



Oridion®

Smart Solutions One Breath at a Time™



We are dedicated to providing innovative technology for improving patient care around the world

Oridion Systems Ltd.

CEO Letter to Shareholders

August 2008

Dear Shareholder,

I am pleased once again to be able to report improved results for Oridion. Revenues grew 24% for the second quarter, Oridion's 30th consecutive quarter-on-quarter growth. Revenue growth was 29% for the six-month period ended June 30, 2008, compared with the same period in 2007. Operating income increased to USD 1.8 million, up by 26% for the first six months of 2008. These results were achieved despite the significant depreciation of the US Dollar against the Israeli Shekel and the Euro, relative to last year.

Financial results in Q2 and first half year, 2008

	Six months ended June 30,		Three months ended June 30,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
U.S. dollars in thousands				
Revenues	21,955	17,033	10,695	8,624
Gross Profit	12,133	9,097	5,899	4,685
<i>Gross Margin</i>	55.3%	53.4%	55.2%	54.3%
Operating Expenses	10,357	7,687	5,267	3,931
Operating Income	1,776	1,410	632	754
<i>Operating Margin</i>	8.1%	8.3%	5.9%	8.7%
Financial income (expenses), net	313	(195)	302	(218)
Income tax benefits	1,093	-	943	-
Net Income	3,182	1,215	1,877	536
EBITDA				
Operating Income	1,776	1,410	632	754
Depreciation and amortization	673	718	360	434
EBITDA	2,449	2,128	992	1,188
<i>EBITDA Margin</i>	11.2%	12.5%	9.3%	13.8%

Revenues

Company revenues for the second quarter of 2008 increased by 24% to USD 10.7 million compared to USD 8.6 million for the same period last year. Revenues for the six-month period ended June 30, 2008, increased by 29% to USD 22.0 million compared to USD 17.0 million for the same period last year. Revenue growth is being driven by a general increase in demand from the market for Oridion capnography devices supplied by our leading OEM partners and an acceleration in usage of our patient-interface consumables. In general, our revenue growth continues to be primarily a consequence of increased awareness of the need to improve patient safety in hospital and pre-hospital settings and the related continuing stream of recommendations by important professional medical organizations for the use of capnography to improve standards of patient safety and patient care.

Revenue growth for the first six months of 2008 was greater than usual, especially during the first quarter of 2008, resulting from the partial resumption of sales to Physio-Control, who had a Federal Drug Administration (FDA) related voluntary cessation of shipments of their defibrillators to the US market in quarter one of 2007. Sales to Physio-Control resumed in the latter part of last year. This year's sales to Physio-Control were greater in Q1 than Q2, because of pent-up demand released in Q1 as well as their building of safety stock in that quarter.

The proportion of our revenues generated by the sale of consumable products, which has been growing steadily over the past years, continued to increase further. Consumable revenues grew by 36% in the first half of the year and accounted for 41% of total revenues. Two years ago consumable revenue accounted for 32% of total revenues for the comparable half-year period. The value creating programs that Oridion launched over the past few years for sustaining high consumables growth clearly are showing their impact. Oridion's network of independent consumables-focused distributors (the 'ODN') now covers all of our major markets. In addition, the number of Company-sponsored and independent clinical studies by opinion leaders has increased substantially. The results of these studies, most of which are being published and presented at medical congresses, are providing further compelling evidence of the importance and benefits of capnography monitoring to improve patient safety, both in traditional settings, such as critical care and EMS (ambulance services), and in the emerging environments of procedural sedation and pain management. These studies are clearly having an impact in creating greater awareness and demand for our products in all of our market segments.

Gross Profit

The Company's gross profit for the second quarter of 2008 increased to USD 5.9 million compared to USD 4.7 million for the same period last year. The gross margin for the three-month period ended June 30, 2008, improved to 55.2% compared to 54.3% for the same period last year. The gross margin for the six-month period ended June 30, 2008, improved to 55.3% compared to 53.4% for the same period last year. These increases are primarily due to the growth in revenues, continued success with productivity initiatives, and the increase in consumables as a percent of sales.

Operating Expenses

Total operating expenses were USD 5.3 million for the second quarter of 2008 compared to USD 3.9 million for the same period last year. Operating expenses for the six-month period ended June 30, 2008, were USD 10.4 million (47% of revenues) compared to USD 7.7 million for the same period last year (45% of revenues), an increase of 35%.

