

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

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2003

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-30959

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# RITA MEDICAL SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

**967 N. Shoreline Blvd.**

**Mountain View, CA 94043**

(Address of principal executive offices, including zip code)

**650-314-3400**

(Registrant's telephone number, including area code)

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

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

As of July 31, 2003, there were 17,780,872 shares of the registrant's Common Stock outstanding.

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**Table of Contents****PART 1. FINANCIAL INFORMATION****Item 1. Financial Statements****RITA MEDICAL SYSTEMS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except per share amounts, unaudited)**

	<b>June 30,</b>	<b>December 31,</b>
	<b>2003</b>	<b>2002</b>
	<u>          </u>	<u>          </u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,757	\$ 6,888
Marketable securities	7,329	5,427
Accounts and note receivable, net	2,966	2,798
Inventories, net	2,727	3,521
Prepaid assets and other current assets	663	995
	<u>          </u>	<u>          </u>
Total current assets	17,442	19,629
Long term marketable securities	1,122	520
Long term note receivable, net	406	381
Property and equipment, net	1,419	1,565
Intangibles and other assets	5,142	2,071
	<u>          </u>	<u>          </u>
Total assets	<u>\$ 25,531</u>	<u>\$ 24,166</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 442	\$ 1,053
Accrued liabilities	1,671	2,510
	<u>          </u>	<u>          </u>
Total liabilities	<u>2,113</u>	<u>3,563</u>
<b>Contingencies (Note 5)</b>		
Stockholders' equity		
Common stock	18	15
Additional paid-in capital	97,611	88,525
Stockholder notes receivable		(50)
Accumulated other comprehensive income	7	7

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Accumulated deficit	(74,218)	(67,894)
Total stockholders' equity	23,418	20,603
Total liabilities and stockholders' equity	\$ 25,531	\$ 24,166

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

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

(In thousands, except per share data, unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Sales	\$ 4,049	\$ 4,806	\$ 8,546	\$ 9,224
Cost of goods sold	1,702	2,040	3,276	4,042
Gross profit	2,347	2,766	5,270	5,182
Operating expenses:				
Research and development	1,061	1,329	2,419	2,663
Selling, general and administrative	4,736	5,304	9,300	10,527
Total operating expenses	5,797	6,633	11,719	13,190
Loss from operations	(3,450)	(3,867)	(6,449)	(8,008)
Interest income and other expense, net	50	134	125	282
Net loss	\$ (3,400)	\$ (3,733)	\$ (6,324)	\$ (7,726)
Net loss per share, basic and diluted	\$ (0.19)	\$ (0.25)	\$ (0.36)	\$ (0.52)
Shares used in computing net loss per share, basic and diluted	17,578	14,835	17,402	14,725

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

**Table of Contents****RITA MEDICAL SYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands, unaudited)**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2003</b>	<b>2002</b>
Cash flows from operating activities:		
Net loss	\$ (6,324)	\$ (7,726)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	784	713
Revaluation of common stock warrants for services received	(42)	62
Amortization of stock-based compensation		282
Allowance for doubtful accounts	55	591
Provision for obsolete inventories	247	479
Changes in operating assets and liabilities:		
Accounts and note receivable	(316)	(499)
Inventories	547	(46)
Prepaid and other current assets	332	438
Accounts payable and accrued liabilities	(1,450)	219
<b>Net cash used in operating activities</b>	<b>(6,167)</b>	<b>(5,487)</b>
Cash flows from investing activities:		
Purchase of property and equipment	(409)	(566)
Purchase of investments	(6,871)	
Sales and maturities of investments	4,367	3,963
Capitalization of patent litigation costs	(621)	(771)
Acquisition of intangibles	(2,650)	
Note receivable and other assets	68	3
<b>Net cash provided by investing activities</b>	<b>(6,116)</b>	<b>2,629</b>
Cash flows from financing activities:		
Proceeds from issuance of common stock	9,152	1,034
Payments on capital lease obligations		(118)
<b>Net cash provided by financing activities</b>	<b>9,152</b>	<b>916</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(3,131)</b>	<b>(1,942)</b>
Cash and cash equivalents at beginning of period	6,888	7,297

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Cash and cash equivalents at end of period	\$ 3,757	\$ 5,355
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The accompanying notes are an integral part of the condensed consolidated financial statements.

