

# Enabling technologies for improved medical care



Oridion Systems Ltd.  
Letter to Shareholders  
November 2003



- **Revenue Growth increases by 40%**
- **Operating Expenses reduced by 14%**

Dear Shareholder,

I am pleased to report continued revenue growth for Oridion's third quarter of 2003 ending September 30. This is now the seventh consecutive quarter in which Oridion has witnessed a material increase in revenues compared to correlating periods in previous years. I am pleased to present you with the following report on Oridion's financial results and other significant events and achievements for this period.

### **Financial results in Q3, 2003**

#### ***Revenues—***

Company revenues for the third quarter increased by 40% to USD 5.0 million compared to USD 3.5 million for the third quarter of 2002. Revenues for the nine month period ending September 30, 2003 increased by 40% to USD 13.1 million compared to USD 9.4 million for the same period last year. Revenue growth was driven by a number of factors including an ongoing increase in the usage rate of Oridion's consumable products and an increase in the sales of Oridion's existing capnography products. Revenues also increased as capnography orders - initially scheduled for the fourth quarter of 2003 - were moved up to this quarter. Oridion expects this to reduce planned revenues for the fourth quarter.

The gross margin for the third quarter was 43% compared to 44.3% for the third quarter of 2002. Although the gross margin for Oridion's capnography business increased, the overall gross margin slightly decreased due to higher manufacturing expenses for the BreathID<sup>®</sup> System during this period. The gross margin for the nine-month period ending September 30, 2003 was 43.5% compared to 43.3% for the same period last year.

#### ***Research and Development—***

R&D expenses decreased to USD 0.9 million compared to USD 1.0 million for the third quarter of 2002.

Current capnography R&D expenses include investments in developing a new OEM capnography module designed to further increase the use of capnography in all medical care settings due to its unique capabilities. Additional capnography R&D expenses also include investments in the innovative development of a new product intended to integrate Microstream<sup>®</sup> capnography monitoring capabilities into additional medical procedures.

Breath testing R&D expenses continue to include investments in the ongoing development of additional breath tests for the BreathID<sup>®</sup> system. The BreathID<sup>®</sup> already offers the possibility to perform three distinct diagnostic breath tests with same device, and the new tests under development are planned to further expand the platform ability of this system.

***Sales and Marketing—***

Sales and marketing expenses decreased to USD 1.9 million compared to USD 2.2 million for the third quarter of 2002. Current expenses include:

In the Capnography Business Unit, sales and marketing activities include ongoing clinical studies aimed at demonstrating the added clinical value of Microstream® Capnography. These studies clearly illustrate the benefits offered to care providers, which include the ability to monitor the breathing of all types of patients in all clinical environments. The results of these studies are then used to create educational materials for both Oridion's world leading OEM partners and end users of patient monitoring systems. Other sales and marketing activities include supporting the Company's world leading OEM partners in marketing the growing number of Microstream® enabled capnography products and training end users on the use of Microstream® Capnography.

In the Breath Testing Business Unit, expenses include the Company's activities with world opinion leaders to clearly highlight the clinical value of the applications offered by Oridion's BreathID® System. The three applications currently offered by this platform system include a Liver Function breath test, a breath test for the measurement of Gastric Emptying Rate (GER) and a breath test for the detection of the Helicobacter pylori bacteria.

***General and Administration—***

G&A expenses decreased to USD 0.6 million compared to USD 0.8 million in the third quarter of 2002.

***Operating Loss —***

The operating loss decreased to USD 1.2 million compared to USD 2.3 million for the third quarter of 2002.

**Achievements and Events in Q3, 2003**

- ***New President for Capnography Business Appointed***

Oridion appointed Mr. Gerald Feldman as president of its worldwide capnography business. Based in the United States, Mr. Feldman, who holds both an MBA and an MPH from Columbia University, NY, is a senior manager who brings to Oridion a wealth of experience in the health care industry. Mr. Feldman will assume responsibility for Oridion's rapidly growing capnography business as Oridion continues to strengthen its position as the worldwide leader in non-invasive CO<sub>2</sub> monitoring.

