



Dear Shareholder,

I am pleased to report, notwithstanding the continued impact of the temporary cessation of deliveries to the US market by one of our most important OEM partners, Medtronic Physio-Control, that Oridion again achieved quarter-on-quarter growth in revenues and improvement in operating results in Q3, 2007. I am also pleased to report that Oridion began to ship modules again to Physio-Control towards the end of the quarter.

Revenues reached USD 9.6 million, a growth of 5% over Q3 2006. Operating income for the quarter was USD 1.5 million, up 5% compared to last year. For the nine-month period ended September 30, 2007, revenues increased by 7% over the same period last year and operating income from continuing operations reached USD 2.9 million, an increase of 24%. Oridion's financial results and other significant events and achievements for the quarter are provided in this report.

Financial results for the three and nine months ended September 30, 2007

	Nine months ended September 30,		Three months ended September 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
U.S. dollars in thousands				
Revenues	26,660	24,892	9,627	9,209
Gross Profit	14,377	13,146	5,280	4,962
<i>Gross Margin</i>	<i>53.9%</i>	<i>52.8%</i>	<i>54.8%</i>	<i>53.9%</i>
Operating Expenses	11,447	10,779	3,760	3,509
Operating Income from continuing operations	2,930	2,367	1,520	1,453
<i>Operating Income Margin from continuing operations</i>	<i>11.0%</i>	<i>9.5%</i>	<i>15.8%</i>	<i>15.8%</i>
Net Income from continuing operations	3,133	2,215	1,918	1,420
Net Loss from discontinued operations	-	(502)	-	-
Net Income	3,133	1,713	1,918	1,420
EBITDA				
Operating Income from continuing operations	2,930	2,367	1,520	1,453
Depreciation and amortization	1,034	918	316	292
EBITDA from continuing operations	3,964	3,285	1,836	1,745
EBITDA Margin	14.9%	13.2%	19.1%	18.9%

Revenues

Company revenues for the third quarter of 2007 increased to USD 9.6 million compared to USD 9.2 million for the third quarter of 2006. Revenues for the nine-month period ended September 30, 2007, increased to USD 26.7 million compared to USD 24.9 million for the same period last year. Revenue growth is being driven by increased demand from the market for Oridion capnography devices supplied by our leading OEM partners and our Oridion distributor network (ODN). This growth is despite Medtronic Physio-Control's voluntary suspension of sales into the US market, following an agreement with the Federal Drug Administration (FDA). Sales to Medtronic Physio-Control resumed in the last month of the third quarter at a reduced rate. Revenue growth continues to be primarily a consequence of increased awareness in the medical community of the need to improve patient safety in hospital and pre-hospital settings and of the related continuing stream of recommendations for the use of capnography to improve standards of patient safety and patient care by important professional medical organizations and patient safety foundations. The proportion of our revenues generated by the sale of consumable products is higher than last year (37% vs. 33%) partly owing to the minimum sales of devices (capnography modules) to Medtronic Physio-Control.

Gross Profit

The Company's gross profit for the third quarter of 2007 increased to USD 5.3 million compared to USD 5.0 million for the same period last year. The gross margin for the third quarter increased to 54.8% compared to 53.9% for the same period last year. The increase is mainly due to increased efficiencies in production, and the increase in consumables as a percentage of sales. The Company's gross margin for the nine-month period ended September 30, 2007 improved to 53.9% compared to 52.8% for the same period last year.

Operating Expenses

Operating expenses totaled USD 3.8 million for the third quarter of 2007 compared to USD 3.5 million for the same period last year. The primary reasons are increased investment in marketing education and the costs associated with the development of new markets. Operating expenses for the nine-month period ended September 30, 2007, were USD 11.4 million compared to USD 10.8 million for the same period last year. The Company continues to increase efficiencies overall in order to leverage the rate of expenses to sales.

Research and Development

R&D expenses increased to USD 0.8 million for the third quarter of 2007 compared to USD 0.7 million for the same period last year. Current R&D expenses include investments in enhancing the proprietary technology contained in the Company's consumable products, and in products that will expand the use of capnography into clinical settings in which CO₂ monitoring has in the past been very limited, for example, gastroenterology (and other procedural sedation environments) and pain management.