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

## 1. Basis of presentation

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

## 2. Net loss per share

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

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Weighted average shares of common stock outstanding	17,582	14,872	17,410	14,762
Less: weighted-average shares subject to repurchase	(4)	(37)	(8)	(37)
<b>Weighted average shares used in basic and diluted net loss per share</b>	<b>17,578</b>	<b>14,835</b>	<b>17,402</b>	<b>14,725</b>

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

	June 30,	
	2003	2002
Effect of potentially dilutive securities:		
Unvested common stock subject to repurchase		37
Options	2,182	2,639
Warrants	25	25
	—	69,300

**FORWARD CURRENCY CONTRACTS at 11/30/16 (aggregate face value \$181,388) (Unaudited)**

Counterparty	Currency	Contract type	Delivery date	Value	Aggregate face value	Unrealized appreciation/ (depreciation)
<b>Bank of America N.A.</b>						
	Canadian Dollar	Buy	1/18/17	\$223	\$228	\$(5)
	Canadian Dollar	Sell	1/18/17	223	225	2
<b>Citibank, N.A.</b>						
	Canadian Dollar	Buy	1/18/17	75	76	(1)
<b>JPMorgan Chase Bank N.A.</b>						
	Canadian Dollar	Buy	1/18/17	149	154	(5)
<b>State Street Bank and Trust Co.</b>						
	Canadian Dollar	Sell	1/18/17	127,370	130,322	2,952
<b>WestPac Banking Corp.</b>						
	Canadian Dollar	Sell	1/18/17	49,235	50,383	1,148
<b>Total</b>						<b>\$4,091</b>

### **Key to holding's currency abbreviations**

CAD Canadian Dollar

USD / \$ United States Dollar

### **Key to holding's abbreviations**

FRB Floating Rate Bonds: the rate shown is the current interest rate at the close of the reporting period

FRN Floating Rate Notes: the rate shown is the current interest rate or yield at the close of the reporting period

### **Notes to the fund's portfolio**

Unless noted otherwise, the notes to the fund's portfolio are for the close of the fund's reporting period, which ran from September 1, 2016 through November 30, 2016 (the reporting period). Within the following notes to the portfolio, references to "ASC 820" represent Accounting Standards Codification 820 *Fair Value Measurements and Disclosures*, references to "Putnam Management" represent Putnam Investment Management, LLC, the fund's manager, an indirect wholly-owned subsidiary of Putnam Investments, LLC and references to "OTC", if any, represent over-the-counter.

- (a) Percentages indicated are based on net assets of \$115,630,374.
- (b) The aggregate identified cost on a tax basis is \$115,794,819, resulting in gross unrealized appreciation and depreciation of \$7,458,399 and \$8,084,889, respectively, or net unrealized depreciation of \$626,490.
- (NON) This security is non-income-producing.
- (STP) The interest rate and date shown parenthetically represent the new interest rate to be paid and the date the fund will begin accruing interest at this rate.
- (RES) This security is restricted with regard to public resale. The total fair value of this security and any other restricted securities (excluding 144A securities), if any, held at the close of the reporting period was \$2,255, or less than 0.1% of net assets.

(PIK) Income may be received in cash or additional securities at the discretion of the issuer.

