

# Enabling technologies for improved medical care



Oridion Systems Ltd.  
Letter to Shareholders  
May 2003



- **Record First Quarter Results –39% Revenue Growth**
- **Increase in Gross Margin**
- **Operating Expenses Reduced**
- **Net Loss Reduced**

Dear Shareholder,

I am pleased to report continued revenue growth for Oridion's first quarter of 2003 ending March 31. Oridion has continued to increase its revenues quarter over quarter compared to the corresponding periods last year, while at the same time has reduced expenses.

### **Financial results in Q1, 2003**

#### ***Revenues—***

Company revenues for the first quarter increased by 39% to USD 3.3 million compared to USD 2.4 million for the first quarter of 2002. Revenue growth is a result of the growing number of Microstream® enabled products offered by world leading medical device companies and the correlating growth in sales of Oridion's consumable products. Revenue growth has also been driven by initial European sales of Oridion's newly launched breath testing products.

Gross margin for the first quarter improved to 43.4% compared to 38.2% for the first quarter of 2002 due in part to the ongoing growth in sales of Oridion's consumable products, the ongoing introduction of efficiencies in Oridion's manufacturing process and the continuous reduction of manufacturing costs.

#### ***Research and Development—***

R&D expenses increased to USD 0.8 million compared to USD 0.6 million for the first quarter of 2002 due primarily to timing differences. Capnography R&D expenses for the first quarter of 2003 include the continuous development of a new capnography OEM module and a new capnography product aimed at opening new markets both in and outside the hospital setting for Oridion's Microstream® capnography. Breath Testing R&D expenses, for the first quarter of 2003, include the ongoing development of new breath test applications aimed at increasing the multi-purpose ability of Oridion's platform BreathID® breath testing system to diagnose a wide range of gastrointestinal (GI) disorders.

#### ***Sales and Marketing—***

Sales and marketing expenses decreased to USD 1.9 million compared to USD 2.2 million for the first quarter of 2002 as the Company managed to consolidate a number of sales and marketing activities while at the same time sustaining growth in Oridion's revenues. Current expenses include:

In the *Capnography Business Unit*, sales and marketing expenses include Oridion's activities to demonstrate the valuable abilities of its Microstream® capnography. For this purpose Oridion has established "centers of excellence" at leading medical centers in the US which have adopted Oridion's capnography technology in their daily practice. Oridion is conducting numerous clinical studies for its capnography

products in various medical environments where the use of procedural sedation is rapidly growing. The purpose of these clinical studies is to demonstrate the added value offered by Oridion's Microstream® capnography in this rapidly growing field. In addition, Oridion continues its training efforts for the constantly growing number of care providers who increasingly choose to implement Microstream® enabled products while providing medical care.

In the *Breath Testing Business Unit*, expenses include growing sales and marketing activities following the recent US launch of the BreathID® together with its first application – Oridion's patented <sup>13</sup>C Urea *H. pylori* breath test. This follows the launch of the BreathID® and *H. pylori* breath test in Europe last year, where the Company also launched its new gastric emptying rate (GER) application.

***General and Administration—***

Expenses decreased to USD 0.6 million compared to USD 0.7 million in the first quarter of 2002 owing to improved efficiencies in corporate activity implemented by management.

***Net loss—***

Decreased to USD 1.8 million compared to USD 2.5 million for the first quarter of 2002.

**Achievements and Events in Q1, 2003**

In addition to improving its fiscal results, the Company achieved the following milestones during the first quarter of 2003:

- ***Launch of New Microstream® Enabled Products***

As Microstream® capnography continues to become the medical community's CO<sub>2</sub> monitoring product of choice, a number of world leading medical companies launched this quarter new products incorporating Oridion's Microstream® capnography. These products include the Siemens newly enhanced version of its Infinity patient monitoring system, the new Spectrum™ patient safety monitoring system by Datascope and the new Dynascope™ DS 7100 patient monitoring series by Japanese leader Fukuda Denshi. In addition, Oridion also signed a new OEM agreement with the Philips defibrillator group.

