



May 27, 2009

## OTI First Quarter 2009 Financial Results Conference Call Script

**Operator** Good morning, good afternoon, to all OTI investors, analysts and other interested parties worldwide on our first quarter of 2009 conference call.

As a reminder, the conference call is being recorded today and will be available for replay until June 3rd 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, Ohad Bashan, OTI President and Tanir Horn, OTI CFO.

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. 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. For example, forward-looking statements include statements regarding our goals, beliefs, future growth strategies, objectives, plans or current expectations such as those statements regarding the steps we take to reduce operating costs and maintain, improve and enhance financial performance as well, or our statement regarding our target to further reduce operating expenses on a non-GAAP basis to reach \$25 million annually. 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 our Annual Report on Form 20-F for the year ended December 31, 2007, which is on file with the Securities and Exchange Commission. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance our its expectations will be achieved. 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, Tanir and I will address.

We have opened 2009 with a very focused approach. We focus on commercial projects in ID, Petroleum and Parking that yield high margins and recurring revenues. We see deals that we have been working on for a long time, coming into fruition in different geographical areas. 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. 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. Hopefully, all of these steps will make OTI stronger by the end of this year and will pave a clear path to profitability.

We are very sensitive to the operating expenses level of the company and are taking additional steps 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 reach \$25 million annually. On February 1, we have started the implementation of such program which includes reduction in the Company's headcount, a 10% pay cut to executives, reduction in employee benefits, closure of certain development activities for low margin products and consolidation of 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 realized from the third quarter and beyond.

Global market conditions and instability are influencing almost every company and business and OTI is not protected from such turmoil. As we reported in our last conference call, 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 with high margin products and recurring revenues. At the end of 2008 we have taken several steps to minimize the impact of the global slowdown on OTI's operations. For example, our German subsidiary, InterCard, which serves as OTI's in-house production facility for contactless readers, also provides electronics manufacturing services for the automotive industry. InterCard is experiencing a significant decrease in revenues from third party customers which is a result of existing orders being delayed or canceled, lack of new orders, etc. To successfully cope with such situation, we have joined a program sponsored by the German government where companies that qualify for the program get the government to subsidize employees' salaries by paying the difference between the actual worked time and the original salary. The program is for 18 months and enables InterCard to operate the facility less time and maintain efficient production line. This will allow InterCard to properly serve its customers once the global crisis will show signs of easing. The impact on OTI is mainly at the revenue line with minimum impact on the operating loss.

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First quarter results demonstrate OTI's strategy which focuses on improved margins, reduction in operating expenses specifically in R&D and G&A, and continued focus on marketing efforts -- all resulting in further decrease of the operating loss and level of cash burn. For the first quarter of 2009 gross margin significantly improved to 46% compared to 32% for the same quarter last year, while revenues were impacted by the global crisis and remained similar to Q1 2008 with \$9.3 million. We remain with Strong balance sheet with \$25.8 million in cash, cash equivalents and short term investments, and were able to significantly reduce our Non-GAAP net loss for the quarter ended to \$2.6 million, a 46% decrease compared to \$4.8 million in the first quarter of 2008. Non-GAAP operating loss for the first quarter was \$2.8 million, a 34% decrease compared to \$4.3 million in the same quarter last year.

For the first quarter of 2009, R&D and G&A expenses were down more than 20%, compared to the first quarter of 2008 with non-GAAP operating expenses in line with our goal of reaching \$7 million. Non-GAAP operating expenses were \$7.2 million, similar to \$7.3 million in the first quarter of 2008. In our Q4 2008 results we provided a breakdown that included other operating expenses. This classification was to reflect the timing and scope of extraordinary legal and marketing expenses. In 2009, these expenses are part of the ordinary course of business and therefore are included in our operating expenses.

Our revenue breakdown for the first quarter is consistent with our strategy to increase focus on ID, Parking and Petroleum. The Smart ID market increased to 45% of total revenues, the Payments market decreased to 32%, Petroleum market generated 8%, and OEM sales represented 15% of total sales. The Geographic Mix of Revenues for the first quarter was as follows: the Americas were 38%; Europe was 32%; Asia was 12%; Africa 9% and Israel represented 9% of total revenues.

In our press release, we included a comparison between the first quarter of 2009 to those of first quarter of 2008 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 the first quarter of 2009 operating expenses was about \$939,000 and amortization of intangible assets was \$264,000.

A note regarding our 2008 audited financial results, following the disclosure made by the company in its 2008 annual results filed with the Securities and Exchange Commission on March 24, 2009, on Form 6-K that the company may recognize an impairment charge against its goodwill and other intangible assets amounting to \$28.1 million, the company recently completed impairment testing as of December 31, 2008, according to which OTI will record a \$25.6 million impairment charge, of which \$24.2 million and \$1.4 million for goodwill and intangible assets, respectively. The goodwill impairment charge was driven by the decline in OTI's stock price and the deteriorating global economy. The impairment charges are noncash accounting adjustment to the Company's balance sheet and profit and loss report, that do not affect cash flow, liquidity or OTI's non-GAAP results. The impairment charges will



be reflected in OTI's audited GAAP financial consolidated results as of December 31, 2008 attached to Form 20-F to be filed with the U.S. Securities Exchange Commission and are reflected in the reports attached below.

Further to the disclosure made by the company in December 2008 regarding the share repurchase program, we received confirmation this week that the Israeli District court approved the repurchase by the Company of its ordinary shares in a total amount of up to \$2 million. OTI's Board of Directors will further discuss the program details, conditions and scope, all subject to regulatory requirements. However, as reported previously, the Company is not obligated to acquire any specific number of shares, and the program may be suspended or discontinued at any time.

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

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 a 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 line with our strategy of focusing on projects that generate both product sales and growing high-margin recurring revenues, we continue the marketing efforts of EasyPark. We have more than 600,000 users in Israel and we are involved in three new international markets, France, Italy and most recently - Bermuda. We are working on signing up new distributors, we are exhibiting at trade shows and more.

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.

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. I am pleased to report that initial deliveries for the project have commenced in Q1 and we have met the target date for the government to issue new electronic ID cards before the national elections in Ecuador. This was a very successful team effort that demonstrated OTI's capabilities and the value of being able to provide a complete suite of ID solutions.

We would like to give an update regarding our ID projects in China. In January of this year we have received an initial order for an ePassport project which we produced and delivered. 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 experience 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.

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 this year with commercial rollouts planned to start next year. OTI provides its MediSmart solution and generates both product and license fees revenues.

In the petroleum market, our offering includes a comprehensive petroleum payment and overall fuel management solution for oil companies, fleets, and retail customers, all on the same infrastructure. Wireless, cashless, cardless, and paperless, EasyFuel is based on OTI's patented technology, providing multi-application smart card technology platform.



We recently announced that OTI's contactless reader was selected by Australia's largest retailer, Woolworths, to support its "ePump" initiative for payment at the gas station. OTI delivered contactless reader solutions as well as personalization services that have been integrated into the FlexPay Control System for Fuel Dispensers supplied by Gilbarco Veeder-Root, leading suppliers of outdoor payment systems, integrated fuel control, site management, and support services for petroleum marketers and commercial fueling enterprises worldwide. This collaboration is yet another example of OTI building a distribution network with leading players in the respective markets to get our products to market. This opportunity provides excellent credibility and exposure in the Australian market as well as the global market.

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 goal for 2009 to \$25 million on a non-GAAP basis and we plan 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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Now we will be pleased to take your questions.