

## **CONSOLIDATED AND STATUTORY REPORT 2008 OF THE BOARD OF DIRECTORS OF OPTION NV**

Ladies and gentlemen,  
Dear shareholders,

We hereby present to you our report relating to the statutory and consolidated results of Option NV (also referred to as the “Company”) for the financial year that ended on 31 December 2008.

The consolidated results include the financial statements of the parent company Option NV and all its subsidiaries made up to the end of the financial period. Intra-group trading has been eliminated upon consolidation: Option Wireless Ltd. (Cork, Ireland), Option Germany GmbH (Augsburg, Germany), Option Inc. (Alpharetta, United States of America), Option Wireless Japan KK (Tokyo, Japan), Option Wireless Germany GmbH (Kamp-Lintfort, Germany), Option Wireless Hong Kong Limited (Hong Kong, PR China), Option Wireless Hong Kong Ltd. Representation Office (Suzhou, PR China), Option Wireless Hong Kong Limited Taiwan Branch (Taipei, Taiwan), Option Wireless Sweden AB (Stockholm, Sweden) and Multi Mode Multi Media Solutions NV, abbreviated “M4S” (Leuven, Belgium) (jointly “Option” or the “Group”).

### **OVERVIEW OF RESULTS AND ALLOCATION OF RESULTS OF THE COMPANY**

#### ***Consolidated results***

For a detailed report on the consolidated Income Statement and Balance Sheet, including IFRS (International Financial Reporting Standards) disclosures notes, we refer to the financial report of this brochure.

The highlights of the consolidated results include the following:

- Full year revenues were EUR 268.1 million, which means a decrease of 11% compared with EUR 301.5 million revenues realized during the full year 2007.
- Gross profit for the year was EUR 74.6 million, a decrease of 16.3% compared with EUR 89.2 million in 2007. The gross margin in the full year 2008 amounted to 27.8%, compared with a gross margin of 29.6% in 2007.
- The EBIT decreased to EUR-29.3 million or -10.9% on total revenues during the full year 2008 compared with EUR 2.5 million in 2007.
- The net result decreased to EUR -19.0 million, or EUR -0.46 per basic and diluted share. This compares with a net result of EUR 6.4 million or EUR 0.16 per basic and diluted share in 2007.
- The current year’s result includes adjustments and provisions in order to properly reflect the state of business for year-end 2008. The main adjustments and provisions include :
  - A review of the existing capitalized development projects resulted in an impairment of EUR 7.7 million due to rapidly changing technologies and deterioration of global economic conditions.
  - An increased reserve against inventories during the year of EUR 2 million compared to year-end 2007, mainly to cover excess positions and to lower the stock value to net realizable value for certain products. In addition, an amount of EUR 2.4 million has been expensed as a result of inventory write offs during 2008.
- Aside from the impairments, the overall operating expenses increased mainly due to:
  - increased royalty payments for license fees and marketing development funds which are mainly volume related; and
  - Increased R&D expenditures which are mainly related to the 2008 full year effect of the Kamp-Lintfort development facilities, acquired in June 2007.

### ***Statutory results***

Full year statutory operating income was EUR 49.0 million (based on EUR 11.9 million turnover, EUR 15.4 million capitalized development costs and EUR 21.8 million other operating intercompany income and recovery of expenses), representing a year-on-year decrease of -13.0 % compared with 2007 revenues of EUR 56.3 million (based on mainly EUR 18 million turnover, 15 million capitalized development costs and EUR 23.2 million other operating intercompany income).

The operating charges grew from EUR 69.3 million to EUR 75.8 million resulting in an operational result or EBIT of EUR -26.8 million compared to an EBIT of EUR -13.0 million in 2007 representing a decrease of EUR -13.8 million. This decrease is mainly explained by lower operating income combined with component purchases and higher depreciation and operational costs compared to 2007.

During 2008, the Company reviewed the existing capitalized R&D projects, which resulted in an impairment of EUR -12.2 million having its source in changing technologies and fast changing market conditions. This amount was posted as an exceptional result in the Company's statutory results.

Due to the above, the result before taxes and the net result decreased from EUR -12.8 million to EUR -39.1, representing a decrease of EUR -26.3 million.

The intangible assets decreased from EUR 18.8 million to EUR 12.7 million, mainly explained by a combination of capitalized development costs and posted depreciations and impairments.

The tangible assets decreased from EUR 15.8 million to EUR 12.4 million mainly due to posted depreciations.

The inventories grew from EUR 2.6 million to EUR 3.0 million, mainly due to an increase on the inventory level of components.

The trade and other receivables increased from EUR 19.8 million to EUR 40.7 million, mainly explained by an increase in intercompany receivables with Option Wireless Ltd. (Cork, Ireland).

