

# Enabling technologies for improved medical care



Oridion Systems Ltd.  
Letter to Shareholders  
August 2001



Dear Shareholder,

The second quarter of 2001 has witnessed challenging market conditions in both the general and medical-device industries. Oridion's response to this situation has been to implement a number of activities aimed at encouraging growth despite slowdowns in these industries. Accordingly, Oridion achieved expected revenues and a number of milestones for the second quarter of 2001.

## **Financial results in Q2, 2001**

### **Revenues –**

Company revenues for the second quarter remained constant at USD 2.3 million compared to USD 2.3 million for the second quarter of 2000. Revenues for the six month period ending June 30, 2001 remained constant at USD 4.1 million compared to USD 4.1 million for the same period last year. Revenues for the first half of 2001 are significant considering that even without launching new OEM products the Company achieved similar revenues to the first half of 2000, which included the launching of two new OEM products.

The gross margin improved to 43.2% compared to 42.4% for the second quarter of 2000. The gross margin for the six-month period ending June 30, 2001 improved to 40.6% compared to 39.8% for the same period last year.

### **Research and Development—**

Expenses increased to USD 804,000 compared to USD 667,000 for the second quarter of 2000. New R&D investments, aimed at increasing the Company's product line offering, include the development of new OEM capnography products following the signing of new OEM contracts and the final stages of completion for the new VitalCap™ capnography monitor which allows hospitals to integrate data from the VitalCap™ with the monitors in the Spacelabs Ultraview® Care Network™.

Additional R&D expenses include the development of new capnography consumable products aimed at increasing the range of medical environments in which care providers, ranging from paramedics to surgeons, can use capnography, and the initial stages of development for a new breath test for use with Oridion's patented BreathID™ breath testing system.

### **Sales and Marketing—**

Expenses increased to USD 1.8 million compared to USD 1.3 million for the second quarter of 2000. This increase reflects increased and new marketing activities in both of Oridion's business units:

In the *Capnography Business Unit*, the Company has completed recruiting its US direct sales team. This team will work together with the Company's US team of clinical education specialists, and in addition to supporting Oridion's world leading partners in their marketing efforts, will also directly market Oridion's Microstream® technology to end users in various medical care environments. This team will drive the sales of the capnography products in additional environments.

In the *Breath Testing Business Unit*, increased expenses stem from the Company's new US subsidiary, Oridion BreathID Inc., and its growing activities as it prepares to launch the first BreathID™ application—Oridion's patented *H. pylori* breath test—currently awaiting full FDA clearance. This subsidiary recently participated in both the DDW (Digestive Disease Week) and SAGES (Society of Gastrointestinal Endoscopic Surgeons) US conferences held in April-May 2001. During these conferences, Oridion conducted clinical trials to demonstrate the benefits offered by the BreathID™. Over three hundred leading physicians and gastroenterologists from around the world that attended these conferences, participated in this clinical study. Amongst the many advantages of the BreathID™ noted by these prestigious participants was the ability of the BreathID™ to diagnose the presence of *H. pylori* enabling physicians to prescribe treatment for patients in just one office visit.

### **Business Development—**

The second quarter of 2001 included first time expenses of USD 606,000 relating to Oridion's new Business Development Department. Since its establishment in Q1 2001, this department has been active in developing Oridion's various businesses around the world, recently opening a new Oridion subsidiary in Japan—Oridion Medical K.K. This new subsidiary will oversee both Oridion's capnography and breath testing businesses in Japan and the

Asia-Pacific region. The subsidiary has already signed its first distribution contract for the Company's capnography products in Asia. The Business Development Department has also been active with the necessary preparations for requesting regulatory approval of Oridion's products in Japan and Asia Pacific.

**General and Administration—**

Expenses increased to USD 710,000 compared to USD 638,000 in the second quarter of 2000. These expenses include the ongoing development of Oridion's new website, public company statutory reporting requirements and corporate public relations.

**Financial income—**

Increased to USD 315,000 compared to USD 122,000 for the second quarter of 2000.

**Net loss—**

Increased to USD 2.6 million compared to USD 1.6 million for the second quarter of 2000.

