at the principal executive offices of Horizon no later than February 25, 2005 and no earlier than December 27, 2004 or the persons appointed as proxies may exercise their discretionary voting authority with respect to the matter if it is otherwise properly considered at the meeting.

Table of Contents

Index to Financial Statements

COMPARISON OF STOCKHOLDER RIGHTS AND CORPORATE GOVERNANCE MATTERS

RITA is a Delaware corporation subject to the provisions of the DGCL. Horizon is a Georgia corporation subject to the provisions of the GBCC. Upon completion of the merger, Horizon shareholders, whose rights are currently governed by Horizon's articles of incorporation and bylaws and the GBCC, will become stockholders of RITA and their rights will be governed by RITA's certificate of incorporation and bylaws and the DGCL.

The following description summarizes material differences that may affect the rights of holders of RITA common stock and Horizon common stock. This summary is not intended to be a complete discussion of all those differences or a complete description of the specific provisions referred to in this summary, and is qualified in its entirety by reference to the DGCL, the GBCC and the various documents of RITA and Horizon that we refer to in this summary. The identification of specific differences is not intended to indicate that other equally or more significant differences do not exist. For additional information regarding the specific rights of holders of RITA common stock, you should read the section of this joint proxy statement/prospectus entitled "Description of RITA Capital Stock" beginning on page 168. You should read the relevant provisions of the GBCC and the DGCL, the certificate of incorporation and bylaws of RITA, which are incorporated by reference into this joint proxy statement/prospectus, and the articles of incorporation and bylaws of Horizon.

Class of Common Stock

RITA has only one class of common stock authorized. Holders of RITA common stock are entitled to all of the rights and obligations provided to common stockholders under its certificate of incorporation and bylaws and under Delaware law.

Horizon has only one class of common stock authorized. Holders of Horizon common stock are entitled to the rights and obligations provided to common shareholders under Horizon's articles of incorporation and bylaws and under Georgia law.

Authorized Capital Stock

The authorized capital stock of RITA consists of 100,000,000 shares of common stock, \$0.001 par value per share, and 2,000,000 shares of preferred stock, \$0.001 par value per share.

The authorized capital stock of Horizon consists of 100,000,000 shares of common stock, \$0.001 par value per share, and 5,000,000 shares of preferred stock, with no par value.

Board Authority to Issue Capital Stock

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

RITA's board of directors is authorized to issue, without stockholder approval, shares of common stock or preferred stock in one or more series, and to determine or alter the rights, preferences, privileges and restrictions of any such series and the number of shares constituting any such series and the designation of such series. For a description of the terms of RITA's existing outstanding preferred stock, see "Description of RITA Capital Stock - RITA Preferred Stock" on page 168.

Horizon's board of directors is authorized to issue, without shareholder approval, 100,000,000 shares of common stock, which stock's rights and preferences are governed by Horizon's articles of incorporation. Horizon's board of directors is also authorized to issue, without shareholder approval, 5,000,000 shares of preferred stock in one or more series, and to determine the designations, preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemption of such preferred stock.

Table of Contents

Index to Financial Statements

Dividends and Stock Repurchases

Under the DGCL, a corporation may pay dividends out of surplus, or, if there is no surplus, out of net profits for the current or preceding fiscal year in which the dividend is declared, provided that the amount of capital of the corporation following the declaration and payment of the dividend is not less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets.

In addition, Delaware law generally provides that a corporation may redeem or repurchase its shares only if the redemption or repurchase would not impair the capital of the corporation. A Delaware corporation may redeem or repurchase shares having a preference, or if no shares entitled to such a preference are outstanding, any of its shares, upon the distribution of any of its assets if such shares will be retired upon acquisition, and provided that, after the reduction in capital made in connection with such retirement of shares, the corporation's remaining assets are sufficient to pay any debts not otherwise provided for. The board of directors may determine and fix the rate at which dividends on the shares of RITA common stock shall be declared and paid or set aside for payment. RITA has never paid cash dividends on its common stock.

Under the GBCC, a corporation may not make a distribution to shareholders if, after giving effect to such distribution, the corporation would not be able to pay its debts as they become due in the usual course of business, or the corporation's total assets would be less than the sum of its total liabilities (unless the corporation's articles of incorporation permit otherwise) plus the amount that would be needed, if the corporation were dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution. This provision of the GBCC governs all distributions to shareholders, including redemptions. Horizon's articles of incorporation provide that Horizon's board of directors may declare dividends or other distributions, subject to the GBCC. Horizon has never paid cash dividends on its common stock.

Voting Rights

The outstanding voting securities of RITA consist of the shares of RITA common stock. Each holder of RITA common stock is entitled to one vote per share.

The outstanding voting securities of Horizon consist of the shares of Horizon common stock. Each holder of Horizon common stock is entitled to one vote per share.

Redemption and Exchange Features

RITA common stock is not redeemable.

Horizon common stock is not redeemable.

Meetings of Stockholders; Notice

RITA's annual meeting of stockholders is held each year on a date and at a time designated by RITA's board of directors. A special meeting of the stockholders of RITA may be called at any time by RITA's board of directors, the chairman of the board, the president or the chief executive officer.

An annual meeting of the shareholders of Horizon may be called at any time by Horizon's board of directors through a resolution of such board. If Horizon's board of directors fails to provide for an annual meeting through resolution, then such meeting is to be held on the fourth Tuesday in April of each year, or if such date is a legal holiday under Georgia law, then on the next succeeding business day. Horizon's board of directors may specify

Table of Contents

Index to Financial Statements

by resolution prior to any special meeting of the shareholders held within the year that such meeting shall be in lieu of Horizon's annual meeting.

