



March 23, 2009

## **OTI FY and Fourth Quarter 2008 Financial Results Conference Call Script**

**Operator** Good morning, good afternoon, to all OTI investors, analysts and other interested parties worldwide on our Financial Year and fourth quarter of 2008 conference call.

As a reminder, the conference call is being recorded today and will be available for replay until March 30<sup>th</sup> and a transcript of the prepared statements will be available on our website at [www.otiglobal.com](http://www.otiglobal.com) in the Investor Relations section.

With me today on the call are Oded Bashan, OTI Chairman and CEO and Ohad Bashan, OTI President. Tanir Horn, OTI CFO is on maternity leave.

You should have received a copy of the press release issued before the market opened this morning. If you are not on our distribution list, please contact us at [info@otiglobal.com](mailto:info@otiglobal.com) and we'll be happy to add you for future information.

Our statements today contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other Federal securities laws. Whenever we use words such as "believe," "expect," "anticipate," "intend," "plan," "estimate" or similar expressions, we are making forward-looking statements. Forward-looking statements include statements regarding our goals, beliefs, future growth strategies, objectives, plans or current expectations. Because such statements deal with future events and are based on OTI's current expectations, they are subject to various risks and uncertainties and actual results, performance or achievements of OTI could differ materially from those described in or implied by the statements in this press release. Forward-looking statements could be impacted by the effects of the protracted evaluation and validation period in the U.S. contactless payment cards market, market acceptance of new and existing products and our ability to execute production on orders, as well as the other risk factors discussed in OTI's Annual Report on Form 20-F for the year ended December 31, 2007, which is on file with the Securities and Exchange Commission. Although OTI believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. Except as otherwise required by law, OTI disclaims any intention or obligation to update or revise any forward-looking statements, which speak only as of the date hereof, whether as a result of new information, future events or circumstances or otherwise.

At this point, I would like to turn the call over to Ohad Bashan, President of OTI, to discuss the results –



**Ohad Bashan** Thank you all for joining today's conference call. I will give an overview of the results and business developments and we will then open the call for questions which Oded and I will address.

We are opening 2009 with a very focused approach. We have strong and healthy balance sheet with \$96 Million in total assets and \$28 Million in cash, cash equivalents, and short term investments. We have a clear pipeline of opportunities that can yield significant revenues to the company over the next 2-3 years. We have successfully implemented a cost cutting program which we are escalating. We are involved in pilots that we hope will lead to major rollouts, in different geographical areas. We see deals that we have been working on for a long time, coming into fruition. We remain focused on commercial projects in ID, Petroleum and EasyPark that yield high margins and recurring revenues. Hopefully, all of these steps will make OTI stronger by the end of this year and will pave a clear path to profitability.

As we are all witnessing and experiencing every day, global market conditions and instability are influencing almost every company and business and OTI is not protected from such turmoil. We are taking actions to assure that on one hand we have lean and efficient operations, and on the other hand we are focusing on increasing the business opportunities and focus on high margin products and projects with recurring revenues.

We are making headway and are involved in a number of opportunities that are what I call "company changing" projects. Each of these opportunities can provide OTI with significant revenues over the next 3-5 years, most of these are not apparent to some of you due to the fact that these efforts and opportunities cannot be made public as a result of commercial obligations and customers demand for confidentiality, until such commercial rollout is announced by them. This fact is frustrating to investors and even more to management as we would like to share as much as possible. These opportunities include large scale ID projects, new partnerships that are being formed with large system integrators and new products we are introducing in new territories.

For example, OTI is involved as a subcontractor in very large and exciting Healthcare project. This project has been awarded to a consortium which includes major system integrators and is expected to start in the second quarter this year, for the next 3 years, and if all goes as planned, there will be a few million cards issued each year. In this project, OTI will be receiving revenues from both product sales and licensing fees.

We are very sensitive to the operating expenses level of the company. We started a cost cutting program in 2008 which was successfully implemented, reducing our non GAAP operating expenses, excluding other operating expenses related to extraordinary legal and marketing activities, by 17% from \$34.4 million to \$28.5million. Since the beginning of the year, we have taken additional steps with a view to reduce operating costs and maintain, improve and enhance financial performance. Our target is to further reduce operating expenses on a non-GAAP basis to \$25 million annually. On February 1, we have started to implement such program which includes reduction in the Company's headcount, executives take a 10% pay cut, reduction in employee benefits, closing certain development activities for



low margin products and consolidating production centers. These actions will result in reduction of operating costs by approximately \$2 million for 2009. The reduction will have impact on OTI's operating expenses starting the second quarter of the year, with the full impact achieved from the third quarter and beyond.