The major reasons for the increase are higher investments in sales and marketing activities and personnel, increased expenditure on R&D programs for new products, and the appreciation of the Israeli Shekel against the US Dollar. Excluding the effect of the Shekel appreciation, the growth in operating expenses would have been 25% relative to the first half of 2007.

In fiscal year 2007, due to the unexpected Physio-Control circumstance, the Company delayed several planned initiatives in sales and marketing and R&D. Because of the expectation of strong revenue growth this year and the attractive future growth opportunities facing Oridion, many of these delayed initiatives have been released during the first two quarters of 2008. An unusually higher level of growth in operating expenses for the first six months of 2008, excluding the currency effect, reflects these additional investments.

Research and Development

Research and development expenses increased to USD 1.1 million for the second quarter of 2008 compared to USD 0.7 million for the same period last year. R&D expenses for the six-month period ended June 30, 2008 were USD 2.2 million compared to USD 1.5 million for the same period last year.

The increase in R&D expenses is attributable to further investments in the recently launched "Smart Capnography" initiatives (with a major new launch planned for the American Society of Anesthesia Congress later this year), more intensive programs to enhance the proprietary technologies contained in the Company's hardware and consumable products, a significant strengthening of our IP portfolio, and the development of new and modified products aimed at expanding the use of Microstream[®] capnography.

Sales and Marketing

Sales and marketing expenses for the second quarter of 2008 increased to USD 3.2 million compared to USD 2.4 million for the same period last year. Sales and Marketing expenses for the six-month period ended June 30, 2008, were USD 6.3 million compared to USD 4.8 million for the same period last year.

This growth in expenses is primarily attributable to a further increase in the management and support of Oridion's ambitious clinical study programs aimed at demonstrating the compelling benefits and clinical value offered by the Company's CO₂ monitoring products. The expense growth also included: a strengthening of Oridion's product management activities; an increase in the support activities for Oridion's OEM and ODN partners in their educational and marketing efforts; more training sessions for the growing number of customers that have adopted Microstream[®] capnography; and additional personnel needed to implement these intensified programs. These efforts are aimed at increasing the usage rate of Oridion's products and capitalizing on the growing awareness in the relevant sectors of the healthcare community of the benefits of capnography monitoring.

General and Administration

General and Administration expenses for the second quarter of 2008 increased to USD 0.9 million compared to USD 0.7 million for the same period of last year. General and Administration expenses for the six-month period ended June 30, 2008, were USD 1.8 million compared to USD 1.4 million for the same period last year. The increases were mainly due to the appreciation of the Israeli Shekel against the US Dollar.

Operating Income

Oridion earned an operating income of USD 0.6 million for the second quarter of 2008 compared to an operating income of USD 0.8 million for the same period last year. Approximately USD 0.2 million in profitable currency hedging activities that are included in Financial income are in fact directly linked to the increased costs, both in production and operating expenses, owing to the weak US Dollar.

The operating income for the six-month period ended June 30, 2008 increased to USD 1.8 million compared to an operating income of USD 1.4 million for the same period last year, an increase of 26%. Despite this increase, the operating margin decreased marginally to 8.1% compared to 8.3% for the same period last year. It should be noted that excluding the US Dollar devaluation effect on operating expenses, the margin would have been approximately 3.4 percentage points higher, or 11.5% for the first half of 2008.

Financing activities

Financial income for the second quarter of 2008 improved to USD 0.3 million compared to a finance loss of USD 0.2 million for the same period last year. The increase is attributable to the higher balance of cash and marketable securities compared to last year and the positive results of the currency hedging activities owing to the continuing weak US Dollar. All

changes in the fair value of the currency hedging contracts are recorded in net finance expenses.

Income tax benefits

In accordance with a relatively new interpretation of US GAAP policy, a non-cash tax benefit income of USD 0.9 million was recorded during the second quarter of 2008, and USD 1.1 million for the first half of the year. This compares to no tax benefit income being recorded in the first half of last year. The primary increase is a result of the effect of a depreciating US Dollar on tax losses carried forward that are recorded in Israeli Shekels. These carry-forward losses are expected to be eliminated in future years, whereupon the Company's profits will be taxed.