Sales and Marketing

Sales and marketing expenses for the third quarter of 2007 increased to USD 2.4 million compared to USD 2.1 million for the same period last year. Current activities include the continuing management of an intensive program of clinical studies aimed at demonstrating the unparalleled benefits and clinical value offered by the Company's CO₂ monitoring products. These expenses also include support activities for Oridion's OEM and ODN partners in their educational and marketing efforts, training sessions for the growing number



of customers that choose to improve the standard of medical care with Microstream[®] capnography and additional personnel to help implement the Company's penetration into new environments. These efforts continue to result in the constantly increasing usage rate of Oridion's products by a wide range of patient safety applications in the hospital and pre-hospital settings.

General and Administration

General and Administration expenses for the third quarter of 2007 decreased to USD 0.6 million compared to USD 0.7 million for the same period of last year.

Financing activities

The financial income is mainly a result of the appreciation of the rate of exchange between the New Israeli Shekel (NIS) and the US dollar (USD) during the third quarter of 2007, as the forward cover contracts were at a higher rate of exchange than the USD/NIS rate of exchange on September 30, 2007. All changes in the fair value of the contracts are recorded in net finance expenses.

Operating and Net Results

The operating income from continuing operations¹ of USD 1.5 million increased slightly for the third quarter of 2007 compared to the operating income for the same period last year. The operating margin from continuing operations remained constant at 15.8%, compared to the same period last year. The operating income for the nine-month period ended September 30, 2007 increased to USD 2.9 million compared to USD 2.4 million for the same period last year, resulting in an increase of the operating margin to 11.0% compared to 9.5% from continuing operations for the same period last year.

The consolidated net income from continuing operations for the third quarter of 2007 increased to USD 1.9 million compared to USD 1.4 million for the same period last year. The consolidated net income from continuing operations for the nine-month period ended September 30, 2007 was USD 3.1 million compared to a consolidated net profit of USD 2.2 million for the same period of 2007.

Cash Flow

Net cash provided by operating activities was USD 1.9 million for the nine-month period of 2007. Net cash used in investing activities was USD 3.2 million owing to investments in marketable securities. Net cash provided by financing activities amounted to USD 0.6 million owing to the exercise of employee stock options.

¹ In February 2006, the Company announced it would be ceasing all activities concerning the Breath Testing business. As a consequence all BreathID activities in 2006 are presented in the current fiscal accounts as "discontinued operations".

Achievements and Events during Q3, 2007

- Towards the end of Q3, Oridion resumed shipments of modules to Physio-Control. This was primarily a consequence of the partial resumption of shipments by Physio-Control of their defibrillators to the US market; in Q4, we are already seeing a significant increase in orders from them for our Microstream modules. Physio-Control has indicated that it hopes to fully resume shipments during the early part of next year and, therefore, we expect Oridion module volume to Physio-Control to return to previous levels in that time frame.
- Earlier in the year, we announced an important new agreement with one of our longstanding and most important OEM partners, Nellcor, in which the Oridion Distributor Network would become the sole supplier of Oridion's consumable products to Nellcor's installed base of monitors that include Oridion's Microstream capnography. The preparation for this transition took place during Q3 and took effect at the end of the quarter. Together with the spin-off of Nellcor from Tyco into the new company Covidien (in July, 2007), this resulted in some natural teething problems and disruptions. In all, however, the transition went well and should be of major strategic benefit to Oridion in the future.
- Oridion announced, at the American Society of Anesthesiologists' Annual Meeting in San Francisco, CA, its total Microstream[®] Monitoring (MSM[™]) solution, powered by the Bernoulli[®] Enterprise system. The MSM system is the only fully integrated ventilation and oxygenation remote patient monitoring system that directly responded to the Anesthesia Patient Safety Foundation (APSF) recommendation for improved ventilation and oxygenation monitoring for patients receiving patient controlled analgesia (PCA). The MSM system helps improve patient safety because it instantaneously alerts clinicians and nurses via continuous wireless central station monitoring that a patient is in respiratory distress. The system also includes our new recently FDA-approved SARA software (Smart Alarm Respiratory Analysis) that safely reduces alarms by 55%. With this system, we are able to deliver information about a patient's respiration and ventilation status that has never been experienced before.

