

# Enabling technologies for improved medical care



Oridion Systems Ltd.  
Letter to Shareholders  
November 2001



Dear Shareholder,

Oridion's third quarter, ending September 30, 2001, has seen a continued growth in the Company's activities, including the development of new markets for Oridion's products, and the initial sales of new products.

### **Financial results in Q3, 2001**

#### **Revenues –**

Company revenues for the third quarter remained constant at USD 2.5 million compared to USD 2.5 million for the third quarter of 2000. Revenues for the nine-month period ending September 30, 2001 increased slightly to USD 6.7 million compared to USD 6.6 million for the same period last year. The Company was successful in maintaining revenues at the same level as last year's results even without launching new OEM products - whereas revenues for this period last year included the launch of two new OEM products which had a major effect on sales.

The gross margin improved to 44.6% compared to 43.2% for the third quarter of 2000. The gross margin for the nine-month period ending September 30, 2001 improved to 42.1% compared to 41.1% for the same period last year. Oridion continues to introduce efficiencies into its production line aimed at lowering costs and improving gross margin.

#### **Research and Development—**

Net expenses increased slightly to USD 0.8 million compared to USD 0.7 million for the third quarter of 2000. In addition to constantly improving the Company's existing product line, increased R&D expenses include investments towards the development of new OEM products and new consumable products. Each new consumable product offered to the medical community helps increase the number of environments in which care providers can use effective non-invasive CO<sub>2</sub> monitoring. This allows the Company to constantly increase the market for its capnography products while offering care providers the ability to provide improved patient care. Additional R&D expenses include the development of new applications and markets for the BreathID™ - Oridion's patented Breath Testing System designed to enable the non-invasive diagnosis of organ-related diseases in *just one visit* to the physician's office.

#### **Sales and Marketing—**

Expenses increased to USD 2.1 million compared to USD 1.5 million for the third quarter of 2000. This increase reflects the activities of Oridion's direct marketing team as

well as increased marketing activities in both of Oridion's business units:

In the *Capnography Business Unit*, the Company's new US direct sales team has begun marketing activities in various regions throughout the US. Working closely together with the Company's US team of clinical education specialists, the direct sales team is responsible for directly marketing Oridion's Microstream® technology to end users in various medical care environments and has already received orders for Oridion's capnography products from various hospitals and healthcare providers in the US. In addition, Oridion's direct sales team helps support Oridion's world leading OEM partners in their marketing efforts.

In the *Breath Testing Business Unit*, the Company's US subsidiary has stepped up its preparations for the expected US launch of the first BreathID™ application—Oridion's patented <sup>13</sup>C urea *H. pylori* breath test—currently awaiting final FDA approval for the urea contained in this test. In addition to performing market research in anticipation of a future launch, this subsidiary is active in educating the medical community on the need for and the advantages offered by the BreathID™ by participating in leading industry tradeshows and by providing demonstrations of the BreathID™ abilities to numerous US medical centers, including leading hospitals, Gastroenterology clinics and more. In addition to US activities, the Breath Testing Business Unit has begun supplying the BreathID™ to leading medical centers in Israel – viewed by Oridion as a first-rate market platform for the commercial testing of the BreathID™ due to the high level of medical excellence and respected physicians in the field of gastroenterology. The Company has already begun to witness highly satisfactory rates of testing and use in this initial market and has also begun initial activity in Europe and Japan.

#### **Business Development—**

The third quarter of 2001 included first time expenses of USD 0.3 million relating to Oridion's new Business Development Department. Since its establishment in the first quarter of 2001, this department has continued to develop and expand Oridion's business into new markets and has succeeded in signing numerous distribution contracts for Oridion's products in Europe and Asia. This Department is also active in making preparations for obtaining regulatory approval for the Company's products in new markets worldwide.

**General and Administration—**

Expenses remained constant at USD 0.6 million compared to USD 0.6 million in the third quarter of 2000.

**Net loss—**

Increased to USD 2.5 million compared to USD 1.1 million for the third quarter of 2000.

**Achievements and Events in Q3, 2001****Sales of new Oridion VitalCap™ Monitor**

Following the launch in Q2 of the VitalCap™ - a version of Oridion's Microstream® capnography monitors designed to enable the use of Oridion's Microstream® CO<sub>2</sub> monitoring capability with large installed bases of patient monitoring systems - the Company has begun receiving orders for the VitalCap™ from medical centers in the US. The VitalCap™ will be directly supplied to these centers by Oridion's sales team, where they will be used with the large installed base of patient monitoring systems of Philips Medical Systems (formerly the Agilent Technologies Health Care Solutions Group) and Spacelabs Medical Inc.