**Achievements and Events in Q2, 2001**

*Launch of new Oridion VitalCap™ Monitor*

Oridion concluded the development and launched its new capnography product—the VitalCap™. This patented product will enable the use of Oridion's Microstream® capnography with large installed bases of patient monitoring systems, extending to them the benefits offered by Oridion's technology such as CO<sub>2</sub> monitoring ability even for non-intubated patients and pre-mature newborns. The VitalCap™ has been initially launched to the installed base of patient monitoring systems by Philips Medical Systems (formerly Agilent Technologies Inc.'s Health Care Solution Group). The VitalCap™ has been successfully evaluated in US and European hospitals this quarter, and initial sales of this new product have begun.

*New Capnography Product Cleared by FDA*

Oridion received FDA 510(k) market clearance for a new capnography consumable product—the Smart Capnoline™. This product was designed to monitor the CO<sub>2</sub> released from both the patient's nose and mouth, thereby improving the care provider's ability to receive accurate information concerning the status of a patient's respiration. This product is an effective tool in helping care providers comply with new industry standards and guidelines regulating CO<sub>2</sub> monitoring in the growing segment of procedural sedation.

*Helicobacter pylori Breath Test Device Cleared by FDA*

In the early part of its third quarter 2001, Oridion received FDA 510(k) market clearance for its patented *H. pylori* breath test device. Oridion will start selling the BreathID™ system after receiving FDA approval for the urea tablet used in this breath test.

*Oridion starts selling BreathID™ in Israel*

Oridion has already launched the BreathID™ device and *H. pylori* breath test to leading medical centers in Israel, where the BreathID™ system has been cleared by the Israeli Ministry of Health.

**Future activities and Outlook**

The Company's Capnography Business Unit expects to begin sales in Q3 of its VitalCap™ monitor in the US for use with the Ultraview® Care Network™, a patient monitoring platform by Spacelabs Medical. The Company also plans to begin offering its capnography products in Japan and the Asia-Pacific region when it receives regulatory approval.

Oridion also plans to launch a new OEM capnography product with one of its present partners. In addition, Oridion is also planning to launch a new capnography product currently in the final stages of development with a new Oridion partner later this year. The consolidation of one of our OEM partners makes it difficult to estimate final launch dates, which may impact Oridion's year-end results.

Oridion's R&D department has begun the initial development stages of a new breath test application for use with the BreathID™ device.

The Company continues to develop the most advanced capnography and breath testing devices available. We believe that this will 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, 23<sup>rd</sup> August 2001

## Consolidated Income Statements

in USD 000's (except for share data)	Three months ended June 30 2000	Three months ended June 30 2001	Six months ended June 30 2000	Six months ended June 30 2001
Revenues from sales	2,362	2,326	4,087	4,142
Gross profit	1,002	1,005	1,627	1,680
Percent of Revenues	42.4%	43.2%	39.8%	40.6%
Operating Expenses	2,652	3,916	5,400	8,507
Operating loss (EBIT)	(1,650)	(2,911)	(3,773)	(6,827)
Financial income (expenses), net	122	315	(183)	808
Net Loss	(1,560)	(2,612)	(3,994)	(6,130)
EBITDA	(1,056)	(2,670)	(2,791)	(6,367)
Basic loss per share (in actual numbers)	(0.35)	(0.25)	(0.90)	(0.60)

## Consolidated Balance Sheet

	Dec 31, 2000	June 30, 2001
<b>Assets</b>		
Current Assets	38,041	31,985
Property & Equipment, net	3,226	4,098
<b>Total Assets</b>	<b>41,267</b>	<b>36,083</b>
<b>Liabilities &amp; Shareholders Equity</b>		
Current Liabilities	4,224	4,049
Long Term Liabilities	797	894
Shareholder Equity	36,246	31,140
<b>Total Liabilities &amp; Shareholders Equity</b>	<b>41,267</b>	<b>36,083</b>

## Consolidated Cash Flow Statements

	Six months ended June 30 2000	Six months ended June 30 2001
<b>Cash flow</b>		
Cash flow from operating activity	(4,039)	(7,991)
Cash flow from Investing activity	(792)	24,920 *
Cash flow from finance activity	40,121	751
<b>Increase (Decrease), net</b>	<b>35,290</b>	<b>17,680</b>
Cash and Cash Equivalent at the Beginning of the Period	2,336	4,762
Cash and Cash Equivalent at the End of the Period	<b>37,626</b>	<b>22,442</b>

\* Long term deposits come due.