Net Income

Net income for the second quarter of 2008 increased to USD 1.9 million compared to USD 0.5 million the second quarter of 2007. The net income for the six-month period ended June 30, 2008 increased to USD 3.2 million compared to a net profit of USD 1.2 million for the same period of 2007. The improvement in the net income includes the income tax benefits as explained above.

Cash Flow

Net cash provided by operating activities was USD 3.1 million for the six-month period of 2008. Net cash used in investing activities was USD 4.9 million owing to investments in marketable securities. Net cash provided by financing activities amounted to USD 0.1 million owing to the exercise of employee stock options. The net cash balance including marketable securities at the end of the period was USD 17.0 million.

Achievements and Events during Q2, 2008

The following were noteworthy events and achievements during the second quarter of 2008:

- In June, Oridion won the "2008 Manufacturers Partnership Award" from IMDA, the association of medical specialty sales and marketing companies in the US. The IMDA Manufacturers Partnership Award is given once a year to a selected manufacturer that offers exceptional clinical and sales support, communicates frequently and openly with its distributors and responds promptly to questions, suggestions or problems. IMDA also recognized Oridion's excellent marketing programs as well as its active contribution to each of its distributor's increased revenues.
- Oridion's clinical studies program was extremely active in the quarter. Eighteen new US and international clinical papers were published or submitted for publication in Q2 alone. Most significant of these studies was a meta-study which found that caregivers using capnography are 28 times more likely to recognize ventilatory depression than those who don't.
- The Surestream[™] line of Oridion consumables was launched to serve the Welch Allen installed base of patient monitors. This is the first time Oridion has launched a line of consumables compatible with non-Oridion capnography monitors. The early customer reaction has been very positive and this should represent a significant new market opportunity for the Company.

Outlook

Our first-half revenue growth continues to reflect the positive developments that we are seeing in our markets. The partial resumption of hardware sales to Physio-Control during the first six months of 2008, in comparison with the almost complete stop in orders that took place in the first-half of 2007, had an extra positive impact on our growth rates so far this year. However, Physio-Control still does not have an agreement with the FDA to resume unrestricted sales to their markets.

For the full year 2008 we maintain our revenue growth guidance of 25%.

Oridion management has viewed 2008 as a year to invest more actively in R&D and sales and marketing after the relative lull in 2007. These efforts have substantially increased our product pipeline in hardware, consumables and "Smart Capnography", and have substantially strengthened our marketing programs. The resulting significant growth in operating expenses (excluding the US Dollar depreciation effect) is, therefore, an investment in future growth and reflects management's positive view of future market opportunities, both to expand the market and to carve out an increasingly strong leadership position for Oridion.

With regard to earnings, we continue to feel the consequences of the combination of the weak US Dollar and the strong Israeli Shekel. While we have taken actions to mitigate the impact of these currency developments, this situation is nevertheless resulting in significantly higher operating costs than expected. As a consequence, our current guidance for full-year 2008 is for an operating income margin of 12%-13%. If not for the currency developments, the expected margin would be 3%-4% higher.

Beyond 2008, we continue to see strong market developments and remain optimistic.

In general, the recent significant level of acquisition activity in the industry (referred to in last quarter's report) signals that the patient monitoring industry is actively consolidating and could well consolidate further in the coming years. When our OEM partners are involved (as has been the case with six of our partners over the past year), be it through acquisition or spin-off, we are observing some near-term loss in focus and sales momentum (as it effects Oridion) owing to the resulting organizational and operational changes, typical of these situations. These are generally passing short-term phenomena.

More fundamentally, we estimate that the intensive, ongoing programs we have underway to improve the clinical value of our solutions (e.g., Smart Capnography), deepen our IP portfolio improve our productivity, and will further strengthen our competitive position. This underpins our belief that we are well positioned to deal with, and benefit from, these changes in the structure of the market. Moreover, viewed within the context of the strong growth drivers in our markets and channels, including our expectation for achieving significant new OEM partnerships in the coming year, we believe that Oridion's growth trend achieved over the past five years, is sustainable for the coming years ahead.