Orders for the VitalCap™ have also been received from medical centers outside the US, where the Company plans to supply this product through its partners' networks of local distributors.

**New Capnography Consumable Products Cleared by FDA**

Oridion received FDA 510(k) market clearance for a number of new capnography consumable products: MAC-Line™ Nasal CO<sub>2</sub>, the Smart MAC-Line™ Oral/Nasal, and the MAC-Line™ Nasal O<sub>2</sub>/CO<sub>2</sub>. These innovative and patented products were designed to offer improved CO<sub>2</sub> monitoring capabilities in Monitored Anesthesia Care environments and extend these capabilities even to care settings that currently do not use Oridion's patented Microstream® capnography. Each of these products offers distinct features designed by Oridion to improve patient care, some offering the ability to monitor CO<sub>2</sub> released from both a patient's nose and mouth, others offering the ability to monitor CO<sub>2</sub> while simultaneously enabling the delivery of oxygen.

**Future activities and Outlook**

Following its initial launch, Oridion expects to see a growth in the number of VitalCap™ monitors and OEM products sold both in the US and worldwide. With this growth, the installed base for Oridion's Microstream®

technology continues to grow, and accordingly, the Company expects to see future growth in its FilterLine® consumable products. The Company is currently awaiting FDA clearance for a number of patented capnography consumable products, specifically designed by Oridion to help offer improved medical care in cases of procedural sedation. These next generation consumable products alert caregivers to the earliest possible warning signs of potentially fatal adverse events that can develop during procedural sedation, including apnea, ventilatory depression and airway obstruction. With the number of procedural sedation cases growing rapidly in recent years, Oridion expects to see strong market demand for this new product once launched.

The launch of the first BreathID™ application is expected to begin in the US following final FDA approval for the urea contained in Oridion's *H. pylori* breath test. With recent medical studies supporting the connection between the presence of untreated *H. pylori* and the development of gastric cancer, the importance and advantages offered by Oridion's *H. pylori* breath test become increasingly evident. Oridion's R&D department continues to develop additional applications for the BreathID™ system and has already begun the initial development stages of a new breath test application for use with the BreathID™ device.

Oridion remains determined to continue offering excellent products that make a true difference to the standard of patient care. We believe that it is this hard work and perseverance, as well as the quality of our technology, products and team that will continue to lead to long-term value for our investors and improved patient care for the medical community worldwide.

Best Regards,

George Yariv,  
President and CEO  
Jerusalem, 27 November 2001

## Consolidated Income Statements

in USD 000's (except for share data)	Three months ended Sept 30 2000	Three months ended Sept 30 2001	Nine months ended Sept 30 2000	Nine months ended Sept 30 2001
Revenues from sales	2,540	2,554	6,627	6,696
Gross profit	1,097	1,138	2,724	2,818
Percent of Revenues	43.2%	44.6%	41.1%	42.1%
Operating Expenses	2,859	3,859	8,259	12,366
Operating loss (EBIT)	(1,762)	(2,721)	(5,535)	(9,548)
Financial income net	702	230	519	1,038
Net Loss	(1,089)	(2,530)	(5,083)	(8,660)
EBITDA	(1,503)	(2,459)	(4,294)	(8,826)
Basic loss per share (in actual numbers)	(0.11)	(0.24)	(0.62)	(0.84)

## Consolidated Balance Sheet

	Dec 31, 2000	Sept 30, 2001
<b>Assets</b>		
Current Assets	38,041	28,320
Property & Equipment, net	3,226	4,452
<b>Total Assets</b>	<b>41,267</b>	<b>32,772</b>
<b>Liabilities &amp; Shareholders Equity</b>		
Current Liabilities	4,224	2,953
Long Term Liabilities	797	857
Shareholder Equity	36,246	28,962
<b>Total Liabilities &amp; Shareholders Equity</b>	<b>41,267</b>	<b>32,772</b>

## Consolidated Cash Flow Statements

	Nine Months ended Sept 30 2000	Nine Months ended Sept 30 2001
<b>Cash flow</b>		
Cash flow from Operating activity	(6,721)	(11,070)
Cash flow from Investing activity	(21,401)	14,336
Cash flow from Finance activity	39,509	1,126
<b>Increase net</b>	<b>11,387</b>	<b>4,392</b>