

# News Release



## Oridion Continues Its Strong Performance 3<sup>rd</sup> Quarter 2008 Revenue Growth of 25%

Jerusalem/Needham – November 10, 2008 – Oridion Systems Ltd. (SWX: ORIDN) – continues to report strong performance with revenue growth of 25% for the third quarter of 2008. For the first nine months of 2008, revenues grew by 27% and amounted to USD 33.97 million compared to USD 26.66 million for the same period last year. Operating Income rose to USD 3.51 million for the first nine months of 2008, representing an increase of 20% compared to USD 2.93 million for the same period in 2007. Net Income increased to USD 3.70 million for the nine-month period in 2008 compared to USD 3.13 million for the same period in 2007. Oridion reiterates its financial targets of 25% revenue growth and 12%-13% operating income margin for the entire fiscal year of 2008.

### Revenues

Company revenues for the third quarter of 2008 amounted to USD 12.02 million, representing an increase of 25% from USD 9.63 million for the third quarter of 2007. For the nine-month period ended September 30, 2008 revenues increased by 27% to USD 33.97 million compared to USD 26.66 million for the same period last year. The continued strong growth reflects the medical community's increased awareness for the need to improve patient safety in hospital and pre-hospital settings, and it relates to a continuing stream of new recommendations by important professional medical organizations for the use of capnography to improve standards of patient safety and patient care.

To a certain extent, the revenue growth for the first nine months of 2008 has been higher than usual due to the partial resumption of sales to Physio-Control (who had a FDA-related voluntary cessation of shipments of their defibrillators to the US market in the first quarter of 2007). As stated earlier, sales to Physio-Control resumed in the latter part of 2007.

Consumable products continued to increase strongly in nominal terms as well as measured in proportion to total revenues. Revenues for consumables grew by 44% for the first nine months of 2008 and accounted for 42% of total revenues. Two years ago, consumable revenues accounted for 33% of total revenues for the comparable nine-month period. Oridion's network of independent distributors ("ODN") has become an important asset in the Company's goals to continuously increase the consumption of consumables per monitoring device and to educate hospital environments in the benefits and usage of capnography. Another important aspect for the increased awareness of capnography is the number of Company-sponsored and independent clinical studies that are published by opinion leaders. During the first nine months of 2008, the number of such studies has more than doubled compared to the same period last year.

### Operating Results

**Gross Profit** for the third quarter of 2008 increased to USD 6.77 million, representing gross margin of 56.3%, compared to gross profit of USD 5.28 million and gross margin of 54.8% for the same period last year. For the first nine-month period ended September 30, 2008, gross profit amounted to USD 18.90 million, an increase of 31% compared to gross profit of USD 14.38 million for the same period last year. Gross margin improved further by 1.7 percentage points, as it reached 55.6% for the nine-month period in 2008 from 53.9% for the first nine months in 2007. The sustained increase in gross margins is primarily due to the increase in

revenues, continued success with productivity initiatives, the increase in consumables as a percentage of sales and, to a lesser extent, the effects of a weaker US Dollar against the Euro.

**Operating Expenses** for the third quarter of 2008 were USD 5.04 million compared to USD 3.76 million for the third quarter of 2007. Operating expenses for the nine-month period ended September 30, 2008 were USD 15.39 million (45% of revenues) compared to USD 11.45 million for the same period last year (43% of revenues). The major reasons for this 34% increase are additional investments in sales and marketing and on R&D programs, as well as the volatility in currency movements with a strong appreciation of the Israeli Shekel against the US Dollar. Excluding the effects of the Shekel appreciation, operating expenses would have grown by 25% relative to the first nine-month period of 2007.

*Research and Development expenses* increased to USD 1.20 million for the third quarter of 2008 compared to USD 0.85 million for the third quarter of 2007. The increase in R&D is attributable to more intense programs to enhance the Company's proprietary technologies contained in its hardware and software products, a significant strengthening of the IP portfolio, and the development of new and modified consumable products aimed at expanding the use of Microstream® capnography (for example: the latest major initiative "IPI – Integrated Pulmonary Index" was launched in October 2008 at the American Society of Anesthesiologists Congress).

*Sales and Marketing expenses* for the third quarter of 2008 increased to USD 2.98 million from USD 2.36 million for the same period last year. The higher expenses are primarily attributable to a further increase in the management and support of Oridion's clinical study programs aimed at demonstrating the compelling benefits and clinical value of the Company's CO<sub>2</sub> monitoring products, and various support activities for the Company's OEM and ODN partners in their educational and marketing efforts.

*General and Administrative expenses* for the third quarter of 2008 increased to USD 0.86 million from USD 0.55 million for the same period last year.