With regard to our future profitability, we are also optimistic. We believe that the new capacity level that we have reached this year in our operations – i.e., in R&D and sales and marketing - will enable us to achieve significant operating cost leverage as we grow revenues in the coming few years. Combined with the potential for improving gross margins as a result of expected positive developments in our product mix and product cost reductions, we believe there are encouraging prospects for improved future profitability.

We again thank our dedicated team of employees, who diligently strive to provide medical technologies and products of unparalleled capabilities and quality, and which make substantive improvements to patient safety. We also continue to thank our shareholders and partners for their ongoing support and belief in Oridion. We strive to reward that support with increased shareholder value as Oridion constantly improves its financial performance. We look forward to sharing our future successes with you.

Sincerely,



Alan Adler
Chairman of the Board of Directors and CEO
Jerusalem, Israel
August 18, 2008

Certain statements made herein that are not historical are forward-looking. The words "estimate" "expect" "believe" and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, our ability to maintain profits, the market demands for our Capnography products, our ability to focus our team on the Capnography business, changes in general economic and business conditions, inability to maintain market acceptance to the Company's products, inability to timely develop and introduce new technologies, products and applications, rapid changes in the market for the Company's products, loss of market share and pressure on prices resulting from competition, introduction of competing products by other companies, inability to manage growth and expansion, loss of key OEM partners, factors effecting OEM partners' position in the market, inability to attract and retain qualified personnel, inability to protect the Company's proprietary technology.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

	June 30, 2008	December 31, 2007
	Unaudited	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	4,867	6,642
Short-term deposits	-	50
Marketable securities	12,132	7,498
Trade receivables	7,709	7,983
Other accounts receivable and prepaid expenses	1,051	982
Inventories	5,883	4,612
<u>Total current assets</u>	<u>31,642</u>	<u>27,767</u>
LONG-TERM ASSETS:		
Other accounts receivable and prepaid expenses	60	59
Deferred tax assets	5,393	4,300
Severance pay fund	2,296	1,814
Property and equipment, net	3,188	2,990
<u>Total long-term assets</u>	<u>10,937</u>	<u>9,163</u>
<u>Total assets</u>	<u>42,579</u>	<u>36,930</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	4,452	3,634
Other accounts payable and accrued expenses	3,391	2,580
<u>Total current liabilities</u>	<u>7,843</u>	<u>6,214</u>
ACCRUED SEVERANCE PAY	3,092	2,521
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares of NIS 0.01 par value - Authorized: 20,000,000 shares at June 30, 2008 and December 31, 2007; Issued and outstanding: 12,384,284 shares at June 30, 2008 and 12,299,523 shares at December 31, 2007	32	32
Additional paid-in capital	78,214	77,764
Accumulated other comprehensive income	4,216	4,399
Accumulated deficit	(50,818)	(54,000)
<u>Total shareholders' equity</u>	<u>31,644</u>	<u>28,195</u>
<u>Total liabilities and shareholders' equity</u>	<u>42,579</u>	<u>36,930</u>

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars in thousands (except share and per share data)

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2008	2007	2008	2007	2007
	Unaudited		Unaudited		
Revenues	21,955	17,033	10,695	8,624	37,554
Cost of revenues	9,822	7,936	4,796	3,939	17,130
Gross profit	12,133	9,097	5,899	4,685	20,424
Operating expenses:					
Research and development	2,210	1,504	1,137	743	3,230
Selling and marketing	6,331	4,784	3,199	2,446	9,555
General and administrative	1,816	1,399	931	742	2,631
Total operating expenses	10,357	7,687	5,267	3,931	15,416
Operating income	1,776	1,410	632	754	5,008
Financial income (expenses), net	313	(195)	302	(218)	591
Income before tax benefit	2,089	1,215	934	536	5,599
Tax benefit	1,093	-	943	-	4,300
Net income	3,182	1,215	1,877	536	9,899
Basic net earnings per Ordinary share	0.18	0.10	0.08	0.04	0.81
Diluted net earnings per Ordinary share	0.17	0.09	0.07	0.04	0.73
Weighted average number of shares used for computing basic net earnings per share	12,317,300	12,027,202	12,334,667	12,139,110	12,283,519
Weighted average number of shares used for computing diluted net earnings per share	13,380,081	12,953,015	13,346,377	13,096,652	13,470,972