(AFF) Affiliated company. For investments in Putnam Short Term Investment Fund, the rate quoted in the security description is the annualized 7-day yield of the fund at the close of the reporting period. Transactions during the period with any company which is under common ownership or control were as follows:

Name of affiliate	Fair value at the beginning of the reporting period	Purchase cost	Sale proceeds	Investment income	Fair value at the end of the reporting period
Putnam Short Term Investment Fund ****	\$4,152,662	\$8,648,919	\$5,084,471	\$8,299	\$7,717,110
<b>Totals</b>	<b>\$4,152,662</b>	<b>\$8,648,919</b>	<b>\$5,084,471</b>	<b>\$8,299</b>	<b>\$7,717,110</b>

\*\*\*\* Management fees charged to Putnam Short Term Investment Fund have been waived by Putnam Management.

(c) Senior loans are exempt from registration under the Securities Act of 1933, as amended, but contain certain restrictions on resale and cannot be sold publicly. These loans pay interest at rates which adjust periodically. The interest rates shown for senior loans are the current interest rates at the close of the reporting period. Senior loans are also subject to mandatory and/or optional prepayment which cannot be predicted. As a result, the remaining maturity may be substantially less than the stated maturity shown. Senior loans are purchased or sold on a when-issued or delayed delivery basis and may be settled a month or more after the trade date, which from time to time can delay the actual investment of available cash balances; interest income is accrued based on the terms of the securities.

Senior loans can be acquired through an agent, by assignment from another holder of the loan, or as a participation interest in another holder's portion of the loan. When the fund invests in a loan or participation, the fund is subject to the risk that an intermediate participant between the fund and the borrower will fail to meet its obligations to the fund, in addition to the risk that the borrower under the loan may default on its obligations.

(F) This security is valued by Putnam Management at fair value following procedures approved by the Trustees. Securities may be classified as Level 2 or Level 3 for ASC 820 based on the securities' valuation inputs.

(R) Real Estate Investment Trust.

At the close of the reporting period, the fund maintained liquid assets totaling \$9 to cover certain derivative contracts.

Debt obligations are considered secured unless otherwise indicated.

144A after the name of an issuer represents securities exempt from registration under Rule 144A under the Securities Act of 1933, as amended. These securities may be resold in transactions exempt from registration, normally to qualified institutional

buyers.

The dates shown on debt obligations are the original maturity dates.

**Security valuation:** Portfolio securities and other investments are valued using policies and procedures adopted by the Board of Trustees. The Trustees have formed a Pricing Committee to oversee the implementation of these procedures and have delegated responsibility for valuing the fund's assets in accordance with these procedures to Putnam Management. Putnam Management has established an internal Valuation Committee that is responsible for making fair value determinations, evaluating the effectiveness of the pricing policies of the fund and reporting to the Pricing Committee.

Investments for which market quotations are readily available are valued at the last reported sales price on their principal exchange, or official closing price for certain markets, and are classified as Level 1 securities under ASC 820. If no sales are reported, as in the case of some securities that are traded OTC, a security is valued at its last reported bid price and is generally categorized as a Level 2 security.

Investments in open-end investment companies (excluding exchange-traded funds), if any, which can be classified as Level 1 or Level 2 securities, are valued based on their net asset value. The net asset value of such investment companies equals the total value of their assets less their liabilities and divided by the number of their outstanding shares.

Market quotations are not considered to be readily available for certain debt obligations (including short-term investments with remaining maturities of 60 days or less) and other investments; such investments are valued on the basis of valuations furnished by an independent pricing service approved by the Trustees or dealers selected by Putnam Management. Such services or dealers determine valuations for normal institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships, generally recognized by institutional traders, between securities (which consider such factors as security prices, yields, maturities and ratings). These securities will generally be categorized as Level 2.