Record Date for Determining Stockholders Entitled to Vote

RITA's bylaws provide that for purposes of determining the stockholders entitled to notice of a meeting or to vote thereat, or for the purpose of any other lawful action, the board of directors of RITA may fix, in advance, a record date which shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors and which shall not be fewer than 10 days nor more than 60 days before the date of such meeting, nor more than 60 days prior to any other action. Only stockholders of record on the date fixed by the board of directors are entitled to notice and to vote at the meeting.

Horizon's bylaws provide that, for purposes of determining the shareholders entitled to notice of a meeting or to vote thereat, or any adjournment thereof, Horizon's board of directors shall have the power to fix a date not more than 70 days prior to the date on which the particular action requiring a determination of shareholders is to be taken. A record date for the determination of shareholders entitled to notice of or to vote at any meeting of shareholders, or any adjournment thereof shall not be set less than 10 days prior to such meeting. Only shareholders of record on the date fixed by Horizon's board of directors are entitled to notice of the particular action requiring a determination of shareholders.

Stockholder Action by Written Consent

RITA's certificate of incorporation provides that no action may be taken by its stockholders other than at an annual or special meeting of stockholders, upon due notice and in accordance with the provisions of its bylaws.

Horizon's articles of incorporation provide that any action required or permitted to be taken at a meeting of Horizon's shareholders may be taken without a meeting if the action is taken by all of the shareholders entitled to vote on the action, or by persons who would be entitled to vote at a meeting those shares having a voting power to cast not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote were present and voted. Such action must be evidenced by one or more written consents describing the action taken, signed by the shareholders entitled to take such action without a meeting and delivered to Horizon for inclusion in the minutes or filing with the corporate records.

Stockholder Proposals

RITA's bylaws provide that any stockholder of RITA may bring business before the annual meeting, provided that notice is provided to RITA's corporate secretary not less than 90 days nor more than 120 days prior to the anniversary date of the prior year's annual meeting and that the proposal complies with the applicable advance notice provisions of RITA's bylaws.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Notice of nominations of persons for election or re-election to the RITA's board of directors must include information related to the stockholder making the proposal and each person whom the stockholder proposes to nominate for election or reelection as a director, including:

the name, age, business address and residence address of such person;

the principal occupation or employment of such person;

the class and number of shares of RITA's capital stock owned by such person; and

any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act.

Table of Contents

Index to Financial Statements

Notice of any other business that the stockholder proposes to bring before the meeting must include:

a brief description of such business;

the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any;

on whose behalf the proposal is made; and

as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made (i) the name and address of the stockholder, as they appear on the RITA's books, and of such beneficial owner and (ii) the class and number of shares of the RITA capital stock which are owned of record by such stockholder and beneficially by such beneficial owner.

Horizon's bylaws provide that at an annual meeting of the shareholders, only such business shall be conducted as shall have been brought before the meeting:

by or at the direction of the board of directors; or

by any shareholder of Horizon who complies with the advance notice procedures set forth in the Horizon bylaws and only to the extent that such business is appropriate for shareholder action under the provisions of the GBCC.

The advance notice provisions in Horizon's bylaws require that for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given notice thereof in writing to Horizon's corporate secretary not less than 120 days nor more than 180 days prior to the first anniversary of the date of Horizon's notice of annual meeting provided with respect to the prior year's annual meeting. A shareholder's notice must set forth as to each matter the shareholder proposes to bring before the annual meeting:

a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting;

the name and address, as they appear on Horizon's books, of the shareholder proposing such business;

the class and number of shares of stock of Horizon which are beneficially owned by the shareholder; and

any material interest of the shareholder in such business.

At an annual meeting, the chairman of Horizon's board of directors shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of Horizon's bylaws, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Quorum for Meetings of Stockholders

The holders of a majority in interest of all outstanding stock entitled to vote at a RITA stockholder meeting, present in person or represented by proxy, constitutes a quorum for transacting business at a meeting.

The holders of a majority in interest of all outstanding stock entitled to vote at a Horizon shareholders meeting, present in person or represented by proxy, constitutes a quorum for transacting business at a meeting.

Stockholder Inspection

The DGCL provides any stockholder with the right to inspect the company's stock ledger, stockholder lists and other books and records for a purpose reasonably related to the person's interest as a stockholder.

Table of Contents

Index to Financial Statements

The GBCC provides any shareholder the right to inspect and copy certain corporate records, including, but not limited to, resolutions of the board of directors or shareholders increasing or decreasing the number of directors, a list of the names and business addresses of a corporation's current directors and officers, minutes of all shareholders' meetings for the past three years, and all written communications to shareholders within the past three years. In addition, any shareholder is entitled to inspect and copy excerpts from the minutes of any meeting or action of the board of directors, the corporation's accounting records and the record of shareholders, provided (1) such shareholder is acting in good faith and for a proper purpose relevant to such shareholder's legitimate interest as a shareholder, (2) such shareholder described with reasonable particularity his purpose and the records desired for inspection, (3) the records are directly connected with such purpose, and (4) the records are to be used only for the stated purpose.

Classification of Board of Directors

RITA's certificate of incorporation provides that the board of directors will consist of three classes. At each annual meeting of stockholders, directors elected to succeed those directors whose terms expire shall be elected for a three-year term.

Neither Horizon's articles of incorporation nor bylaws provide for a classified board of directors. Consequently, each director's term expires at each annual meeting of Horizon shareholders and such shareholders must elect directors to serve for the following fiscal year.

Removal of Directors

Under the DGCL, directors may be removed with or without cause by a majority vote of stockholders entitled to vote at the election of directors; however, if the board of directors of the company is classified into several classes of directors (as is the case of RITA), directors may be removed only for cause. Under the DGCL, any RITA director, or the entire board of directors, may be removed, with cause, by the holders of a majority of shares entitled to vote at an election of directors.

