



March 1, 2010

OTI FY and Fourth Quarter 2009 Financial Results Conference Call Script

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

As a reminder, the conference call is being recorded today and will be available for replay until March 7th and a transcript of the prepared statements will be available on our website at www.otiglobal.com in the Investor Relations section.

With me today on the call are Oded Bashan, OTI's Chairman and CEO, Ohad Bashan, OTI's President and Tanir Horn, OTI's 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 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, products, plans, revenues target or current expectations. Forward-looking statements could be impacted by the effects of the protracted evaluation and validation periods in the U.S. and other markets for contactless payment cards, market acceptance of new and existing products and our ability to execute production on orders, as well as the other risks and uncertainties, including those discussed in the "Risk Factors" section and elsewhere in our Annual Report on Form 20-F for the year ended December 31, 2008 and in subsequent filings with the Securities and Exchange Commission. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that our



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 would like to open this conference call by reviewing the developments in 2009, followed by an overview of the results and business developments and continue by discussing some of the items on the agenda in OTI's Extraordinary General Meeting. We will then open the call for questions which Oded, Tanir and I will address.

We are encouraged by the strong position by which we are opening 2010. We have a solid and established pipeline of large projects, demonstrated also in our most recently announced wins of a project over \$30 million for a national eID program, and an approximately \$17 million contract for issuing electronic identification related product:

- we have a lower level of inventory,
- we achieved higher gross margin,
- we present a stronger balance sheet,
- we have lean and focused operations, and for the first time,
- we achieved positive cash flow from operations on an annual basis.

We expect to reach operating profitability on a non-GAAP basis for 2010 with significant growth in revenues to \$48 million which represents 50% growth over 2009 revenues.

2009 was a turning point for OTI. We have made significant efforts and progress in the implementation of our cost cutting program and in adapting the organization structure to corporate strategy. On the corporate and operating side, we constantly monitor our operating expenses level. We assess the contribution of each business segment, including revenue contribution, operating cost impact and cash burn. As part of this process, in the fourth quarter we completed the sale of the assets of MCT, including the machinery and inlay production IP of OTI, which was a relatively low margin business, and required significant management attention, for 8.5 Million Euro. By selling these assets we are able to shift away from a business that is not a core business for OTI. We have also signed a supply agreement to ensure deliveries to existing and future customers. Moreover, we reduced R&D and G&A expenses, and have also joined a government sponsored program in Germany to minimize the impact of the reduction in the OEM business on operating cash flow.



OTI's product strategy is to offer unique added value contactless products. Our focus is on projects that generate both product and recurring revenues in the fields of ID, Payment and Petroleum.

In **SmartID** we are offering complete ID solutions to emerging countries to fulfill their needs to upgrade the existing ID solution to a secured one, in **MediSmart**, our portable medical database, we focus on executing the current opportunities we have in hand; in **EasyPark**, we are focusing on building an operator network to support the international markets outside of Israel. We have established a franchise model, by which local operators are buying a franchise of EasyPark for the operation and distribution of the product in their respective country while using OTI's hardware, software and back office solutions; In the **contactless Payment** market, we are focusing on offering unique products and introducing new products; and in **Petroleum**, we are focusing on offering the EasyFuel to oil companies in new territories.

I will now discuss 2009 financial results from continuing operations. 2009 results demonstrate OTI's strategy which focuses on improving margins, reducing operating expenses, specifically in R&D and G&A, and continuous focus on marketing -- all resulting in further decrease of the operating and net loss. We have a strong balance sheet with \$32 million in cash, cash equivalents and short term investments and we finished the year with about \$5 million positive cash flow provided by operations. Inventory levels are down to \$6.3 million.