The accompanying notes are an integral part of the consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Accumulated comprehensive income	Accumulated deficit	Total shareholders' equity
Balance as of January 1, 2007	27	76,446	-	(63,899)	12,574
Exercise of options, net	5	640	-	-	645
Stock-based compensation	-	678	-	-	678
Unrealized gain on marketable securities	-	-	4,399	-	4,399
Net income	-	-	-	9,899	9,899
Balance as of December 31, 2007	32	77,764	4,399	(54,000)	28,195
Exercise of options, net	*) -	106	-	-	106
Stock-based compensation	-	344	-	-	344
Unrealized gain on marketable securities	-	-	(183)	-	(183)
Net income	-	-	-	3,182	3,182
Balance as of June 30, 2008 (unaudited)	32	78,214	4,216	(50,818)	31,644

*) Represents an amount lower than \$ 1.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30,		Year ended December 31,
	2008	2007	2007
	Unaudited		
<u>Cash flows from operating activities:</u>			
Net income	3,182	1,215	9,899
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation	389	386	722
Stock-based compensation expenses	284	332	540
Accrued interest on short-term bank deposits	-	-	(5)
Deferred tax assets	(1,093)	-	(4,300)
Accrued severance pay, net	89	60	95
Decrease (increase) in trade receivables	274	467	(1,440)
Decrease (increase) in other accounts receivable and prepaid expenses	(41)	111	(237)
Increase in inventories	(1,271)	(167)	(364)
Increase (decrease) in trade payables	625	(900)	(597)
Increase (decrease) in other accounts payable and accrued expenses	871	(386)	(639)
Gain from sale of marketable securities	(232)	-	(372)
Net cash provided by operating activities	3,077	1,118	3,302
<u>Cash flows from investing activities:</u>			
Proceeds from sale of bank deposits	50	-	30
Investment in marketable securities	(5,076)	(2,159)	(3,238)
Proceeds from sale of property and equipment	-	-	1
Purchase of property and equipment	(394)	(378)	(935)
Proceeds from sale of marketable securities	491	-	511
Net cash used in investing activities	(4,929)	(2,537)	(3,631)
<u>Cash flows from financing activities:</u>			
Proceeds from exercise of options and issuance of shares, net	77	545	645
Net cash provided by financing activities	77	545	645
Increase (decrease) in cash and cash equivalents	(1,775)	(874)	316
Cash and cash equivalents at the beginning of the period	6,642	6,326	6,326
Cash and cash equivalents at the end of the period	4,867	5,452	6,642

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30,		Year ended December 31,
	2008	2007	2007
	Unaudited		
<u>Significant non-cash transactions:</u>			
Other accounts receivable in respect of exercise of options	29	13	-
Classification of other accounts payable to additional paid-in capital	60	-	138
Purchase of property and equipment	193	-	-

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 1:- GENERAL

Oridion Systems Ltd. ("the Company") is a holding company, which wholly-owns Oridion Medical 1987 Ltd. and all of its subsidiaries. The Company is a medical technology company based in Jerusalem, Israel and Needham, Massachusetts, U.S.A. The Company employs its patented Microstream technology in the development, manufacturing and marketing of products used in its business - Capnography - the non-invasive measurement of carbon dioxide contained in the exhaled breath to determine the adequacy of respiration.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2007, are applied consistently in these financial statements.

NOTE 3:- UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2008, are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

NOTE 4:- FAIR VALUE MEASUREMENTS

The Company adopted SFAS No. 157, "Fair Value Measurements," (as impacted by FSP Nos. 157-1 and 157-2) effective January 1, 2008, with respect to fair value measurements of (a) non-financial assets and liabilities that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis (at least annually) and (b) all financial assets and liabilities.

Under SFAS No. 157, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. SFAS No. 157 also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy is broken down into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 4:- FAIR VALUE MEASUREMENTS (Cont.)

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and liabilities that are measured at fair value on a recurring basis:

At Oridion, effective January 1, 2008, fair value under SFAS No. 157 principally applied to financial asset and liabilities such as available-for-sale marketable securities. These items were previously and will continue to be marked-to-market at each reporting period; however, the definition of fair value used for these mark-to-markets are now applied using SFAS No. 157. The information in the following paragraphs and tables primarily addresses matters relative to these financial assets and liabilities. Separately, there were no material fair value measurements with respect to non-financial assets or liabilities that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis subsequent to the effective date of SFAS No. 157.