Many securities markets and exchanges outside the U.S. close prior to the scheduled close of the New York Stock Exchange and therefore the closing prices for securities in such markets or on such exchanges may not fully reflect events that occur after such close but before the scheduled close of the New York Stock Exchange. Accordingly, on certain days, the fund will fair value certain foreign equity securities taking into account multiple factors including movements in the U.S. securities markets, currency valuations and comparisons to the valuation of American Depositary Receipts, exchange-traded funds and futures contracts. The foreign equity securities, which would generally be classified as Level 1 securities, will be transferred to Level 2 of the fair value hierarchy when they are valued at fair value. The number of days on which fair value prices will be used will depend on market activity and it is possible that fair value prices will be used by the fund to a significant extent. Securities quoted in foreign currencies, if any, are translated into U.S. dollars at the current exchange rate.

To the extent a pricing service or dealer is unable to value a security or provides a valuation that Putnam Management does not believe accurately reflects the security's fair value, the security will be valued at fair value by Putnam Management in

accordance with policies and procedures approved by the Trustees. Certain investments, including certain restricted and illiquid securities and derivatives, are also valued at fair value following procedures approved by the Trustees. These valuations consider such factors as significant market or specific security events such as interest rate or credit quality changes, various relationships with other securities, discount rates, U.S. Treasury, U.S. swap and credit yields, index levels, convexity exposures, recovery rates, sales and other multiples and resale restrictions. These securities are classified as Level 2 or as Level 3 depending on the priority of the significant inputs.

To assess the continuing appropriateness of fair valuations, the Valuation Committee reviews and affirms the reasonableness of such valuations on a regular basis after considering all relevant information that is reasonably available. Such valuations and procedures are reviewed periodically by the Trustees. The fair value of securities is generally determined as the amount that the fund could reasonably expect to realize from an orderly disposition of such securities over a reasonable period of time. By its nature, a fair value price is a good faith estimate of the value of a security in a current sale and does not reflect an actual market price, which may be different by a material amount.

**Forward currency contracts:** The fund buys and sells forward currency contracts, which are agreements between two parties to buy and sell currencies at a set price on a future date. These contracts were used for hedging currency exposures and to gain exposure to currencies.

The U.S. dollar value of forward currency contracts is determined using current forward currency exchange rates supplied by a quotation service. The fair value of the contract will fluctuate with changes in currency exchange rates. The contract is marked to market daily and the change in fair value is recorded as an unrealized gain or loss. The fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed when the contract matures or by delivery of the currency. The fund could be exposed to risk if the value of the currency changes unfavorably, if the counterparties to the contracts are unable to meet the terms of their contracts or if the fund is unable to enter into a closing position.

For the fund's average contract amount on forward currency contracts, see the appropriate table at the end of these footnotes.

**Master agreements:** The fund is a party to ISDA (International Swaps and Derivatives Association, Inc.) Master Agreements (Master Agreements) with certain counterparties that govern OTC derivative and foreign exchange contracts entered into from time to time. The Master Agreements may contain provisions regarding, among other things, the parties' general obligations, representations, agreements, collateral requirements, events of default and early termination. With respect to certain counterparties, in accordance with the terms of the Master Agreements, collateral posted to the fund is held in a segregated account by the fund's custodian and, with respect to those amounts which can be sold or repledged, is presented in the fund's portfolio.

Collateral pledged by the fund is segregated by the fund's custodian and identified in the fund's portfolio. Collateral can be in the form of cash or debt securities issued by the U.S. Government or related agencies or other securities as agreed to by the fund

and the applicable counterparty. Collateral requirements are determined based on the fund's net position with each counterparty.

Termination events applicable to the fund may occur upon a decline in the fund's net assets below a specified threshold over a certain period of time. Termination events applicable to counterparties may occur upon a decline in the counterparty's long-term and short-term credit ratings below a specified level. In each case, upon occurrence, the other party may elect to terminate early and cause settlement of all derivative and foreign exchange contracts outstanding, including the payment of any losses and costs resulting from such early termination, as reasonably determined by the terminating party. Any decision by one or more of the fund's counterparties to elect early termination could impact the fund's future derivative activity.

At the close of the reporting period, the fund had a net liability position of \$9 on open derivative contracts subject to the Master Agreements. There was no collateral posted by the fund at period end for these agreements.