- ***Launch of BreathID® in the US***

Following final clearance from the US Food & Drug Administration (FDA) for Oridion's BreathID® breath test system and *H. pylori* breath test, Oridion launched the BreathID® and *H. pylori* breath test in the US. The US launch follows the European launch last year and initial sales of the BreathID® and its first two applications: the *H. pylori* breath test and the GER breath test – both tests which can be performed with the same platform BreathID® device.

- *Study Published in January 2003 issue of American Journal of Gastroenterology*

The objective of the study, initiated by the Wolfson Medical Center, Israel and the Rhode Island Hospital, Providence, US, was to evaluate the accuracy of the BreathID® for the diagnosis of *H. pylori* in patients taking proton pump inhibitors (PPIs). PPIs are amongst the most commonly prescribed drugs worldwide because they are highly effective in the palliative treatment of acid related diseases. Current diagnostic urea breath test methods, however, recommend ceasing the use of PPIs for 7-14 days prior to testing as their use may result in false negative results. For PPI dependent patients this may be a critical issue because PPI withdrawal is strongly associated with symptom recurrence.

**The study concluded that the “BreathID® is a reliable tool for testing *H. pylori* in patients taking PPI”.<sup>1</sup>**

### **Looking Ahead**

In light of the ongoing growth in Oridion’s revenues and product offering, Oridion continues taking steps aimed at maintaining this positive momentum.

In its capnography division, Oridion plans to continue increasing the installed base of its capnography products by continuing to launch new products both with existing and new OEM partners worldwide, and expects to see a correlating increase in sales of its disposable products.

In its breath testing division, Oridion plans to continue developing new tests for its platform BreathID® device and to start clinical trials for new breath tests later this year.

With Microstream® widely recognized as the leading capnography brand throughout the medical community and the BreathID® gaining growing awareness with gastroenterologists worldwide, Oridion continues to strive to live up to its international reputation for excellence. We expect this reputation to help contribute to Oridion’s continued growth and we thank our shareholders and partners that have assisted and supported Oridion throughout its many achievements and ongoing growth.

Best Regards,

George Yariv,  
President and CEO  
Boston, MA, May 16, 2003

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<sup>1</sup> Effect of Proton Pump Inhibitors on the Continuous Real Time 13C-Urea Breath Test - American Journal of Gastroenterology, Vol 98, No. 1, 2003

## Consolidated Income Statements

in USD 000's (except for share data)	Three months ended March 31 2002	Three months ended March 31 2003
Revenues from Sales	2,394	3,338
Gross Profit	915	1,448
Percent of Revenues	38%	43%
Operating Expenses	3,529	3,332
Operating Loss (EBIT)	(2,614)	(1,884)
Financial Income and Taxes, net	82	39
Net Loss	(2,532)	(1,845)
EBITDA	(2,313)	(1,659)
Basic Loss Per Share (in actual numbers)	(0.24)	(0.18)

## Consolidated Balance Sheet

	Dec 31, 2002	March 31, 2003
<b>Assets</b>		
Cash and Short Term Deposits	9,504	8,296
Inventories and Receivables	7,258	6,742
Long Term Investments	1,018	1,089
Fixed Assets	4,762	4,618
<b>Total Assets</b>	<b><u>22,542</u></b>	<b><u>20,745</u></b>
<b>Liabilities &amp; Shareholders Equity</b>		
Curent Liabilities	4,235	4,189
Long Term Liabilities	1,757	1,837
Shareholder Equity	16,550	14,719
<b>Total Liabilities &amp; Shareholders Equity</b>	<b><u>22,542</u></b>	<b><u>20,745</u></b>

## Consolidated Cash Flow Statements

	Three months ended March 31 2002	Three months ended March 31 2003
<b>Cash Flow</b>		
Cash Flow from Operating Activity	(1,939)	(1,146)
Cash Flow from Investing Activity	9,875	(62)
<b>Increase/(Decrease) Net</b>	<b><u>7,936</u></b>	<b><u>(1,208)</u></b>
Cash and Deposits at the Beginning of the Period	7,959	9,504
<b>Cash and Deposits at the End of the Period</b>	<b><u>15,895</u></b>	<b><u>8,296</u></b>