For 2009, based on current visibility, and assuming no project execution will be impacted by the global market conditions and instability, we are targeting revenues between \$45-\$50 million. This is very much dependant on the timing of different projects and orders being secured.

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Regarding annual results of 2008 and especially the fourth quarter: they were strongly impacted by the global market conditions and instability. Towards the end of the year we saw orders that were postponed and some that were cancelled and major projects whose award and execution have been pushed back, which had a strong impact on our revenues and cash flow. 2008 revenues were \$40.2 million which is 8% below 2007 revenues, with licensing and transaction fee remaining at the same level.

Analyzing the cash burn for 2008, in the first half we burned \$7 million in operating activities, with a reduction to \$5 million in the second half. This cash burn is higher than we expected and is a result of the decrease in revenues, the timing of certain projects that have been postponed, approximately \$2.4 increase in financing expenses and reduction in income from interest on our cash balances, and \$2.7 million extraordinary expenses related to the legal activities in the Smartrac case, and activities related to large scale opportunities the company is currently working on.

In our press release, we included a comparison between the fourth quarter and full year of 2008 to those of 2007 on a non-GAAP basis. In the reconciliation of GAAP to non-GAAP results on our P&L, FAS 123R and EITF 96-18 had very little impact on COGS. It did, however, have a significant impact on operating expenses. The impact of FAS 123R and EITF 96-18 on 2008 operating expenses was about \$6.2 million and amortization of intangible assets was \$1.4 million. The impact on the fourth quarter of 2008 operating expenses was about \$1.1 million and amortization of intangible assets was \$340,000.

The company has taken several actions that in our belief have the chances of improving and maintaining shareholders value by announcing OTI's share buyback program and implementing a shareholders rights plan.

With regards to the buyback, we announced last quarter that OTI's Board of Directors authorized us to initiate a process that will allow an execution of a buyback program for the repurchase of OTI shares. We are doing so, as we believe the strength of our balance sheet allows us to support current and future opportunities while increasing shareholder's value. The total aggregate amount will



not exceed \$5 million. Under Israeli law, the program requires court approval. Accordingly, OTI filed an application with the Court and we are awaiting further instructions from the court.

With regards to the shareholders rights plan, OTI's Board of Directors has adopted a Shareholder Rights Plan designed to enable the Company's shareholders to realize the full long-term value of their investment and to provide for fair and equal treatment for shareholders in the event that an unsolicited attempt is made to acquire the Company. The Company believes that adoption of the Rights Plan is in the best interests of all the Company's shareholders, as it will help to protect shareholders against takeover tactics that may be used to gain control of the Company without paying a full and fair price that is in the best interest of all shareholders. The Right will become exercisable only after a person or a group becomes an "Acquiring Person", by obtaining beneficial ownership of, or by commencing a tender or exchange offer for, 15 percent or more of the Company's ordinary shares.

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OTI provides superior contactless smart card products, technology and solutions in three primary vertical markets: payments, petroleum and ID. We are making progress in all vertical markets.

Looking at the revenue breakdown for 2008 by vertical markets, the Payments market was 48 %, Petroleum Market generated 12%, the Smart ID Market generated 18%, and OEM sales were 22%.

The Geographic Mix of Revenues for 2008 was as follow: Europe was 48%; Asia was 16%; the Americas were 13%; Africa 13% and Israel 10% of revenues.

Our pipeline of new projects continues to increase as a result of our long term strategic initiatives on multiple fronts. We are enhancing and broadening our relationships with channel partners and qualifying OTI products with the right organizations. While these relationships are expected to yield significant revenues to OTI over time, they involve processes characterized by long and extensive testing and qualification before significant revenues can be realized. The qualification due-diligence is done on the basis of the product, company, support and financial stability. I am pleased to say that we are making progress with these companies and hope to be able to report on it soon. We are making headways in being able to secure additional projects in the verticals of ID, Petroleum and Payments. These projects are expected to provide higher margins and contribute to our growth.

Our offerings in the payments market include solutions for contactless banking cards, mass transit solutions and an in vehicle-parking meter called: EasyPark. We offer cards, readers, and



production machinery, based on years of experience and a significant IP portfolio that results in a superior product in terms of durability, performance and throughput. OTI's offering to the contactless banking market is unique in that we provide both card AND reader solutions for both the Visa and MasterCard contactless programs. Our focus in the contactless banking card programs is to support MasterCard and Visa in their efforts in the different regions. We continue to work through market leaders to integrate our reader technology with their products, as well as working with the leading card providers to offer card solutions to financial institutions.