Under the GBCC, directors may be removed with or without cause unless the articles of incorporation or bylaws of the corporation otherwise provide that directors may only be removed for cause. Importantly, however, a director may only be removed by the shareholders at a meeting called for the purpose of removing the director and the meeting notice must state such purpose. To remove a director, Horizon's articles of incorporation require the affirmative vote of the holders of at least 70% of Horizon's outstanding shares.

Limitation on Personal Liability of Directors and Officers

RITA's certificate of incorporation provides that directors shall not be personally liable to RITA or its stockholders for monetary damages for breaching their fiduciary duties, except for liability (1) for any breach of the director's duty of loyalty to RITA or its stockholders, (2) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (3) under Section 174 of the DGCL (relating to payment of unlawful dividends, stock purchases or redemptions), or (4) for any transaction in which the director derived an improper personal benefit.

Horizon's articles of incorporation provide that no director of Horizon shall be personally liable to Horizon or its shareholders for monetary damages for breach of the duty of care or other duty as a director, except for liability (i) for any appropriation, in violation of the director's duties, of any business opportunity of Horizon, (ii) for omissions involving intentional misconduct or a knowing violation of law, (iii) for the types of liabilities set forth under Section 14-2-832 of the GBCC (relating to a director's personal liability for certain corporate distributions), or (iv) for any transaction from which the director derived an improper personal benefit. Further, such articles of incorporation provide that if the GBCC is amended to authorize corporate action further eliminating or limiting the personal liability of a director, then the liability of a director of Horizon shall be eliminated or limited to the fullest extent permitted by the GBCC, as amended.

Table of Contents

Index to Financial Statements

Indemnification of Directors and Officers

RITA's bylaws provide that RITA shall, to the fullest extent permitted by the DGCL, indemnify directors and officers for all expenses and liabilities imposed upon them due to any proceeding in which they may become involved by serving or having served as a director of RITA, or at RITA's request, as a director or officer of another corporation. In addition, the board of directors, in its discretion, has the power on behalf of RITA to authorize the indemnification of any current or former employee made a party to any action. The DGCL and the bylaws permit RITA to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent, or is or was serving at the request of RITA as a director, officer, employee or agent of another organization against any liability incurred by that person or arising out of that person's status as such. RITA enters into agreements with its officers and directors that affirm RITA's obligation to indemnify them to the fullest extent permitted by law.

Horizon's bylaws provide that Horizon shall indemnify to the fullest extent permitted by the GBCC, and to the extent that applicable law shall permit indemnification that is broader than provided in such bylaws, then to the maximum extent authorized by law, any individual made party to a proceeding because such individual was or is a director or officer against liability, incurred in the proceeding, if such person acted in a manner such person reasonably believed in good faith to be in or not opposed to the best interests of Horizon, and in the case of any criminal proceeding, such person had no reasonable cause to believe such person's conduct was unlawful. In addition, Horizon's bylaws provide that Horizon shall have the power to indemnify to the fullest extent permitted by the GBCC, any individual made a party to a proceeding because such person was or is an employee or agent of Horizon against liability, incurred in the proceeding, if such person acted in a manner such person reasonably believed to be in or not opposed to the best interests of Horizon and, in the case of any criminal proceeding, such person had no reasonable cause to believe such person's conduct was unlawful.

Amendments to Certificate or Articles of Incorporation

Under the DGCL, a majority vote of the outstanding shares of common stock is required to amend a company's certificate of incorporation. Under RITA's certificate of incorporation, RITA reserves the right to amend or repeal any provision contained in its certificate of incorporation in any manner prescribed by the DGCL, and all rights conferred to stockholders are granted subject to this reservation.

Under the GBCC, certain relatively technical amendments to a corporation's articles of incorporation may be adopted by the directors without shareholder action. Generally, the GBCC requires a majority vote of the outstanding shares of each voting group entitled to vote to amend a corporation's articles of incorporation, unless the GBCC, the articles of incorporation, or a bylaw adopted by the shareholders of the corporation requires a greater number of affirmative votes. Horizon's articles of incorporation require the affirmative vote of the holders of at least 70% of the outstanding shares of Horizon to alter, amend or repeal, or adopt any provisions inconsistent with Articles 4 and 5 of Horizon's articles of incorporation governing the personal liability of directors and the composition of the board of directors, respectively. In addition, any provision altering, amending or repealing such voting requirement requires the affirmative vote of at least 70% of the outstanding shares of Horizon.

Amendments to Bylaws

RITA's bylaws may be amended, altered or repealed, or new bylaws may be adopted, by (a) the board of directors or (b) the affirmative vote of two-thirds of the voting power of the outstanding capital stock of RITA.

Under the GBCC, shareholder action is generally not necessary to amend a corporation's bylaws, unless the articles of incorporation provide otherwise or the shareholders in amending or repealing a particular bylaw provide expressly that the board of directors may not amend or repeal that bylaw. The shareholders, do, however, have the right to amend, repeal or adopt bylaws, except for bylaws that restrict the power of the board to manage the business of the corporation. Importantly, however, Horizon's articles of incorporation provide that the

Table of Contents

Index to Financial Statements

affirmative vote of at least 70% of the outstanding shares of Horizon is required to amend, alter or repeal, or adopt any provision inconsistent with Article II (Directors) of the Horizon bylaws.