Cash and cash equivalents decreased over the year from EUR 15.6 million to EUR 5.4 million at the end of 2008.

The amounts payable within one year increased from EUR 10.7 million to EUR 51.9 million mainly explained by an increase of EUR 4.1 million in accounts payable and an increase of EUR 37.9 million for other debts which are related to intercompany transactions.

On a balance sheet total of EUR 77.7 million, the total equity amounted to EUR 24.9 million. At the end of 2008, therefore the Company's solvency ratio amounted to 32%.

On 31 December 2008 there were 241 full time equivalents in the Company. This compares with 233 full time equivalents in the previous year.

### ***Allocation of the statutory result***

The statutory accounts of the Company (Belgian GAAP) reported a net loss for the year 2008 of EUR -39.1 million, compared with a net loss of EUR - 12.8 million in 2007.

The Board of Directors proposes to add the non-consolidated net loss of EUR -39.1 million of 2008 to the profit carried forward from the previous years.

---

**Abridged allocation account (According to Belgian Accounting Standards)**

---

<i>December 31- in Thousands EUR</i>	2008	2007
Profit/(loss) carried forward from previous year	12 410	25 177
Profit/(loss) for the period available for appropriation	(39 124)	(12 767)
Profit/(loss) to be appropriated	(26 714)	12 410

**ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT AND THE POSITION OF THE COMPANY AND THE GROUP**

***Market overview<sup>1</sup>***

Wireless data continues to be a growth market as we move into 2009. In 2008 the shipments grew with 31% globally. Even accounting for moderate growth in 2009 due to the global economic environment, annual growth for the wireless data market is expected to continue to grow at a Compounded Annual Growth Rate (CAGR) of 33% through 2013.

In 2008, the market continued to emphasize the importance of the plug and play simplicity of USB devices. During the year, USB modem shipments rose to 83% of volumes from 46% in 2007. In addition, the market transitioned from High Speed Downlink Packet Access (HSDPA) to High Speed Uplink Packet Access (HSUPA) growing from 16% of devices in 2007 to 39% in 2008.

The embedded module market continued to grow slower than expected although it did constitute 8% of total market volumes in 2008, double the rate of 2007. The market for embedded modules is finally starting to emerge due to the ultra successful netbook form factor. Embedded modules are expected to equal USB devices in terms of volumes around the 2011-2012 timeframes.

In 2008, software became a more important element of the data modem market. While software is not yet driving a significant amount of revenue, connection managers, compression technologies, online storefronts, and other innovations are providing platforms for differentiation among the device manufacturers.

Geographically, Europe continues to be the largest market for data modems accounting for almost 40% of volumes. However, in 2009 and on, North America and Asia are expected to grow more than 50% year on year.

Finally, the market is expected to be further driven by innovation, predominantly in the form of faster download and upload speeds. 2009 will see the first roll-outs of HSPA+ networks followed in 2010 by some early LTE roll-outs. The devices for these networks are expected to become material in 2010 for HSPA+ and 2011 for LTE. Therefore in the short term the market will most likely continue to be dominated by HSDPA/HSUPA USB devices.

***Option's position***

In 2008, Option delivered 3.4 million devices, a 42% increase versus 2007. In addition, in the fourth quarter of the year, Option delivered more than 1 million units for the first time in its history. Revenue for the year stood at EUR 268.1 million, a decline of 11% versus 2007 due to average unit price decreases of more than 39% versus the prior year. However, in the second half of 2008, the average sales price per unit stabilized and remained flat.

Again, Option continued to see its toughest competition in Europe. In order to continue to compete effectively, Option finalized the transition of all of its core manufacturing to China. Only product customization is currently completed in Europe in order to keep manufacturing and transportation costs as low as possible. On average, Option reduced the costs of its products by 15-20% during the year.

---

<sup>1</sup> ABI Update Cellular Modem report 2009, Published Q1, 2009 by ABI Research, Oyster Bay NY, USA

During the year, USB devices remained the dominant form factor generating 69% of volumes and 60% of revenues. While data cards continued to decline during the year, embedded modules showed consistent growth representing around 10% for the full year, but almost 18% in the fourth quarter.

During 2008, Option worked through a very difficult period with regards to new products. In our market, product lifecycles continue to decline, and yet due to a restructuring of the product portfolio, Option did not introduce any new products until late in the third quarter and early in the fourth quarter when five new products were launched. The lack of new products had a negative impact on the first three quarters. However, the average selling price of Option's product portfolio stabilized from the early part of the third quarter. This translated into improved revenues in the fourth quarter when the continuing growth in volumes presented 15% revenue growth over the third quarter.

In the second part of the year, Option also saw strong growth in the US both in terms volumes and revenue. In addition, Option maintained its position as a key supplier to most of the major European operators in the USB market. This achievement strongly affected the volumes and revenues in the latter part of the year.