Revenues were \$31.4 million. In comparison to our guidance of \$34 million provided earlier in 2009, one should include the revenues from discontinued operations, which will bring the total revenues to \$38.2 million. Revenue mix represents 91% from products and services and 9% from licensing and transaction fees. Our revenue breakdown is consistent with our strategy. The Payments market decreased to 37%, the Smart ID market increased to 35%, Petroleum market decreased to 10%, and OEM sales, which were down by \$3.4 million, decreased to 18% of total sales. The Geographic Mix of Revenues was Europe 37%; the Americas were 31%; Africa and Israel represented each 12% and Asia was 8% of total revenues.



Gross margin improved to 47% compared to 43% last year, mainly as a result of our revenue mix. We were able to reduce our non-GAAP net loss to \$10.7 million, an 11% decrease compared to \$11.9 million in 2008. Non-GAAP operating loss was \$9.4 million, a 9% decrease compared to \$10.4 million last year.

In our press release, we included a comparison between the fourth quarter and full year of 2009 financial results to those of the fourth quarter and full year of 2008 on a non-GAAP basis. The adjustment to GAAP includes stock-based compensation in accordance with SFAS 123(R) and EITF 96-18, amortization of intangible assets and the effect of discontinued operation. During the fourth quarter of 2009, the Company signed an agreement for the sale of the assets of OTI's subsidiary MCT including the machinery and inlay production IP of OTI to SMARTRAC NV, as announced back in November 2009. Results for the discontinued operations have been separated and are presented separately.

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 an impact on operating expenses. The impact of FAS 123R, EITF 96-18 on 2009 operating expenses was about \$3.6 million, amortization of intangible assets was \$978,000. Net loss from discontinued operations was \$8.1 million.

A note regarding our 2008 financial results presented in the press release. As we reported before, OTI recorded a \$24.2 million goodwill impairment charge. 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.

Now, I would like to briefly share with you an overview of our progress in the different business segments.

The sale of the assets of MCT including the machinery and inlay production IP is in line with our strategy to offer solutions to the payment market based on unique know-how and added value. These products are based on years of experience and a significant IP portfolio that result in a superior product in terms of durability, performance and throughput. Our product lines include a range of contactless



readers and payment devices, mass transit ticketing solutions and an in vehicle-parking meter system called EasyPark. We are in the process of introducing new products with payment functionality to the payment and mobile markets. The mobile payment solutions enable issuers/mobile operators to add contactless payments capabilities to their existing handset devices, independent of the handset type and model. The first product, Smart Sticker - a credit card thickness sticker, can be adhered to the back of the mobile phone turning it into a payment device. The credit card thickness of the sticker allows for mass personalization and deployment of the sticker, using the existing personalization equipment. The second solution is our patented and innovative contactless SIM card, adding contactless payment capabilities to the phone SIM card and enabling users to have one device that is both a mobile phone and a mobile wallet. OTI's unique solution for mobile payment links mobile operators, banks, merchants and users together into a complete purchase, payment and clearance circle. We are increasing our marketing efforts to promote these solutions and hope to be able to report progress soon.

We are making headways in selling contactless readers. We see both in Europe and South Africa as leading markets in the deployment of contactless technology. We are aligning ourselves with local channel partners to be able to support the expected growth.

In line with our strategy of focusing on projects that generate both product sales and recurring revenues, we continue with the marketing efforts of EasyPark. We have more than 650,000 users in Israel and we are involved in three new international markets, Italy, Bermuda and France. The three new markets have started deployment last year and we hope to be able to report progress on the ramp up of the different programs. So far, market acceptance and operators feedback is in line with our expectation and we continue to support each of the programs. For EasyPark we have established a franchise model, where local operators can buy the EasyPark solution and deploy it in targeted countries. We are working on signing up new distributors. We are exhibiting at trade shows and investing more efforts in marketing the EasyPark product.

In the ID market our product offering includes 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 product architecture, 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 system and provides external interfaces to the country's central electronic certificate storage for verification. We are making progress in securing additional ID projects for OTI that are creating a solid base of revenues for the coming years.