Anti-Takeover Provisions

Section 203 of the DGCL prohibits a Delaware corporation from engaging in a business combination with a person owning 15% or more of the corporation's voting stock, referred to as an interested stockholder, for three years following the time that person became an interested stockholder, unless any one of the following occurs:

The board of directors approves the stock acquisition or the business combination before the person becomes an interested stockholder;

The person became an interested stockholder in a transaction in which it acquired at least 85% of the voting stock in the transaction, excluding shares owned by directors and officers and shares owned by some employee stock plans; or

A combination transaction is approved by the board of directors and by at least two-thirds of the outstanding voting stock not owned by the interested stockholder.

A Delaware corporation may elect in its certificate of incorporation or bylaws not to be governed by Section 203. RITA has not made that election.

The GBCC authorizes a Georgia corporation to adopt a provision which prohibits business combinations with an interested shareholder (as defined under the GBCC) occurring within five years of the date a person first becomes an interested shareholder. Importantly, however, this section of the GBCC is only applicable if the bylaws of the corporation specifically adopt such section. Horizon's bylaws do not contain such an adoption provision.

Stockholder Rights Plan

As described in the Rights Agreement, dated as of July 31, 2001, between RITA and U.S. Stock Transfer, as rights agent, each outstanding share of RITA common stock represents a right that, when exercisable, will entitle the holder to purchase $\frac{1}{1000}$ th of a share of preferred stock, designated as Series A Participating Preferred Stock, at a price of \$25 per $\frac{1}{1000}$ th of a share. The rights are not currently exercisable but will become exercisable upon the occurrence of certain corporate transactions. This Rights Agreement has the effect of making a hostile takeover of RITA more difficult and/or expensive. For a more comprehensive description of RITA's Rights Agreement, see Description of RITA Capital Stock RITA's Rights Agreement on page 168.

Horizon does not have a shareholder rights plan.

Provisions Relating to Some Business Combinations

The DGCL generally requires that a merger or consolidation or sale, lease or exchange of all or substantially all of a corporation's property and assets be approved by the directors and by a majority of the outstanding stock.

Under the DGCL, a surviving corporation need not obtain stockholder approval for a merger if:

Each share of the surviving corporation's stock outstanding prior to the merger remains outstanding in identical form after the merger;

The merger agreement does not amend the certificate of incorporation of the surviving corporation; or

Either no shares of common stock of the surviving corporation are to be issued or delivered in the merger, or, if common stock will be issued or delivered, it will not increase the number of shares of common stock outstanding prior to the merger by more than 20%.

Table of Contents

Index to Financial Statements

The GBCC generally requires that a merger or consolidation or sale, lease or exchange of all or substantially all of a corporation's property and assets be approved by the corporation's directors, recommended by such directors to the corporation's shareholders and approved by a majority of the outstanding stock.

Under the GBCC, a surviving corporation need not obtain shareholder approval for a merger if:

Each share of the surviving corporation's stock outstanding prior to the merger remains outstanding in identical form after the merger;

The merger agreement does not amend the articles of incorporation of the surviving corporation; or

The number and kind of shares outstanding immediately after the merger, plus the number and kind of shares issuable as a result of or pursuant to the merger, will not exceed the total number and kind of shares of the surviving corporation authorized by its articles of incorporation immediately before the merger.

Appraisal Rights

Under the DGCL, the right of stockholders to obtain the fair value for their shares is available in connection with some mergers and consolidations. Unless otherwise provided in the corporate certificate of incorporation, appraisal rights are not available to stockholders when the corporation will be the surviving corporation in a merger and no vote of its stockholders is required to approve the merger. In addition, no appraisal rights are available to holders of shares of any class of stock that is either:

Listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the NASD; or

Held of record by more than 2,000 stockholders,

so long as the holders thereof are required by the terms of the merger or consolidation agreement to accept only: (i) shares of the surviving corporation, (ii) shares listed on a national securities exchange, designated as a national market system security or an interdealer quotation system by the NASD or held of record by more than 2,000 stockholders, (iii) cash in lieu of fractional shares, or (iv) any combination thereof.

The GBCC provides that shareholders who comply with certain procedural requirements of the GBCC are entitled to dissent from and obtain payment of the fair value of their shares in the event of mergers, share exchanges, sales or exchanges of all or substantially all of the corporation's assets, amendments to the articles of incorporation that materially adversely affect certain rights in respect of a dissenter's shares and certain other actions taken pursuant to a shareholder vote to the extent provided for under the GBCC, the articles of incorporation, bylaws or a resolution of the board of directors. However, unless the corporation's articles of incorporation provide otherwise, appraisal rights are not available:

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

To holders of shares of any class of shares not entitled to vote on the transaction;

In a sale of all or substantially all of the property of the corporation pursuant to a court order;

In a sale of all or substantially all of the corporation's assets for cash, where all or substantially all of the net proceeds of such sale will be distributed to the shareholders within one year;

To holders of shares which at the record date were either listed on a national securities exchange or held of record by more than 2,000 shareholders, unless: (1) in the case of a plan of merger or share exchange, the holders of the shares of the class or series are required under the plan of merger or share exchange to accept for their shares anything except shares of the surviving corporation or a publicly held corporation which at the effective date of the merger or share exchange are either listed on a national securities exchange or held of record by more than 2,000 shareholders, except for scrip or cash payments in lieu of fractional shares; or (2) the articles of incorporation or a resolution of the board of directors approving the transaction provides otherwise; or

Table of Contents

Index to Financial Statements

Neither Horizon's articles of incorporation nor bylaws provide for rights of appraisal or dissenters' rights. In addition, Horizon's board has not adopted a resolution providing for such rights.