Looking at 2009 we see existing markets like Turkey where OTI is leader in providing contactless payment solutions, expanding the usage of contactless payment and new issuers and merchants adapting the technology. South Africa is quickly becoming another important market in the adoption of contactless payments and new additional markets are expected to start this year as well. These developments offer a great opportunity for OTI.

In the payments arena we continue with the shift to projects that provide high margin recurring revenues where OTI provides a range of services in addition to our products. These projects include OTI providing the City of Warsaw infrastructure for loading of transportation cards around the city, different EasyPark opportunities, unique products, such as the Smart Sticker and more.

Regarding EasyPark, In addition to the operations in Israel that grew to 600,000 users and \$1.3 million in transaction fees which represent more than 20% growth over 2007 transaction fee revenues, in 2008 we have obtained two new international markets, France and Italy. In the third quarter we announced that PARX, our subsidiary, and Neos Tech are introducing EasyPark in Italy, starting with the northern city of Alessandria. Neos Tech is responsible for the marketing, sales, help desk, customer support, installation and all local services in Italy. It has launched a strong marketing campaign including print and broadcast media and a consumer website. This is in addition to the already announced operation and introduction of the parking solution in France. These projects generate both product sales and growing high-margin recurring revenues via transaction fees and ongoing support.

In the ID market our product offerings include end to end ID solutions for electronic passports, border crossings, national ID and medical cards. The unique solution is based on significant IP, including a patent portfolio that covers manufacturing techniques, application processing and more. The system is based on OTI's MAGNA™ - a modular platform that offers short implementation and quick integration with a country's existing border control system and provides external interfaces to the country's central electronic certificate storage for signature verification.

We would like to give an update Regarding the Major Asian country opportunity. First, we were authorized to disclose that the country name is China.



Second, In January of this year we have received Initial order for an ePassport project which we are currently producing and delivering. We see a shift in priorities, where the e-passport project is progressing faster than other projects we are involved in, in that country, such as the travel document project. Even though this project is still ongoing we are taking a conservative approach and decided not to include significant revenues from this project in our 2009 pipeline of projects.

In our view, the Chinese opportunity is comprised of a series of projects and initiatives which are governed by different governmental regulations and agencies. Each one of these initiatives is large, complex, sophisticated and involves the integration of multiple sub systems, and thus takes long time, may have delays in implementation and requires constant support. In recent years OTI has been working with strong local partners in order to be able to establish local products which support the Chinese opportunity.

In January 2009 we announced that OTI has signed a contract with the Registro Civil, the Registry Office of the Government of Ecuador, to implement a limited scale pilot project for the country's National eID system, which will serve as the first stage of the national eID system. The project includes issuance of new biometric-based electronic ID cards and other public certificates (birth, death, marriage, etc.) for the citizens of Ecuador. The value of this first stage project to OTI is estimated at \$4 million, with deliveries scheduled for the first half of 2009. I am pleased to report that deliveries have already started for this project.

MediSmart is our modular health IT solution, which transforms the patient's electronic health record to a portable medium, enables sophisticated patient and provider authentication, implements secure encryption and provides integration with legacy health IT systems. MediSmart is another successful implementation of our business model in which revenues are generated not only from product sales, but also from transaction and licensing fees.

The MediSmart is one of the more exciting products we offer. Usually MediSmart projects are characterized by long sales cycle and a long implementation cycle due to the complexity of the implementation and the infrastructure to integrate with. I am happy to report that OTI is involved with a consortium that has been awarded with national scale medical card program. This is a major opportunity for OTI. It is scheduled to start in Q2 this year with commercial rollouts planned to start next year. OTI involvement is by providing its MediSmart solution and receiving both product and license fees revenues.

In the fourth quarter we announced that in Kenya, SMART, a Kenyan company committed to delivering technology driven secure healthcare solutions, has placed an order for an additional 100,000 MediSmart cards which are to be issued by multiple medical scheme managers.



OTI has a strong balance sheet and is financially sound. We expect to finish 2009 in a better position than 2008. We've already started our cost-cutting program. We are reinforcing our operating expenses goals for 2009 at \$25 million on a non-GAAP basis and we are planning to significantly reduce the level of cash burn this year.

For 2009, based on current visibility, and assuming no project execution will be impacted by the global market conditions and instability, we are targeting revenues between \$45-\$50 million. This is very much dependant on the timing of different projects and orders being secured.

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We are involved in number of large scale "company changing" opportunities and any one of them materializing can significantly enhance the financial performance and status of OTI.

Now we will be pleased to take your questions.