Following is a description of the valuation methodologies used for the respective financial assets and liabilities measured at fair value.

Available-for-sale marketable securities:

Marketable securities are valued utilizing multiple sources, as the best individual price and the best source of information can change from one day to the next. Therefore, a weighted average price is used for these securities. Market prices are obtained for these securities from a variety of industry standard data providers, security master files from large financial institutions, and other third-party sources. These multiple prices are used as inputs into a distribution-curve-based algorithm to determine the daily fair value to be used. Oridion classifies treasury securities as level 1, while all other marketable securities are classified as level 2.

The following table provides information by level for assets and liabilities that are measured at fair value, as defined by SFAS No. 157, on a recurring basis.

Description	Fair value	Fair value measurements		
	June 30, 2008	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	4,867	4,867	-	-
Available-for-sale marketable securities	12,132	6,545	5,587	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 5:- NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 establishes a single definition of fair value and a framework for measuring fair value, sets out a fair value hierarchy to be used to classify the source of information used in fair value measurements, and requires new disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. This statement applies under other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued Staff Positions (FSPs) No. 157-1 and No. 157-2, which, respectively, remove leasing transactions from the scope of SFAS No. 157 and defer its effective date for one year relative to certain non-financial assets and liabilities. As a result, the application of the definition of fair value and related disclosures of SFAS No. 157 (as impacted by these two FSPs) was effective for Oridion beginning January 1, 2008 on a prospective basis with respect to fair value measurements of (a) non-financial assets and liabilities that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis (at least annually) and (b) all financial assets and liabilities. This adoption did not have a material impact on Oridion's consolidated results of operations or financial condition. The remaining aspects of SFAS No. 157 for which the effective date was deferred under FSP No. 157-2 are currently being evaluated by the Company. Areas impacted by the deferral relate to non-financial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis. This deferral applies to such items as non-financial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or non-financial long-lived asset groups measured at fair value for an impairment assessment. The effects of these remaining aspects of SFAS No. 157 are to be applied by Oridion to fair value measurements prospectively beginning January 1, 2009. The Company does not expect them to have a material impact on Oridion's consolidated results of operations or financial condition.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". SFAS No. 159 permits an entity to choose, at specified election dates, to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. An entity reports unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected are recognized in earnings as incurred and not deferred. SFAS No. 159 also established presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 was effective for financial statements issued for fiscal years beginning after November 15, 2007 (January 1, 2008 for Oridion). At the effective date, an entity could elect the fair value option for eligible items that existed at that date. The entity was required to report the effect of the first re-measurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings. The Company did not elect the fair value option for eligible items that existed as of January 1, 2008.

In June 2007, the FASB's Emerging Issues Task Force reached a consensus on EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities" that required nonrefundable advance payments made by the Company for future R&D activities to be capitalized and recognized as an expense as the goods or services are received by the Company. EITF Issue No. 07-3 was effective for Oridion with respect to new arrangements entered into beginning January 1, 2008. The adoption

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

of EITF Issue No. 07-3 did not have a material impact on Oridion's consolidated results of operations or financial condition.

NOTE 5:- NEW ACCOUNTING PRONOUNCEMENTS (Cont.)

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141(R)). Under SFAS No. 141(R), an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. In addition, acquired in-process research and development (IPR&D) is capitalized as an intangible asset and amortized over its estimated useful life. The adoption of SFAS No. 141(R) will change our accounting treatment for business combinations on a prospective basis beginning in the first quarter of fiscal year 2009.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which will require increased disclosures about an entity's strategies and objectives for using derivative instruments; the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities;" and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. Certain disclosures will also be required with respect to derivative features that are credit risk-related. SFAS No. 161 is effective for Oridion beginning January 1, 2009 on a prospective basis. The Company does not expect this standard to have a material impact on Oridion's consolidated results of operations or financial condition.

NOTE 6:- SIGNIFICANT CUSTOMERS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2008	2007	2008	2007	2007
	Unaudited		Unaudited		Audited
	% of total revenues				
Customer A	28	30	30	28	26
Customer B	24	11	20	11	18
Customer C	5	16	5	14	10

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Next quarterly report

November 10, 2008

Announcement of 3rd quarter 2008 results



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