Securityholders Agreement

Horizon is a party to an Amended and Restated Securityholders Agreement, dated as October 23, 2003. Pursuant to this agreement, ComVest and Medtronic have been granted, among other things, certain corporate governance rights which include, but are not limited to, the following:

granting ComVest the right to designate two ComVest directors, and one additional independent director;

granting Medtronic the right to designate one independent director;

granting ComVest and Medtronic the right to jointly designate one independent director; and

providing that the Company's board of directors the right to designate two members of senior management as directors of the Company.

Failure to comply with the Securityholders Agreement is considered an Event of Default under the Note Purchase Agreement. In connection with the merger, RITA and Horizon have agreed that, upon completion of the merger, this agreement will terminate as of the effective time of the merger.

Table of Contents

Index to Financial Statements

DESCRIPTION OF RITA CAPITAL STOCK

The following is a summary of the material terms of RITA's capital stock before and after the completion of the merger. It is only a summary; therefore, it is not meant to be complete and does not contain all of the information that may be important to you. Accordingly, you should read more detailed provisions of RITA's certificate of incorporation, RITA's bylaws and RITA's Rights Agreement, all of which are incorporated by reference and will be sent to stockholders of RITA and Horizon upon request. See *Where You Can Find More Information*, on page 170.

Authorized Capital Stock

Under RITA's certificate of incorporation, RITA's authorized capital stock consists of 100,000,000 shares of common stock, \$0.001 par value per share, and 2,000,000 shares of preferred stock, \$0.001 par value per share. As of June 22, 2004, there were issued and outstanding 18,039,158 shares of common stock and no shares of preferred stock.

RITA Common Stock

RITA Common Stock Outstanding. The outstanding shares of RITA common stock are, and the shares of RITA common stock issued under the merger will be, duly authorized, validly issued, fully paid and non-assessable.

Voting Rights. Each holder of RITA common stock is entitled to one vote for each share of RITA common stock held of record on the applicable record date on all matters submitted to a vote of stockholders.

Dividend Rights; Rights Upon Liquidation. The holders of RITA common stock are entitled to receive, from funds legally available for the payment thereof, dividends when and as declared by resolution of RITA's board of directors, subject to any preferential dividend rights granted to the holders of any outstanding RITA preferred stock. In the event of a liquidation, dissolution or winding up of RITA, each share of RITA common stock is entitled to share pro rata in any distribution of RITA's assets after payment or providing for the payment of liabilities and the liquidation preference of any outstanding RITA preferred stock.

Preemptive Rights. Holders of RITA common stock have no preemptive rights to purchase, subscribe for or otherwise acquire any unissued or treasury shares or other securities.

RITA Preferred Stock

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

RITA Preferred Stock. Pursuant to RITA's certificate of incorporation, RITA's board of directors is authorized to issue up to an aggregate of 2,000,000 shares of preferred stock in one or more series and to determine or alter the rights, preferences, privileges and restrictions and the number of shares constituting any series or the designations of such series, without any further vote or action by the stockholders. The issuance of preferred stock in certain circumstances may have the effect of delaying, deferring or preventing a change of control in RITA without further actions of the stockholders. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of common stock, including the loss of voting control to others.

RITA's Rights Agreement

The following is a general description only and is subject to the detailed terms and conditions of the Rights Agreement. This description is subject to, and is qualified in its entirety by reference to, the text of the Rights Agreement, which is incorporated by reference into this document. See [Where You Can Find More Information](#) on page 170.

Table of Contents

Index to Financial Statements

As described in the Rights Agreement, dated as of July 31, 2001, between RITA and U.S. Stock Transfer, as rights agent, each outstanding share of RITA common stock represents a right that, when exercisable, will entitle the holder to purchase $\frac{1}{1000}$ th of a share of preferred stock, designated as Series A Participating Preferred Stock, at a price of \$25 per $\frac{1}{1000}$ th of a share. The rights will not be exercisable until the earlier of: (i) the close of business on the tenth day (or such later date as may be determined by a majority of RITA's board of directors) following a public announcement that a person or group of affiliated or associated persons has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding common stock of RITA or (ii) the close of business on the tenth day (or such later date as may be determined by a majority of RITA's board of directors) following the commencement of a tender offer or exchange offer, the completion of which would result in the beneficial ownership by a person or group of 15% or more of the outstanding common stock of RITA. As described below, the Rights Agreement has the effect of making a hostile takeover of RITA more difficult and/or expensive.

The rights are designed to protect and maximize the value of the outstanding equity interests in RITA in the event of an unsolicited attempt by an acquiror to take over RITA, in a manner or on terms not approved by RITA's board of directors. Takeover attempts frequently include coercive tactics to deprive a corporation's board of directors and its stockholders of any real opportunity to determine the destiny of the corporation. The rights have been declared by the RITA board of directors in order to deter such tactics, including a gradual accumulation of shares in the open market of a 15% or greater position to be followed by a merger or a partial or two-tier tender offer that does not treat all stockholders equally. These tactics unfairly pressure stockholders, squeeze them out of their investment without giving them any real choice and deprive them of the full value of their shares.

The rights are not intended to prevent a takeover of RITA. The rights are not exercisable in the event of an offer approved by RITA's board of directors and the rights may be redeemed by RITA at \$0.01 per right within ten days (or such later date as may be determined by a majority of RITA's board of directors) after the accumulation of 15% or more of RITA's outstanding common stock by a single acquiror or group. Accordingly, the rights should not preclude any merger or business combination approved by RITA's board of directors. However, the rights may have the effect of rendering more difficult or discouraging an acquisition of RITA deemed undesirable by RITA's board of directors. The rights may cause substantial dilution to a person or group that attempts to acquire RITA on terms or in a manner not approved by RITA's board of directors, except pursuant to an offer conditioned upon the negation, purchase or redemption of the Rights.