**Operating Income** for the third quarter of 2008 amounted to USD 1.73 million compared to USD 1.52 million for the third quarter of 2007. For the nine-month period ended September 30, 2008 the Company achieved an increase of 20% in operating income to USD 3.51 million, reflecting operating margin of 10.3%, compared to USD 2.93 million and operating margin of 11.0% for the same period in 2007. Excluding the currency fluctuation effects on operating expenses, the margin would have been approximately 3 to 4 percentage points higher for the first nine months of 2008.

**Financial result, net.** Oridion reported financial expenses of USD 1.22 million, net, for the first nine months of 2008 compared to financial income of USD 0.40 million for the same period in 2007. The net expenses this year are mainly attributable to the high volatility in foreign exchange markets, in particular reflecting the latest rebound during the third quarter 2008 of the US Dollar against the Israeli Shekel and the Euro. All changes in the fair value of currency hedging contracts are recorded in net finance expenses.

**Income tax benefits**, in accordance with the interpretation of US GAAP policy, a non-cash tax benefit income of USD 1.09 million was recorded for the first nine months of 2008. No tax benefit income was recorded during the third quarter of 2008 or during the first nine-month period in 2007. The income benefit is the result of carry-forward losses, which are expected to be eliminated in several years whereupon the Company's profits will be taxed. It is likely that the actual taxes going forward at that future time will be at single-digit rates owing to the Company's Approved Enterprise tax status.

**Net Income** for the third quarter of 2008 amounted to USD 0.51 million compared to USD 1.92 million for the third quarter of 2007. Net income for the nine-month period ended September 30, 2008, increased by 18% to USD 3.70 million compared to USD 3.13 million for the first nine months of 2007.

### **Outlook**

Mr. Adler, Chairman of the Board and CEO, points out: “Our strong revenue growth in Q3 and the first nine months of 2008 mainly reflects the ongoing positive developments in our markets, with some additional drive from the resumption of hardware sales to Physio-Control. With regard to the recent turmoil in financial markets worldwide, we have thus far not experienced any material impact on near-term demand in our markets.

Accordingly, we are maintaining our revenue growth guidance of 25% and our operating margin guidance of 12-13% for the full year 2008.

Looking beyond 2008, we recognize that we are entering a period of major economic uncertainty that may lead to a prolonged economic recession worldwide. However, we take some comfort from the fact that demand in the healthcare industry in general, and in the medical-device (patient monitoring) market in particular, is typically less impacted by economic downturns than other sectors. Notwithstanding that, we would be surprised if there wasn't eventually some dampening of hospital/pre-hospital capital spending, with a possible softening in the demand for our OEM partners' products and systems.

Oridion's strong growth record, however, has not been based on the growth of the patient monitoring, defibrillator or medication-delivery markets that our partners operate in, as these are all mature markets. Our growth has been based on the penetration of capnography into these markets, which, despite our rapid growth, remain for the most part highly under-penetrated. Moreover, the growth drivers in the capnography market are, if anything, getting stronger.

We believe, moreover, that the intensive programs we have underway to further improve the clinical value of our solutions (e.g. Smart Capnography), combined with our expectation for achieving significant new partnerships and revenue-generating agreements within the coming year, will not only measurably strengthen our leadership position but also help to mitigate the impact of any tightening of healthcare expenditures and to sustain continued growth in both our hardware and consumables businesses during the uncertain times ahead.”

For the complete consolidated financial report on the third quarter and first nine months of 2008 results please refer to the Letter of Shareholders, dated November 2008, available on Oridion's website [www.oridion.com](http://www.oridion.com) – Investor Relations – Financial Reports.

## Consolidated Statements of Operations

<b>Nine months ended September 30,</b> in USD '000 (except share and per share data)	<b>2008</b> unaudited	<b>2007</b> unaudited
<b>Revenues</b>	<b>33,970</b>	<b>26,660</b>
Cost of revenues	15,071	12,283
<b>Gross Profit</b>	<b>18,899</b>	<b>14,377</b>
<i>Gross margin</i>	<i>55.6%</i>	<i>53.9%</i>
Operating expenses:		
Research and development	3,408	2,351
Selling and marketing	9,307	7,146
General and administrative	2,678	1,950
Total operating expenses	15,393	11,447
<b>Operating Income</b>	<b>3,506</b>	<b>2,930</b>
<i>Operating income margin</i>	<i>10.3%</i>	<i>11.0%</i>
Financial income (expenses), net	(902)	203
Income tax benefits	1,092	-
<b>Net Income</b>	<b>3,696</b>	<b>3,133</b>
Basic net earnings per ordinary share in USD	0.30	0.26
Diluted net earnings per ordinary share in USD	0.28	0.24