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ASC 820 establishes a three-level hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of the fund's investments. The three levels are defined as follows:

**Level 1:** Valuations based on quoted prices for identical securities in active markets.

**Level 2:** Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**Level 3:** Valuations based on inputs that are unobservable and significant to the fair value measurement.

The following is a summary of the inputs used to value the fund's net assets as of the close of the reporting period:

	<b>Valuation inputs</b>		
<b>Investments in securities:</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Common stocks*:</b>			
Basic materials	\$75,172	\$—	\$—

Capital goods	57,484	—	—
Communication services	—	—	1,197
Consumer cyclicals	249,729	—	—
Consumer staples	57,829	—	—
Energy	160,396	—	24,603
Financials	248,038	—	—
Health care	83,939	—	—
Technology	2,505,769	—	—
Utilities and power	14,327	—	—
<b>Total common stocks</b>	<b>3,452,683</b>	<b>—</b>	<b>25,800</b>
Convertible bonds and notes	—	34,668,321	106,056
Convertible preferred stocks	2,488,750	18,119,641	657
Corporate bonds and notes	—	48,400,718	233
Senior loans	—	178,039	—
Warrants	3,986	6,335	—
Short-term investments	7,717,110	—	—
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Totals by level</b>	<b>\$13,662,529</b>	<b>\$101,373,054</b>	<b>\$132,746</b>

The following table summarizes any derivatives, repurchase agreements and reverse repurchase agreements, at the end of the reporting period, that are subject to an enforceable master netting agreement or similar agreement. For securities lending transactions, if applicable, see note "(d)" above, and for borrowing transactions associated with securities sold short, if applicable, see the "Short sales of securities" note above.

	Bank of America N.A.	Citibank, N.A.	JPMorgan Chase Bank N.A.	State Street Bank and Trust Co.	WestPac Banking Corp.	Total
Assets:						
Forward currency contracts#	\$2	\$—	\$—	\$2,952	\$1,148	\$4,102
Total Assets	\$2	\$—	\$—	\$2,952	\$1,148	\$4,102
Liabilities:						
Forward currency	\$5	\$1	\$5	\$—	\$—	\$11



contracts#

Total Liabilities	\$5	\$1	\$5	\$—	\$—	\$11
Total Financial and Derivative Net Assets	\$(3)	\$(1)	\$(5)	\$2,952	\$1,148	\$4,091
Total collateral received (pledged)##†	\$—	\$—	\$—	\$—	\$—	
Net amount	\$(3)	\$(1)	\$(5)	\$2,952	\$1,148	

† Additional collateral may be required from certain brokers based on individual agreements.

# Covered by master netting agreement.

## Any over-collateralization of total financial and derivative net assets is not shown. Collateral may include amounts related to unsettled agreements.

For additional information regarding the fund please see the fund's most recent annual or semiannual shareholder report filed on the Securities and Exchange Commission's Web site, [www.sec.gov](http://www.sec.gov), or visit Putnam's Individual Investor Web site at [www.putnaminvestments.com](http://www.putnaminvestments.com)

#### Item 2. Controls and Procedures:

(a) The registrant's principal executive officer and principal financial officer have concluded, based on their evaluation of the effectiveness of the design and operation of the registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this report, that the design and operation of such procedures are generally effective to provide reasonable assurance that information required to be disclosed by the registrant in this report is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

(b) Changes in internal control over financial reporting: Not applicable

#### Item 3. Exhibits:

Separate certifications for the principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Putnam High Income Securities Fund

By (Signature and Title):

/s/ Janet C. Smith

Janet C. Smith

Principal Accounting Officer

Date: January 26, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title):

/s/ Jonathan S. Horwitz

Jonathan S. Horwitz

Principal Executive Officer

Date: January 26, 2017

By (Signature and Title):

/s/ Janet C. Smith

Janet C. Smith

Principal Financial Officer

Date: January 26, 2017