- ***Leading OEM Partner Launches New Microstream® Enabled Product***

Philips Medical Systems – a world leading medical device company and one of Oridion's leading OEM partners – launched towards the end of this quarter its new C3™ multi-parameter patient monitor. This launch follows an increasing

number of Microstream<sup>®</sup> enabled product launches earlier this year by many of the world's leading medical device companies who have chosen to integrate Microstream<sup>®</sup> technology in their monitoring systems. The growing number of world leaders that are choosing Microstream<sup>®</sup> for integration in their products is a clear indication of the high quality and reliability of this technology.

- ***Two New Microstream<sup>®</sup> Enabled Products Receive FDA Clearance***

Two new products containing Microstream<sup>®</sup> technology recently received 510(k) marketing clearance from the US Food and Drug Administration (FDA). These products - the new Heartstart Mrx defibrillator by Philips Medical Systems and the new Microstream<sup>®</sup> POD by Draeger Medical (A Draeger and Siemens Company) – are expected to help further increase the penetration of Oridion's capnography products in various segments of the medical device market worldwide.

### **Future Activities and Outlook**

In the Capnography Business Unit, Oridion plans to continue developing and launching new OEM products worldwide through its leading OEM partners. The Company also plans to complete the development of new capnography products designed to extend the use of capnography monitoring in new procedures.

In the Breath Testing Business Unit, Oridion expects to continue initiating reference sites to demonstrate the clinical value offered by its BreathID<sup>®</sup> applications and to begin establishing the monetary reimbursement for the BreathID<sup>®</sup> GER and Liver Function breath tests in various countries in Europe.

We continue to remain grateful to our employees, shareholders and partners. Their ongoing support and dedication enables us to continue developing new products that improve patient comfort and the quality of medical care worldwide.

Best Regards,

George Yariv,  
President and CEO  
Boston, MA,  
14 November 2003

## Consolidated Income Statements

in USD 000's (except for share data)	Three months ended Sept 30 2002	Three months ended Sept 30 2003	Nine months ended Sept 30 2002	Nine months ended Sept 30 2003
Revenues from sales	3,548	4,973	9,365	13,116
Gross profit	1,572	2,139	4,053	5,710
Percent of revenues	44.3%	43.0%	43.3%	43.5%
Operating expenses	3,899	3,338	11,291	10,421
Operating loss (EBIT)	(2,327)	(1,199)	(7,238)	(4,711)
Financial income net	63	76	234	(78)
Net Loss	(2,192)	(1,119)	(6,932)	(4,731)
EBITDA	(2,026)	(957)	(6,328)	(4,021)
Basic loss per share (in actual numbers)	(0.21)	(0.11)	(0.66)	(0.45)

## Consolidated Balance Sheet

	31-Dec-02	30-Sep-03
<b>Assets</b>		
Cash & cash equivalents	9,504	6,405
Trade receivables & inventories	7,258	7,704
Long term investments	1,018	1,246
Fixed assets	4,762	4,398
<b>Total Assets</b>	<b>22,542</b>	<b>19,753</b>
<b>Liabilities &amp; Shareholders Equity</b>		
Curent liabilities	4,235	5,838
Long term liabilities	1,757	2,059
Shareholder equity	16,550	11,856
<b>Total Liabilities &amp; Shareholders Equity</b>	<b>22,542</b>	<b>19,753</b>

## Consolidated Cash Flow Statements

	Nine Months ended Sept 30 2002	Nine Months ended Sept 30 2003
<b>Cash flow</b>		
Cash flow from operating activity	(5,228)	(3,457)
Cash flow from investing activity	9,152	(134)
Cash flow from finance activity	4	492
<b>Increase net</b>	<b>3,928</b>	<b>(3,099)</b>