In connection with signing the merger agreement, RITA amended its rights agreement to provide that no holder of Horizon common stock will, solely by virtue of acquiring the shares of RITA common stock to be issued in the merger, be deemed to be an acquiring person, as that term is defined in the rights agreement.

Transfer Agent and Registrar

U.S. Stock Transfer is the transfer agent and registrar for RITA common stock. Following completion of the merger, U.S. Stock Transfer will continue to serve in this capacity.

Table of Contents

Index to Financial Statements

LEGAL MATTERS

Heller Ehrman White & McAuliffe LLP, Menlo Park, California, will render an opinion on the legality of the RITA common stock to be issued to Horizon shareholders in the merger. It is a condition to the completion of the merger that each of RITA and Horizon receive an opinion from Heller Ehrman White & McAuliffe LLP and King & Spalding LLP, respectively, concerning the tax treatment of the merger.

EXPERTS

The consolidated financial statements of RITA Medical Systems, Inc. incorporated in this joint proxy statement/prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2003 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements and the related financial statement schedule of Horizon Medical Products, Inc. as of December 31, 2002 and 2003 and for each of the two years in the period ended December 31, 2003 included in this joint proxy statement/prospectus have been audited by Grant Thornton LLP, independent registered public accountants, as stated in their report, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements and the related financial statement schedule of Horizon Medical Products, Inc. for the year ended December 31, 2001 included in this joint proxy statement/prospectus have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

RITA and Horizon file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any of these reports, statements or other information at the Securities and Exchange Commission's public reference room located at 450 Fifth Street, N.W., Washington D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference room. RITA's and Horizon's Securities and Exchange Commission filings are also available to the public from commercial document retrieval services and at the web site maintained by the Securities and Exchange Commission at www.sec.gov.

RITA has filed a registration statement on Form S-4 to register with the Securities and Exchange Commission the RITA common stock to be issued to Horizon shareholders upon completion of the merger. This joint proxy statement/prospectus is a part of that registration statement and constitutes a prospectus of RITA in addition to being a proxy statement of RITA and Horizon for their respective meetings. As allowed by Securities and Exchange Commission rules, this joint proxy statement/prospectus does not contain all the information you can find in the registration statement or the exhibits to the registration statement.

Table of Contents**Index to Financial Statements****INCORPORATION OF CERTAIN INFORMATION BY REFERENCE**

The Securities and Exchange Commission allows RITA to incorporate by reference information into this joint proxy statement/prospectus, meaning that RITA can disclose important information by referring to another document filed separately with the Securities and Exchange Commission. The information incorporated by reference is deemed to be part of this joint proxy statement/prospectus, except for any information superseded by information in, or incorporated by reference in, this joint proxy statement/prospectus. This joint proxy statement/prospectus incorporates by reference the documents set forth below that RITA has previously filed with the Securities and Exchange Commission.

RITA MEDICAL SYSTEMS, INC.

SECURITIES AND EXCHANGE COMMISSION FILINGS	PERIOD / FILING DATE
Annual Report on Form 10-K, as amended	Fiscal Year ended December 31, 2003
Quarterly Report on Form 10-Q	Three months ended March 31, 2004
Current Reports on Form 8-K	Filed on January 13, 2004, January 21, 2004, February 11, 2004, February 13, 2004, February 19, 2004, March 5, 2004, March 11, 2004, March 24, 2004, April 1, 2004, April 29, 2004, May 10, 2004, May 14, 2004, June 3, 2004 and June 9, 2004
The description of RITA's common stock contained in the Registration Statement on Form 8-A filed pursuant to Section 12 of the Exchange Act.	Filed on July 7, 2000
The description of RITA's Preferred Share Purchase Rights contained in the Registration Statement on Form 8-A filed pursuant to Section 12 of the Exchange Act.	Filed on August 7, 2001

RITA is also incorporating by reference additional documents that it has filed with the Securities and Exchange Commission under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act between the date of the initial filing of the registration statement of which this joint proxy statement/prospectus is a part and the effectiveness of the registration statement, as well as between the date of this joint proxy statement/prospectus and the termination of the offering contemplated by this joint proxy statement/prospectus.

All information contained or incorporated by reference in this joint proxy statement/prospectus relating to RITA has been supplied by RITA, and all information relating to Horizon has been supplied by Horizon.

If you are a stockholder, you may have already received some of the documents incorporated by reference. Alternatively, you can obtain any of these documents through RITA or the Securities and Exchange Commission. Documents incorporated by reference are available from RITA, without charge. Stockholders may obtain documents incorporated by reference in this joint proxy statement/prospectus by requesting them in writing or by telephone from RITA at the following address:

RITA Medical Systems, Inc.

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

967 North Shoreline Boulevard

Mountain View, CA 94043

Attention: Corporate Secretary

(650) 314-3400

Table of Contents

Index to Financial Statements

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS JOINT PROXY STATEMENT/PROSPECTUS TO VOTE ON THE PROPOSALS TO RITA AND HORIZON SHAREHOLDERS IN CONNECTION WITH THE MERGER, AS THE CASE MAY BE. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT FROM WHAT IS CONTAINED IN THIS JOINT PROXY STATEMENT/PROSPECTUS. THIS JOINT PROXY STATEMENT/PROSPECTUS IS DATED JUNE 25, 2004. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THIS JOINT PROXY STATEMENT/PROSPECTUS IS ACCURATE AS OF ANY DATE OTHER THAN SUCH DATE, AND NEITHER THE MAILING OF THIS JOINT PROXY STATEMENT/PROSPECTUS TO STOCKHOLDERS NOR THE ISSUANCE OF SHARES OF RITA COMMON STOCK PURSUANT TO THE MERGER SHALL CREATE ANY IMPLICATION TO THE CONTRARY.