Outlook

Nine-month revenue growth was 7.1%, which is at the upper end of our full year guidance of 5-7%. We are expecting solid performance for the rest of the year. Revenues to Physio-Control are increasing for the reasons mentioned. Sales to most of our other OEM channels and through our Oridion Distribution Network have been strong and we expect this to continue for the remainder of the year. As a consequence, we are confident that our revenue result for the year will be at the top end of our guidance, and we are maintaining our operating margin guidance of 11-13%.

We are confident that 2008 will be a good year in which we will be able to resume the type of growth that we realized in the years prior to 2007. We also hope to announce additional developments in our channel partnerships in the coming quarters that will further reinforce our strong growth prospects in the years beyond 2007.



We again thank our dedicated team of employees, who diligently strive to provide medical technologies and products of unparalleled capabilities and quality, and which make substantive improvements to patient safety. We also continue to thank our shareholders and partners for their ongoing support and belief in Oridion. We strive to reward that support with increased shareholder value as Oridion constantly improves its financial performance. We look forward to sharing our future successes with you.

Sincerely,

Alan Adler
Chairman of the Board of Directors and CEO
Jerusalem, Israel
November 12, 2007

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

	September 30, 2007	December 31, 2006
	Unaudited	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	5,641	6,326
Short-term deposits	80	75
Marketable securities	3,967	-
Trade receivables	7,275	6,543
Other accounts receivable and prepaid expenses	831	804
Inventories	4,989	4,248
<u>Total current assets</u>	<u>22,783</u>	<u>17,996</u>
SEVERANCE PAY FUND	1,652	1,413
PROPERTY AND EQUIPMENT, NET	2,937	2,778
<u>Total assets</u>	<u>27,372</u>	<u>22,187</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	4,219	4,231
Other accounts payable and accrued expenses	2,515	3,357
<u>Total current liabilities</u>	<u>6,734</u>	<u>7,588</u>
ACCRUED SEVERANCE PAY	2,349	2,025
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares of NIS 0.01 par value - Authorized: 20,000,000 shares at September 30, 2007 and December 31, 2006; Issued and outstanding: 12,287,431 shares at September 30, 2007 and 11,809,858 shares at December 31, 2006	31	27
Additional paid-in capital	77,562	76,446
Accumulated other comprehensive income	1,462	-
Accumulated deficit	(60,766)	(63,899)
<u>Total shareholders' equity</u>	<u>18,289</u>	<u>12,574</u>
<u>Total liabilities and shareholders' equity</u>	<u>27,372</u>	<u>22,187</u>

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

CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars in thousands (except share and per share data)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited		Unaudited		
Revenues	26,660	24,892	9,627	9,209	34,637
Cost of revenues	12,283	11,746	4,347	4,247	16,255
Gross profit	14,377	13,146	5,280	4,962	18,382
Operating expenses:					
Research and development, net	2,351	2,079	847	661	2,734
Selling and marketing	7,146	6,638	2,362	2,109	9,220
General and administrative	1,950	2,062	551	739	2,607
<u>Total operating expenses</u>	<u>11,447</u>	<u>10,779</u>	<u>3,760</u>	<u>3,509</u>	<u>14,561</u>
Operating income	2,930	2,367	1,520	1,453	3,821
Financial income (expenses), net	201	(152)	396	(33)	(125)
Other income, net	2	-	2	-	-
Net income from continuing operations	3,133	2,215	1,918	1,420	3,696
Net loss from discontinued operations	-	(502)	-	-	(502)
Net income	<u>3,133</u>	<u>1,713</u>	<u>1,918</u>	<u>1,420</u>	<u>3,194</u>
Basic earnings per share from continuing operations	0.26	0.19	0.16	0.12	0.32
Basic loss per share from discontinued operations	-	(0.04)	-	-	(0.04)
Total basic net earnings per Ordinary share	<u>0.26</u>	<u>0.15</u>	<u>0.16</u>	<u>0.12</u>	<u>0.28</u>
Diluted net earnings per share from continuing operations	0.24	0.17	0.14	0.11	0.29
Diluted net loss per share from discontinued operations	-	(0.04)	-	-	(0.04)
Total diluted net earnings per Ordinary share	<u>0.24</u>	<u>0.13</u>	<u>0.14</u>	<u>0.11</u>	<u>0.25</u>
Weighted average number of shares used for computing basic net earnings per share	<u>12,119,881</u>	<u>11,538,306</u>	<u>12,293,509</u>	<u>11,633,574</u>	<u>11,592,122</u>
Weighted average number of shares used for computing diluted net earnings per share	<u>13,363,955</u>	<u>12,773,674</u>	<u>13,575,529</u>	<u>12,849,293</u>	<u>12,788,619</u>

