



November 30, 2009

OTI Nine Months and Third 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 nine months and third quarter of 2009 conference call.

As a reminder, the conference call is being recorded today and will be available for replay until December 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, 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 first discussing the strategic developments, followed by an overview of the results and business developments and continue by discussing some of the items on the agenda in OTI's Annual General Meeting. We will then open the call for questions which Oded, Tanir and I will address.

OTI is offering unique added value contactless products. Our focus is on projects that generate both product and recurring licensing and transaction fee revenues in the fields of ID, Payment and Petroleum. Our strategy is to bring OTI to profitability by putting efforts to increase and expand our existing and future pipeline of projects and continuing with the effort to reduce our operating expenses.

In SmartID we are focusing on providing 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 expanding the marketing network and executing the current opportunities we have; in **EasyPark**, we are focusing on the expansion of EasyPark to 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 such as our contactless readers, key fobs and mobile phone stickers; and in **Petroleum**, we are focusing on offering the EasyFuel to oil companies.

We have made significant progress to achieve our goal to get to profitability next year. We see deals that we have been working on for long time coming to fruition. These deals are in different vertical markets and in different geographical areas, such as the announcement from this morning on an approximately 17 million dollar contract for issuing electronic identification related product, our involvement in electronic passport project in China, the expansion of EasyPark into France, our continued involvement and support in the Ecuador national ID project and more . These are first signs of the results of our marketing efforts which in our belief will be followed by additional announcements that can provide OTI with significant revenues over the next 3-5 years.

On the corporate and operating side, 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. As part of this strategy, we recently announced the sale of the assets of MCT,



which was a relatively low margin business, and required a significant amount of time from management to deal with it. By selling MCT assets we are able to shift away from a business that is no longer a core business for OTI, while at the same time ensuring deliveries to existing and future customers.

In the first nine months of 2009 we took several steps to help us cope with the impact of the global economic crisis. 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 among others, 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.

As a result of the progress we are making we expect to be cash flow positive for the fourth quarter and feel very comfortable with our guidance of \$34 million in revenues for 2009. Our goal is to reach operating breakeven in 2010.

At this point I would like to give more details on the MCT transaction.

The agreements are another step in our strategy to focus on complete end-to-end solutions. The sale of MCT assets will improve OTI's cash flow position and significantly reduce our operating expenses. With access to SMARTRAC's secured production network, we strengthen our ability to support existing and future secured ID projects.

According to the agreements, we are selling the assets of MCT and the machinery and inlay production intellectual property of OTI to SMARTRAC for EUR 8.5 Million which is about \$12.5 Million. Of the EUR 5 million to be paid before yearend, 2 Million have already been received. The balance will be paid in eight (8) equal quarterly installments starting the first quarter of 2010. We estimate savings of



around \$1 million in operating expenses per quarter starting Q2 2010 as well as reduction in inventory, raw materials and some fixed costs as a result of the sale. As you may recall, OTI and SMARTRAC were in a legal dispute regarding some IP rights. In 2010, we were about to embark on the most expensive and time consuming part of the litigation process. As part of the sale, we have also reached an agreement that all patent litigations and in particular all patent infringement legal proceedings between SMARTRAC and OTI will be ceased and both parties will mutually accept and respect each other's patents especially in the field of Wire-Embedding and Dual Interface technology. In our estimation this has saved us an additional \$3-\$5 million in expected legal fees and considerable management time.

To ensure our ability to continue and support our customers, we have signed a supply agreement that guarantees OTI with defined pricing, lead times and production capacity. It also caters for OTI exclusive products to be manufactured by SMARTRAC under OTI's design, production files and IP. With access to SMARTRAC's patented technology and high secure production network, we are strengthening our ability to support existing and future projects and enjoy the high volume production capacity that SMARTRAC provides. According to the agreement OTI will be able to continue to fulfill its existing obligations and existing orders at the MCT site.

Reviewing the financial results in detail, the first nine months 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 nine months of 2009, gross margin improved to 44% compared to 39% last year, mainly as a result of our revenue mix. We were able to reduce our non-GAAP net loss to \$10.4 million, a 7% decrease compared to \$11.2 million in 2008. Non-GAAP operating loss was \$9.6 million, a 7% decrease compared to \$10.4 million last year.

Our operating expenses were slightly higher than expected as a result of focused efforts on large opportunities that in our belief will contribute to OTI's growth in the near future.

Revenues for the first nine months decreased by 16% to \$26.3 million compared to last year as a result of several factors, including the global economic crisis which mainly impacted our OEM and payments



business segments. We have seen a decline in revenues in our OEM business of approximately 50% from the same period last year. This is slowly changing with orders building up again in the OEM segment.

Our revenue breakdown for the first nine months is consistent with our strategy to increase focus on ID, Parking and Petroleum. The Payments market decreased to 44%, the Smart ID market increased to 32%, Petroleum market generated 9%, and OEM sales represented 15% of total sales. The Geographic Mix of Revenues for the first nine months was: Europe 34%; the Americas were 28%; Asia was 16%; Africa and Israel represented each 11% of total revenues.