Table of Contents

Index to Financial Statements

HORIZON MEDICAL PRODUCTS, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

	Page
Horizon Medical Products, Inc. and Subsidiaries Consolidated Financial Statements	
<u>Report of Independent Certified Public Accountants</u>	F-2
<u>Report of Independent Registered Public Accounting Firm</u>	F-3
<u>Consolidated Balance Sheets</u>	F-4
<u>Consolidated Statements of Operations</u>	F-5
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	F-6
<u>Consolidated Statements of Cash Flows</u>	F-7
<u>Notes to Consolidated Financial Statements</u>	F-8

Table of Contents

Index to Financial Statements

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors

Horizon Medical Products, Inc.

We have audited the accompanying consolidated balance sheets of Horizon Medical Products, Inc. (a Georgia corporation) and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Horizon Medical Products, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years ended December 31, 2003 and 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142) on January 1, 2002.

/s/ Grant Thornton LLP

Atlanta, Georgia

February 13, 2004

Table of Contents

Index to Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Horizon Medical Products, Inc.:

In our opinion, the consolidated statements of operations, changes in shareholders' equity, and cash flows for the year ended December 31, 2001 present fairly, in all material respects, the results of operations and cash flows of Horizon Medical Products, Inc. and its subsidiaries (the Company) for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our original opinion dated February 26, 2002, except for Notes 6, 9, 12 and 17 to the consolidated financial statements included in the Company's December 31, 2001 Form 10-K as to which the date was April 15, 2002, contained a paragraph referring to the Company's senior loan agreement which required compliance with certain financial covenants, the compliance with which could not be objectively determined. This matter raised substantial doubt about the Company's ability to continue as a going concern. As described in Note 18 to the consolidated financial statements included in the Company's Registration Statement on Form S-1/A dated September 11, 2002, the Company sold its distribution segment on September 3, 2002. The Company used \$7.8 million of the proceeds to pay off the revolving portion of the indebtedness under the senior loan agreement. This event alleviates the substantial doubt regarding the Company's ability to continue as a going concern. Accordingly, the paragraph referred to above has been removed.

/s/ PricewaterhouseCoopers LLP

Birmingham, Alabama

February 26, 2002, except for Notes 6, 9, 12 and 17

to the consolidated financial statements included in the Company's

Registration Statement on Form S-1/A dated September 11, 2002,

as to which the date is April 15, 2002 and Note 18,

to the consolidated financial statements included in the Company's

Registration Statement on Form S-1/A dated September 11, 2002,

as to which the date is September 9, 2002

Table of Contents**Index to Financial Statements****HORIZON MEDICAL PRODUCTS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****December 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,806,444	\$ 3,711,514
Accounts receivable trade (net of allowance for doubtful accounts of \$473,006 and \$433,956 as of December 31, 2003 and 2002, respectively)	4,523,643	3,037,974
Inventory, net	5,551,794	5,607,965
Prepaid expenses and other current assets	264,249	515,077
	<u>12,146,130</u>	<u>12,872,530</u>
Total Current Assets	12,146,130	12,872,530
Property and equipment, net	2,040,313	2,199,307
Goodwill, net	15,650,356	15,650,356
Intangible assets, net	5,343,403	6,361,844
Other assets	6,229	106,088
	<u>35,186,431</u>	<u>37,190,125</u>
Total Assets	\$ 35,186,431	\$ 37,190,125
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable trade	\$ 1,042,897	\$ 807,146
Accrued salaries and commissions	558,484	279,346
Accrued interest	81,233	122,645
Other accrued expenses	265,791	651,199
Current portion of long-term debt	1,396,824	1,552,782
	<u>3,345,229</u>	<u>3,413,118</u>
Total Current Liabilities	3,345,229	3,413,118
Long-term debt, net of current portion	16,999,228	18,341,903
Other liabilities	90,166	104,963
	<u>20,434,623</u>	<u>21,859,984</u>
Total Liabilities	20,434,623	21,859,984
Commitments and contingent liabilities (Notes 12)		
Shareholder s Equity:		
Preferred stock, no par value; 5,000,000 shares authorized, none issued and outstanding		
Common stock, \$.001 par value per share; 100,000,000 shares authorized, 43,855,253 and 33,415,876 shares issued and outstanding as of December 31, 2003 and 2002, respectively	43,855	33,416
Additional paid in capital	74,953,722	74,839,389
Shareholders note receivable	(86,544)	(170,831)
Accumulated deficit	(60,159,225)	(59,371,833)

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Total Shareholders' Equity	<u>14,751,808</u>	<u>15,330,141</u>
Total Liabilities and Shareholders' Equity	<u>\$ 35,186,431</u>	<u>\$ 37,190,125</u>

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

F-4

Table of ContentsIndex to Financial Statements**HORIZON MEDICAL PRODUCTS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****For the Years Ended December 31, 2003, 2002, and 2001**