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Accumulated comprehensive income	Accumulated deficit	Total shareholders' equity
Balance as of January 1, 2006	26	75,134	-	(67,093)	8,067
Exercise of options, net	1	714	-	-	715
Exercise of warrants	*)	-	-	-	*)
Stock-based compensation	-	598	-	-	598
Net income	-	-	-	3,194	3,194
Balance as of December 31, 2006	27	76,446	-	(63,899)	12,574
Exercise of options, net	4	611	-	-	615
Stock-based compensation	-	505	-	-	505
Unrealized gain on marketable securities, net (see Note 2(a), 2 (c))	-	-	1,462	-	1,462
Net income	-	-	-	3,133	3,133
Balance as of September 30, 2007 (unaudited)	<u>31</u>	<u>77,562</u>	<u>1,462</u>	<u>(60,766)</u>	<u>18,289</u>

*) Represents an amount lower than \$ 1.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended September 30,		Year ended December 31,
	2007	2006	2006
	Unaudited		
<u>Cash flows from operating activities:</u>			
Net income	3,133	1,713	3,194
Adjustments required to reconcile net income to net cash provided by operating activities:			
Loss from discontinued segment	-	502	502
Depreciation	529	510	704
Amortization of deferred stock compensation	505	408	558
Amortization of deferred stock compensation related to warrants issued to credit providers and others	-	32	32
Accrued severance pay	85	140	(79)
Increase in trade receivables	(753)	(648)	(1,628)
Increase in other accounts receivable and prepaid expenses	(27)	(237)	(247)
Increase in inventories	(741)	(1,450)	(1,706)
Increase (decrease) in trade payables	(12)	205	914
Increase (decrease) in other accounts payable and accrued expenses	(842)	89	394
Interest income	(5)	-	-
Gain from sale of marketable securities	(2)	-	-
Net cash provided by operating activities from continuing segment	1,870	1,264	2,638
Net cash used in operating activities from discontinued segment	-	(578)	(579)
Net cash provided by operating activities	1,870	686	2,059
<u>Cash flows from investing activities:</u>			
Investment in marketable securities	(2,616)	-	-
Purchase of property and equipment	(688)	(439)	(618)
Proceeds from short-term bank deposits, net	-	1,902	2,542
Proceeds from sale of marketable securities	113	-	-
Net cash provided by (used in) investing activities from continuing segment	(3,191)	1,463	1,924
Net cash provided by investing activities from discontinued segment	-	10	10
Net cash provided by (used in) investing activities	(3,191)	1,473	1,934
<u>Cash flows from financing activities:</u>			
Short-term bank credit, net	-	-	-
Repayment of long-term loan	-	(2,500)	(2,500)
Proceeds from exercise of options and issuance of shares, net	636	375	694
Net cash provided by (used in) financing activities	636	(2,125)	(1,806)
Increase (decrease) in cash and cash equivalents	(685)	34	2,187
Cash and cash equivalents at the beginning of the period	6,326	4,139	4,139
Cash and cash equivalents at the end of the period	5,641	4,173	6,326