In the past few months we have announced two major wins in this market: one project, of over \$30 million in contracts for national eID program, with expected revenues of over \$20 million in 2010. An advance payment has been received to support the initial stages of the project which have already commenced and the project is entirely cash flow positive. The award of the project follows a successful completion of a pilot program by OTI and provides the supply of new biometric-based electronic ID cards and other official documents (relating to birth, death, marriage, etc.), as well as the equipment required for the setup of the document issuing stations country-wide.

The second contract announced includes supply, transfer, maintenance and operation of an electronic identification related product based on OTI's Magna™ platform. OTI has teamed up with a reputable system integrator that will be responsible for project management and local operation in the country. The contract provides for an initial three-year period and minimum guaranteed amount of \$17 million, starting in 2010. The project is funded based on a Build-Operate-Transfer (BOT) model.

Additionally, we announced our involvement in a new revolutionary program initiated by Israel Airports Authority called UniPass. The UniPass program is intended to expedite the security checks process at Ben-Gurion Airport. The UniPass solution is based in part on OTI's SmartID technology and products, which successfully passed rigorous testing by the Israeli Airport Authority for product performance including security, durability, communications, personalization and more. OTI provides its secured contactless smart cards and readers.

Regarding our ID projects in China, we have made significant progress with the award in both the infrastructure to read the ePassport and ePassport booklets themselves for the Ministry of Foreign Affairs' epassport program, through our partnership with the Chinese company HuaDa-ZhiBao. HuaDa-ZhiBao Electronic Systems Ltd is part of the winning bid to supply the MFA electronic passport booklet



and Optical Character Recognition units. We would like to reiterate that 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 a long time, may experience delays in implementation and requires constant support. 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 where we generate both product and license fees revenues. 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. OTI is involved with a consortium that has been awarded with a national scale medical card program, phase zero of the project which includes design and build up of the system has commenced and we hope to be able to report further progress during the year.

At this point I would like to discuss the upcoming shareholders' general meeting.

OTI's board of directors is bringing an offer to further stabilize and strengthen company's management. The board believes that such offer will help the company in executing its strategy, enhance market exposure and ultimately enhance shareholders value.

As we indicated in our last conference call, we were in the process of adding a director to our board. We are happy and proud to report, that we are able to bring to the general meeting approval the addition of both Mr. David Stone and Mr. Mark Green, as new independent directors. We are confident that such addition will help the company growth and market exposure. Mr. David Stone has previously served as a senior partner and head of the Israel Practice Group in the New York-based international law firm of Weil, Gotshal & Manges LLP, and Mr. Mark Green, who is the head of Technology and International Banking at Merriman Curhan Ford, a New York based investment bank; the agenda also



includes the reelection of Mr. Eli Akavia and Mr. Raanan Ellran as independent directors. Mr. Akavia specializes in high-tech companies and has accumulated invaluable experience in US GAAP and SEC rules. Mr. Ellran has a wealth of experience serving as a director on the board of major Israeli companies.

The agenda also refers to an extension of the employment agreement of the company's chairman and CEO, Mr. Oded Bashan, which is coming to an end next year, and a revised option plan for myself as the company's president, which is in connection with my employment contract, approved at the previous general meeting where the vesting schedule of such options is linked to OTI's stock performance on the NASDAQ global market.

We are encouraged by the strong position in which we are opening 2010. We have a solid and established pipeline of large projects, demonstrated also in our most recently announced wins of a project over \$30 million for a national eID program, and an approximately \$17 million contract for issuing electronic identification related product, we have a lower level of inventory, we achieved higher gross margin, we present a stronger balance sheet, we have lean and focused operations and for the first time, we achieved positive cash flow from operations on an annual basis.

We expect to reach operating profitability on a non-GAAP basis for 2010 with significant growth in revenues to \$48 million which represents 50% growth over 2009 revenues.

Now we will be pleased to take your questions.