In our press release, we included a comparison between the first nine months and third quarter of 2009 to those of first nine months and third 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 nine months of 2009 operating expenses was about \$2.8 million and amortization of intangible assets was \$766,000. The impact on the third quarter of 2009 operating expenses was about \$887,000 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.

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 and readers 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 with providing both card AND reader solutions for both the Visa and MasterCard contactless programs. We have a well established and diversified line of contactless payment products, such as the Saturn family of contactless readers for indoor and outdoor use. Unique payment devices such as key fobs, like the one we are providing to CITI, and the newly introduced Smart Sticker - a credit card thickness sticker, that can be adhered to the back of the mobile phone turning it into a payment device. The product provides a perfect solution for mobile operators and financial institutions interested in joining forces to increase market share and addressing additional usages for the mobile phones already in the hands of the



customers. The credit card thickness of the stickers allows for mass personalization and deployment of the sticker, using the existing equipment.

We are making headways in selling contactless readers. We recently announced that DigiCore of South Africa placed an initial order for 4,000 Saturn 6500 readers, with commitment to further larger order quantities in subsequent project phases. The readers will enable contactless payments for South African public transportation. We also announced more banks in Turkey are using OTI's Saturn 6000 reader for their contactless payments programs. Namely, Akbank and Yapi Kredi. We see both the Turkish and South African markets as leading markets in the deployment of contactless technology.

In line with our strategy of focusing on projects that generate both product sales and growing high-margin recurring revenues, we continue with the marketing efforts of EasyPark. We have more than 600,000 users in Israel and we are involved in three new international markets, Italy, –Bermuda and we recently announced that the first municipality in France will introduce EasyPark. We have established a franchise model, where local operators can buy the EasyPark solution and deploy it in the target countries. 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 received an additional award for providing 700,000 public transportation and street parking contactless e-tickets for the City of Warsaw, bringing the total number of cards supplied for this program to 2.7 million. As we reported in the past, ASEC also serves as an e-ticketing operator for Warsaw City Card system with generating revenues from transaction fees. As reported, transaction fee revenues are expected to total nearly 10 million dollar over the next 5 years from this project.

In the ID market our product offering 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 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 signature verification. We are making progress in securing additional ID projects for OTI that in our belief will create a solid base of revenues for the coming years.

This morning we have announced a new win, with a contract for the 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.

Regarding the project in Ecuador, I am pleased to report that we continue and support the government. We have met and exceeded the original contract requirements with providing new electronic ID cards before the national elections in 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, 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 will be responsible for the supply of Integrated Circuit modules to be used in such. HuaDa-ZhiBao is OTI's Chinese local partner, providing a local Chinese product for the MFA program. Additionally, HuaDa-ZhiBao received a notice of award for the supply of Optical Character Recognition units for China's MFA electronic passport program, geared towards China's MFA passport holders.

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 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.

At this point I would like to discuss some of the items on the annual general meeting agenda that OTI's board recommends to adopt and approve.

The first one is the reappointment of two of our external directors, Eliezer Manor and Dr. Ora Setter. Mr. Manor brings extensive venture capital experience to the board and Dr. Setter is an expert in Organizational Development and also fills the seat allocated for a woman, as required by the Israeli law. We are constantly looking for ways to increase shareholder value and with that also bring on board additional directors that can further contribute to the company. In the last few months we have initiated a process for adding a US director that among others can enhance OTI's stock market exposure, and hope to report further progress.

The agenda also includes two items with regards to my employment contract. One is for the renewal of the current employment agreement under the same terms for a period of five years. The second item is for the grant of options at market price which will be vested during the period of the agreement. As the board and management of OTI are focused on getting to profitability, option granting is the most cost-effective way to reward employees on future success of the company. OTI's policy is to grant options to eligible employees at the renewal of their employment contract and not during the contract term itself. The timing is triggered by the renewal of the employment agreement and is not connected to stock



market conditions. Personally, I only plan to consider exercising options once the company moves to profitability.

Lastly, is the item related to the increase in the Company's authorized share capital. In order for the company's adopted rights plan to be properly executed, a share capital increase is required. We believe the Rights Plan is in the best interests of all the Company's shareholders, as it will help protect shareholders against takeover tactics that may be used to gain control of the Company without paying a full and fair price. In our belief, the company's current stock price and the current pipeline of business developments, further exposes the company and its shareholders to this risk.

In the last weeks some of the achievements and the efforts that the company is putting in order to bring OTI to an operating breakeven have become evident. We believe that we are on the right track to bring OTI to profitability next year. We expect Q4 2009 to be cash flow positive. We are building a strong and solid pipeline of projects. We are introducing new products in existing markets that will contribute to OTI's growth and profitability and we continue to monitor and control our OpEx level. All with a view of bringing OTI to profitability in 2010.

Now we will be pleased to take your questions.