

# Enabling technologies for improved medical care



Oridion Systems Ltd.  
Letter to Shareholders  
May 2004



Dear Shareholder,

I am pleased to report continued revenue growth for Oridion's first quarter of 2004 ending March 31. This is now the ninth consecutive quarter in which Oridion has had a material increase in revenues compared to the same period in the previous year. I am pleased to present you with the following report on Oridion's financial results and other significant events and achievements for the quarter.

## **Financial results in Q1, 2004**

### ***Revenues—***

Company revenues for the first quarter increased by 14% to USD 3.8 million compared to USD 3.3 million for the first quarter of 2003. Revenue growth was driven by a number of factors, including the launch of new Microstream<sup>®</sup> enabled capnography products by a leading OEM partner, and the ongoing increase in sales of consumable products to the constantly growing installed base of patient monitors that contain Oridion's Microstream<sup>®</sup> CO<sub>2</sub> monitoring technology.

The gross margin for the first quarter improved to 44.0% compared to 43% for the first quarter of 2003. The improved gross margin is a result of the continued increase in sales of Oridion's higher margin consumable products and the ongoing efficiencies introduced into Oridion's manufacturing process.

### ***Research and Development—***

R&D expenses decreased to USD 0.6 million compared to USD 0.8 million for the first quarter of 2003. The reduction relative to last year was made possible by the completion of a number of major projects, including a new generation of OEM capnography modules.

### ***Sales and Marketing—***

Sales and marketing expenses decreased to USD 1.8 million compared to USD 1.9 million for the first quarter of 2003. Current activities include the management of an intensive program of clinical studies of Oridion's capnography and breath testing products in leading medical care centers worldwide, aimed at demonstrating the unparalleled benefits and clinical value offered by the Company's CO<sub>2</sub> monitoring and diagnostic products. Additional expenses include support activities for Oridion's OEM partners in their educational and marketing efforts, and training sessions for the growing number of customers that choose to improve the standard of medical care with Microstream<sup>®</sup> capnography.

### ***General and Administration—***

G&A expenses decreased to USD 0.5 million compared to USD 0.6 million in the first quarter of 2003 as the Company continues to make progress toward achieving profitability.

### ***Operating Loss —***

The operating loss decreased to USD 1.2 million compared to USD 1.9 million for the first quarter of 2003.

## **Achievements and Events in Q1, 2004**

- ***Mr. George Yariv Steps Down as CEO but will Remain Involved***

Mr. George Yariv, Oridion's founder and long-time CEO, has decided to step down from his CEO position for personal reasons unrelated to the business of the Company. Mr. Yariv will continue to serve as a member of the Company's Board of Directors and will remain active in the Breath Testing business of the Company. Mr. Alan Adler, long-term serving Director and Chairman of the Board, has taken on duties as interim CEO.

- ***New Senior Marketing Executives Hired***

Oridion appointed Ms. Maria Shepherd and Ms. Yfat Scialom as senior marketing directors for the Company's capnography and breath testing businesses respectively. Both bring to Oridion a wealth of expertise and previous experience, having held senior positions with leading global medical device companies.

- ***Leading OEM Partner Launches Two New Microstream® Enabled Products***

Philips Medical Systems – a world leading medical device company and one of Oridion's leading OEM partners – launched two new Microstream® enabled products; a new patient safety monitoring system and a new portable defibrillator system. Both launches are expected to significantly increase future sales of Oridion's OEM capnography module.

- ***Completion of Gastric Accommodation Breath Test Pilot Study***

A clinical study involving Oridion's BreathID® system and a new gastric accommodation test was recently completed in Leuven, Belgium. The researcher confirmed that the breath test developed by Oridion provides a valuable method for non-invasively assessing gastric accommodation. Results of the study are scheduled for presentation at the upcoming Digestive Disease Week (DDW) Conference.

## **Future Activities and Outlook**

In the Capnography Business Unit, Oridion plans to continue developing and supplying new OEM products to the increasing number of globally-leading medical device companies that choose to incorporate Oridion's Microstream® CO<sub>2</sub> monitoring technology into their patient safety monitoring systems. Oridion also plans to begin clinical studies for new capnography products recently developed and to release new consumable capnography products later this year. In the Breath Testing Business Unit, Oridion expects to begin new clinical studies in leading medical centers and to continue developing the European market for its breath testing products.

We thank our dedicated team of employees, our shareholders and our partners for their efforts and support in helping Oridion become a leading provider of CO<sub>2</sub> monitoring solutions and breath test diagnostic products. In particular, we would like to thank George Yariv for his outstanding service to Oridion since its inception and we look forward to benefiting from his continued service to the Company as an active board director.

Alan Adler  
Acting CEO and Chairman of the Board of Directors  
Jerusalem, Israel  
14 May 2004

## Consolidated Income Statements

in USD 000's (except for share data)	Three months ended March 31 2003	Three months ended March 31 2004
Revenues from Sales	3,338	3,801
Gross Profit	1,448	1,681
Percent of Revenues	43%	44%
Operating Expenses	3,332	2,898
Operating Loss	(1,884)	(1,217)
Net Loss	(1,845)	(1,224)
EBITDA	(1,659)	(966)
Basic Loss Per Share (in actual numbers)	(0.18)	(0.12)

## Consolidated Balance Sheet

	Dec 31, 2003	March 31, 2004
<b>Assets</b>		
Cash & cash equivalents	4,343	3,886
Receivables & inventories	7,664	6,079
Long term investments	1,294	1,287
Fixed assets	4,191	4,015
<b>Total Assets</b>	<b><u>17,492</u></b>	<b><u>15,267</u></b>
<b>Liabilities &amp; Shareholders Equity</b>		
Curent Liabilities	4,931	3,922
Long Term Liabilities	2,130	2,097
Shareholder Equity	10,431	9,248
<b>Total Liabilities &amp; Shareholders Equity</b>	<b><u>17,492</u></b>	<b><u>15,267</u></b>

## Consolidated Cash Flow Statements

	Three months ended March 31 2003	Three months ended March 31 2004
<b>Cash Flow</b>		
Cash flow from operating activity	(1,146)	(53)
Cash flow from investing activity	(62)	(50)
Cash flow from finance activity	0	(354)
<b>Increase net</b>	<b><u>(1,208)</u></b>	<b><u>(457)</u></b>