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net sales	\$ 27,975,452	\$ 21,711,644	\$ 24,700,813
Cost of good sold	11,248,026	9,343,068	11,409,825
Gross profit	16,727,426	12,368,576	13,290,988
Selling, general and administrative expenses	15,096,929	16,109,932	16,043,275
Income (loss) from operations	1,630,497	(3,741,356)	(2,752,287)
Other income (expense):			
Loss on early extinguishment of debt		(6,641,015)	
Interest expense, net	(2,372,619)	(2,845,894)	(2,207,431)
Other (expense) income	(45,270)	(14,884)	67,775
	<u>(2,417,889)</u>	<u>(9,501,793)</u>	<u>(2,139,656)</u>
Loss before income taxes	(787,392)	(13,243,149)	(4,891,943)
Income tax provision (benefit)			
Loss from continuing operations	(787,392)	(13,243,149)	(4,891,943)
Discontinued operations:			
Income (loss) from operations of discontinued distribution segment (including gain on disposal)		3,174,623	(230,972)
Effect of a change in accounting principle pursuant to SFAS 142		(16,101,900)	
Net loss	<u>\$ (787,392)</u>	<u>\$ (26,170,426)</u>	<u>\$ (5,122,915)</u>
Loss from continuing operations per share basic and diluted	\$ (0.02)	\$ (0.64)	\$ (0.37)
Income (loss) from operations of discontinued distribution segment (including gain on disposal)		0.15	(0.02)
Effect of a change in accounting principle pursuant to SFAS 142		(0.78)	
Net loss per share basic and diluted	<u>\$ (0.02)</u>	<u>\$ (1.27)</u>	<u>\$ (0.38)</u>
Weighted average common shares outstanding basic	<u>36,655,934</u>	<u>20,684,670</u>	<u>13,366,278</u>
Weighted average common shares outstanding diluted	<u>36,655,934</u>	<u>20,684,670</u>	<u>13,366,278</u>

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

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

F-5

Table of ContentsIndex to Financial Statements**HORIZON MEDICAL PRODUCTS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

For the Years Ended December 31, 2003, 2002, and 2001

	Number of Shares	Common Stock	Additional Paid in Capital	Shareholders Notes Receivable	Accumulated Deficit	Total
Balance, December 31, 2000	13,366,278	\$ 13,366	\$ 51,826,125	\$ (1,428,939)	\$ (28,078,492)	\$ 22,332,060
Net decrease in shareholders notes receivable				812,999		812,999
Issuance of warrant (Note 6)			260,000			260,000
Net loss					(5,122,915)	(5,122,915)
Balance December 31, 2001	13,366,278	13,366	52,086,125	(615,940)	(33,201,407)	18,282,144
Issuance of common stock (Note 6)	19,995,398	19,996	22,218,589			22,238,585
Exercise of stock options	54,200	54	24,536			24,590
Net decrease in shareholders notes receivable				445,109		445,109
Issuance of warrants (Note 6)			770,139			770,139
Termination of warrant (Note 6)			(260,000)			(260,000)
Net loss					(26,170,426)	(26,170,426)
Balance at December 31, 2002	33,415,876	33,416	74,839,389	(170,831)	(59,371,833)	15,330,141
Conversion of debt holders (Note 6)	9,950,000	9,950	89,550			99,500
Net decrease in shareholders notes receivable				84,287		84,287
Exercise of warrants (Note 6)	446,177	446	(446)			0
Exercise of stock options	43,200	43	25,229			25,272
Net loss					(787,392)	(787,392)
Balance at December 31, 2003	43,855,253	\$ 43,855	\$ 74,953,722	\$ (86,544)	\$ (60,159,225)	\$ 14,751,808

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

Table of Contents**Index to Financial Statements****HORIZON MEDICAL PRODUCTS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:			
Net loss	\$ (787,392)	\$ (26,170,426)	\$ (5,122,915)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Provision for doubtful accounts			554,962
Depreciation expense	624,128	731,525	883,510
Amortization of intangibles	1,405,851	1,518,588	2,706,905
Amortization of discount			41,370
Non-cash increase in notes receivable - shareholders			(87,001)
Non-cash compensation charge		1,555,468	
Impairment charge		16,101,900	
Loss on extinguishment of debt		5,443,515	
Gain on disposition of distribution segment		(2,953,100)	
Loss on sale of property and equipment		3,071	
(Increase) decrease in operating assets and liabilities, net:			
Accounts receivable, trade	(1,485,669)	411,574	3,845,754
Inventories	56,171	1,099,985	1,604,540
Prepaid expenses and other assets	108,997	151,746	391,745
Income tax receivable	(55,725)		1,903,802
Accounts payable, trade	235,750	(951,086)	193,336
Accrued expenses and other liabilities	(106,754)	(1,013,456)	(557,102)
Net cash (used in) provided by operating activities	(4,643)	(4,070,696)	6,358,906
Cash flows from investing activities:			
Capital expenditures	(465,134)	(343,123)	(283,109)
Acquisition of intangible assets	(387,409)	(134,568)	
Cash proceeds from sale of IFM			2,250,500
Proceeds from disposition of distribution segment	241,690	12,307,722	
Payment of short-term bridge loan by shareholder			474,390
Proceeds from shareholders notes receivable	84,287	445,109	
Proceeds from sale of property and equipment		17,488	
Net cash (used in) provided by investing activities	(526,566)	12,292,628	2,441,781
Cash flows from financing activities:			
Proceeds from issuance of long term debt	467,678	68,626,877	63,729,884
Principal payments on long term debt	(1,866,811)	(74,284,686)	(69,507,247)
Change in restricted cash		24,271	349,427
Debt issuance costs		(1,650,087)	(179,214)
Exercise of stock options	25,272	24,590	
Change in cash overdraft			(609,176)

Edgar Filing: RITA MEDICAL SYSTEMS INC - Form 424B3

Net cash used in financing activities	(1,373,861)	(7,259,035)	(6,216,326)
Net (decrease) increase in cash and cash equivalents	(1,905,070)	962,897	2,584,361
Cash and cash equivalents, beginning of year	3,711,514	2,748,617	164,256
Cash and cash equivalents, end of year	\$ 1,806,444	\$ 3,711,514	\$ 2,748,617

See Note 13 for additional supplemental disclosures of cash flow information.

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

F-7

Table of Contents

Index to Financial Statements

HORIZON MEDICAL PRODUCTS, INC. AND SUBSIDIARIES