<b>Third Quarter</b> in USD '000	<b>2008</b> unaudited	<b>2007</b> unaudited
<b>Revenues</b>	<b>12,015</b>	<b>9,627</b>
Cost of revenues	5,249	4,347
<b>Gross Profit</b>	<b>6,766</b>	<b>5,280</b>
<i>Gross margin</i>	<i>56.3%</i>	<i>54.8%</i>
Operating expenses:		
Research and development	1,198	847
Selling and marketing	2,976	2,362
General and administrative	862	551
Total operating expenses	5,036	3,760
<b>Operating Income</b>	<b>1,730</b>	<b>1,520</b>
<i>Operating income margin</i>	<i>14.4%</i>	<i>15.8%</i>
Financial income (expenses), net	(1,216)	398
Income tax benefits	-	-
<b>Net Income</b>	<b>514</b>	<b>1,918</b>

## Consolidated Balance Sheets

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
in USD '000	unaudited	audited
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	3,648	6,642
Short-term deposits	-	50
Marketable securities	10,792	7,498
Trade receivables	8,337	7,983
Other accounts receivable and prepaid expenses	1,080	982
Inventories	7,319	4,612
<b>Total Current Assets</b>	<b>31,176</b>	<b>27,767</b>
<b>Long-term Assets</b>		
Other accounts receivable and prepaid expenses	158	59
Deferred tax assets	5,393	4,300
Severance pay fund	2,351	1,814
Property and equipment, net	3,374	2,990
<b>Total Long-term Assets</b>	<b>11,276</b>	<b>9,163</b>
<b>TOTAL ASSETS</b>	<b>42,452</b>	<b>36,930</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Trade payables	5,127	3,634
Other accounts payable and accrued expenses	3,447	2,580
<b>Total Current Liabilities</b>	<b>8,574</b>	<b>6,214</b>
<b>Long-term Liabilities</b>		
Accrued severance pay	3,142	2,521
<b>Total Long-term Liabilities</b>	<b>3,142</b>	<b>2,521</b>
<b>Total Shareholders' Equity</b>	<b>30,736</b>	<b>28,195</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>42,452</b>	<b>36,930</b>

## Consolidated Statements of Cash Flows

<b>Nine months ended September 30,</b>	<b>2008</b>	<b>2007</b>
in USD '000	unaudited	unaudited
<b>Cash Flows from Operating Activities:</b>		
Net income	3,696	3,133
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation	587	529
Stock-based compensation expenses	475	505
Deferred tax assets	(1,093)	-
Accrued severance pay, net	84	85
Increase in trade receivables	(354)	(753)
Increase in other accounts receivable and prepaid expenses	(194)	(27)
Increase in inventories	(2,707)	(741)
Increase (decrease) in trade payables	1,404	(12)
Increase (decrease) in other accounts payable and accrued expenses	927	(842)
Interest income	-	(5)
Gain from sale of marketable securities	(711)	(2)
<b>Net cash provided by operating activities</b>	<b>2,114</b>	<b>1,870</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale of bank deposits	50	-
Investment in marketable securities	(5,958)	(2,616)
Purchase of property and equipment	(881)	(688)
Proceeds from sale of marketable securities	1,433	113
<b>Net Cash used in investing activities</b>	<b>(5,356)</b>	<b>(3,191)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from exercise of options and issuance of shares, net	248	636
<b>Net Cash provided by financing activities</b>	<b>248</b>	<b>636</b>
<b>Increase (decrease) in Cash and Cash Equivalents</b>	<b>(2,994)</b>	<b>(685)</b>
<b>Cash and Cash Equivalents at End of period</b>	<b>3,648</b>	<b>5,641</b>
<b>Cash, Cash Equivalents, Short-term Deposits and Marketable Securities at End of period</b>	<b>14,440</b>	<b>9,688</b>

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**Next financial results**

March 2, 2009	Results 4 <sup>th</sup> Quarter and Fiscal Year 2008
May 18, 2009	Results 1 <sup>st</sup> Quarter 2009
June 10, 2009	Annual General Meeting

**About Oridion**

Oridion Systems Ltd. (www.oridion.com) is a global medical device company specializing in patient safety monitoring. The Company operates through wholly owned subsidiaries in the United States, Europe, and Israel.

Oridion develops proprietary medical devices and patient interfaces, based on its patented Microstream® technologies, for the enhancement of patient safety through the monitoring of the carbon dioxide (CO<sub>2</sub>) in a patient's breath. These products provide effective, proven airway management and are used in various clinical environments, including procedural sedation, pain management, operating rooms, critical care units, post-anesthesia care units, emergency medical services, transport, alternate care and other settings where patients' ventilation may be compromised and at risk.

*Certain statements made herein that are not historical are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. The words "estimate" "project" "intend" "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, inability to attract and retain qualified personnel, inability to protect the Company's proprietary technology.*

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