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended September 30,		Year ended December 31,
	2007	2006	2006
	Unaudited		
<u>(a) Significant non-cash transactions:</u>			
Other accounts receivable in respect of exercise of options	-	34	21
<u>(b) Supplemental disclosure of cash flow information:</u>			
Cash paid during the period for:			
Interest	-	63	143

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

Oridion Systems Ltd. ("the Company") is a holding company, which wholly-owns Oridion Medical 1987 Ltd. and all of its subsidiaries. The Company is a medical technology company based in Jerusalem, Israel and Needham, Massachusetts, U.S.A. The Company employs its patented Microstream[®] technology in the development, manufacturing and marketing of products used in its business - Capnography - the non-invasive measurement of carbon dioxide contained in the exhaled breath to determine the adequacy of ventilation.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2006, are applied consistently in these financial statements.

a. Investments in marketable securities:

The Company accounts for investments in marketable securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

Management determines the appropriate classification of its investments at the time of purchase and reevaluates such determinations at each balance sheet date.

The Company classifies all of its securities as available for sale. Available for sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in "accumulated other comprehensive income (loss)" in shareholders' equity. Realized gains and losses on sale of investments are included in earnings and are derived using the specific identification method for determining the cost of securities.

b. Change in method of accounting for inventory valuation:

On January 1, 2007, the Company elected to change its method of valuing its inventory to the first in first out ("FIFO") method, whereas in all prior years inventory was valued using the average cost method. The new method of accounting for inventory was adopted in connection with the introduction of the new Enterprise Resource Program into the Company. The Company believes that the FIFO method is preferable, since it will allow the Company to better manage its accounting for inventory costs.

Comparative financial statements for prior years have not been retrospectively adjusted due to immateriality.



NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- c. In 2006, Oridion transferred its BreathID business to a newly-formed company, BreathID Ltd. (BID), in which Oridion retained a 19.9% interest. In May 2007, BID raised approximately \$ 5.5 million in an Initial Public Offering (IPO) on the Tel Aviv Stock Exchange. Subsequent to the IPO, Oridion's interest in BID is approximately 16.5%. The ability of Oridion and of certain other shareholders to sell BID shares is restricted by lock-up provisions for a period of eighteen months from the date of the IPO.

Upon the IPO, the Company classified its investment in BID shares as "available for sale" according to Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). According to SFAS 115, an investment in equity securities that have readily determinable fair values and are classified as available for sale should be measured at fair value in the balance sheet, with changes in fair value being recorded in other comprehensive income and accumulated as a separate component of shareholders' equity. Pursuant to SFAS 115, shares that are expected to qualify for sale within one year of the balance sheet date are not considered restricted and can be recorded at fair value.

As of September 30, 2007, the total fair value of Oridion's interest in BID, based on the market price of the shares, is approximately \$ 4.54 million. Of this amount, shares for which the lock-up provisions end within one year from the balance sheet date are stated at fair value in the amount of \$ 1.48 million, and an unrealized gain of \$ 1.48 million, net of income taxes in the amount of \$ 0 million, has been reported in accumulated other comprehensive income in the statements of changes in shareholders' equity.

NOTE 3:- UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2007, are not necessarily indicative of the results that may be expected for the year ended December 31, 2007.

INVESTOR RELATIONS CONTACTS

Walter Tabachnik, Chief Financial Officer
Elena Gerberg, Investor Relations

E-mail: investor@oridion.com

Website: www.oridion.com

Phone: +972 2 589 9159

Address: Oridion Systems Ltd.
P.O. Box 45025
Jerusalem 91450, Israel

Next quarterly report

February 25, 2008

Announcement of 4th quarter and fiscal year 2007 results



Corporate Headquarters / Israel

Oridion Systems Ltd.

P. O. Box 45025
Jerusalem 91450
7 Hamarpe Street, Building 5
Jerusalem 97774
Israel

Tel: +972-2-589-9111
Fax: +972-2-582-5873
E-mail: investor@oridion.com
Website: www.oridion.com

Commercial Headquarters / USA

Oridion Capnography, Inc.

Needham Corporate Center
160 Gould Street, Suite 205
Needham, MA 02494
USA

Tel: +1-781-453-0500
Fax: +1-781-453-2722