



August 25, 2009

OTI First Half Second 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 half and second quarter of 2009 conference call.

As a reminder, the conference call is being recorded today and will be available for replay until September 1st 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, 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 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.

The first six months of 2009 presented challenges resulting from the global economic crisis which have strengthened our commitment to successfully execute our focused and clear strategy. Our results show continued improvement in gross margin and further reduction in operating expenses, which have helped us to further reduce our net loss despite the lower than expected revenues. The decline in revenues is mainly from our OEM and payment business segments which were strongly impacted by the global economic crisis. We see a change of direction in the second half of the year with orders building up in both segments.

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.

In the first half of 2009 we took several steps to help us cope with the global economic crisis and reach our goal of reducing operating expenses on a non-GAAP basis to \$25 million annually. These steps include a successful execution of a cost cutting program as well as joining a government sponsored program in Germany. The cost cutting program included a 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. In Germany, our subsidiary InterCard has



joined a program that is sponsored by the German government to subsidize employees' salaries by paying the difference between the actual worked time and their original salary. Joining this program has significantly helped us to minimize the impact of the sharp decline in InterCard's revenues and is enabling us to be prepared for the time the OEM business picks up again.

We continue to monitor our operating expenses level. We constantly assess the contribution of each business segment, including revenue contribution, operating cost impact and cash burn.

With regards to OTI's share repurchase program, OTI's Board of Directors has recently approved a detailed plan. Execution of the plan shall be subject to applicable laws.

Reviewing the financial results in detail, the first half results demonstrate OTI's strategy which focuses on improving margins, reduction in operating expenses, specifically in R&D and G&A, and continuous focus on marketing efforts -- all resulting in further decrease of the operating and net loss. For the first half of 2009, gross margin significantly improved to 46% compared to 36% last year, mainly as a result of our product line revenue mix, which also resulted in a 6% increase in our gross profit to \$7.7 million. We were able to significantly reduce our Non-GAAP net loss to \$6.4 million, a 20% decrease compared to \$8.0 million in 2008. Non-GAAP operating loss was \$6.1 million, a 17% decrease compared to \$7.3 million in the first half last year.

Non-GAAP operating expenses were in line with our projections, reaching \$13.8 million, a 5% decrease compared to \$14.5 million in the first half of 2008.



Our revenues for the first half decreased more than we expected. The decrease is a result of several factors, including the global economic crisis which has mainly impacted our OEM and payments business segments, as well as delays in customers' projects timetable. We have seen a decline in revenues in our OEM business of approximately 50% from the same period last year. This trend is changing for the second half with orders building up again in both OEM and payments segments. The global economic situation is also impacting the level of operations in our existing projects. For example, we receive transaction fees from our Petroleum project in South Africa. We have seen a decrease of approximately 30% in diesel consumption in the first half of the year, which obviously affected our transaction fees revenues from this project.

Our revenue breakdown for the first half is consistent with our strategy to increase focus on ID, Parking and Petroleum. The Smart ID market increased to 39% of total revenues, the Payments market decreased to 36%, Petroleum market generated 9%, and OEM sales represented 16% of total sales. The Geographic Mix of Revenues for the first half was as follows: Europe was 33%; the Americas were 32%; Asia was 14%; Africa 11% and Israel represented 10% of total revenues.

In our press release, we included a comparison between the first half and second quarter of 2009 to those of first half and second 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 an impact on operating expenses. The impact of FAS 123R and EITF 96-18 on the first half of 2009 operating expenses was about \$2.0 million and amortization of intangible assets was \$515,000. The impact on the second quarter of 2009 operating expenses was about \$1.0 million and amortization of intangible assets was \$251,000.



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

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 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 putting more efforts in marketing the EasyPark product.

In Poland, our subsidiary ASEC has completed the first stage of the infrastructure installations for Warsaw's City Card, which is a multi-application system using contactless cards. OTI acts as an e-ticketing and parking operator for Warsaw City Card. Infrastructure for the project includes hundreds of automated ticket vending machines and terminals installed in subway and train stations, buses and tramway transfer hubs and in areas frequently visited by tourists. The completion of this stage allows OTI to accelerate the direct revenues generated from transaction fees which are expected to aggregate more than \$10 million over the next 5 years.

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.

Regarding Ecuador, I am pleased to report that we met and exceeded the contract requirements with providing new electronic ID cards before the national elections took place Ecuador. This was a very a demanding and successful team effort that demonstrated OTI's capabilities and the value of being able to provide a complete suite of ID solutions. We remain committed to providing the best support, solutions and products to the Registro Civil, the Registry Office of the Government of Ecuador.



Regarding our ID projects in China - as previously reported, 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 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 and I am happy to report that phase zero of the project which includes design and build up of the system has commenced. This is a major opportunity for OTI.

In the petroleum market, our offerings include 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. In the second quarter we announced that EasyFuel is going to be installed by one of the largest container terminal operators in the southern part of China. The new installation demonstrates that OTI's EasyFuel solution is relevant across a number of market sectors, including retail and commercial fueling as well as the industrial and mining sectors. A typical port site includes a large number of devices and equipment to automate the site. It can range between the equivalent of about 10-20 gas stations and about 1,000-5,000 vehicles, all depending on the size of the site and operation.

Based on the higher than expected decline in revenues in the first half which is mainly attributed to the revenue reduction in the OEM and payments business and the delays in customers' projects timetables, we are updating our target revenues for this year to \$34 million.

Our main and most important goal is to bring OTI to an operating breakeven position as quickly as possible. We plan to get there by further reducing our operating expenses, focusing on high margin projects with recurring revenues, building a strong IP portfolio and product line and focusing on successful execution of projects that will contribute to OTI's growth over the next 12-24 months.

Now we will be pleased to take your questions.