Option also continued the work on its partnership with Intel which should result in the commercialisation of products in 2009. The Company's investments in this project have allowed it to develop the smallest HSUPA module in the world. Moreover, the module is manufactured with new production methods giving it specific qualities in terms of size, thermal management and overall robustness (shock and moisture resistance). These specific characteristics allow it to be embedded in a variety of devices where size constraints would prevent the use of the existing standard modules.

As discussed previously, embedded modules are becoming a more important part of Option's revenue. As a result, the core customer for Option does no longer exclusively consist of operators, but also of OEM/ODM laptop and electronic device manufacturers like Sony, Acer, Compal and USI. Option is continuing to develop its teams in Asia and the US to capitalize on these opportunities.

On the software side Option further expanded its connection manager product line that is bundled with the hardware products it sells. Next to that existing software product line, Option developed a new software product "uCAN", announced in February 2009. uCAN is a one click launch pad that allows a USB modem user to easily connect to the internet or access applications, documents, MP3 collections or any other content, and this from any personal computer. As the applications run from the USB modem no trace of activity is left on the host computer after the USB modem is disconnected. This unique and versatile functionality will appeal to anyone who prefers - or needs - to travel light without a laptop.

### ***Engineering***

Option continued to invest in R&D during the year. During the last two quarters of the year, five new products were launched in quick succession. In addition, the Company increased its software development team significantly. It is expected that software will enable Option to generate new sources of income and create market differentiation.

In the second half of the year the R&D department began working on HSPA+ products which are expected to generate revenue in 2009. As highlighted above, the Company also continued the development of a unique form factor embedded module for use in MIDs, netbooks, laptops and other consumer electronic devices. These modules are a derivative of the work done in conjunction with Intel since 2007.

In the course of 2008, Option acquired M4S, a spinoff from IMEC, the specialist wireless research facility in Leuven, Belgium. M4S is developing specialist RF technologies that should provide significant flexibility in the next generation of mobile broadband devices. Option is currently looking for a strong financial partner to provide the balance of funding for M4S.

### ***Wireless Broadband technologies***

During the year, Option launched a suite of embedded modules, USB sticks, data cards and a router that are all HSUPA capable. Where HSDPA continued to be the predominant standard for the year, it is expected that HSUPA will become the standard for the new products launched in 2009. Towards the second half of 2009 the market will see the deployment of HSUPA+ networks with a number of operators. Further in the future LTE should launch with a number of operators in 2010. The pace of this expansion will be heavily driven by the economic environment throughout 2009 and 2010.

### ***Organization***

Since its incorporation in 1986, Option has grown from a start-up into a group with a global presence employing over 656 full time employees spread across facilities in Belgium, Ireland, Germany, Japan, USA, China and Taiwan. Option's headcount increased year end to year end by 10.4%, mostly in technical and engineering groups working in product development.

The liquidation process of the Swedish subsidiary "Option Wireless Sweden AB" was finalized in the course of 2008.

On 26 August 2008 two new independent directors were admitted to the board of directors of the Company: An Other Look To Efficiency SPRL, represented by Mr Olivier Lefebvre, and Visinnova BVBA, represented by Mr Patrick De Smedt. Both nominations entailed a significant increase of the in-house know-how on financial and capital markets on the one hand and the high tech sector on the other hand.

During the year, some additional changes to the executive management entered into force or were announced, representative of Option's continuous efforts to better align the Group with the changing market opportunities. A new Chief Financial Officer (CFO) started working on 7 January 2008, while the appointment of a new Chief Operating Officer (COO) was announced in December 2008, starting as from January 19, 2009.

### ***Operations***

The further growth of the wireless data market and the uptake of the consumer market led to a production volume increase of 42% to a new record of 3.4 million units shipped during 2008.

In addition the Group continued to outsource an increasing part of the total production and manufacturing to Asia in order to compete more effectively. During the year, outsourced manufacturing to China increased from 80% in January 2008 to 100% by year end, thereby terminating all remaining manufacturing in Europe. However, Option still runs its supply chain management and customization operations from Ireland.

## **SIGNIFICANT EVENTS THAT TOOK PLACE AFTER THE END OF THE FINANCIAL YEAR**

On Group level, a number of significant events took place and were communicated via the Company's website. We provide an overview of the different press releases that were issued during the first three months of the financial year 2009:

### ***Customer announcements***

- 12 January 2009: Option's new-entry USB modem selected by O2;
- 16 February 2009: O2 offers new Option ExpressCard with retractable antenna;
- 17 February 2009: Gemalto partners with Option to deliver remote management over the internet of 3G/HSPA USB modems for mobile operators.

***Operational organization***

- 26 January 2009: Option appoints Brightpoint to expand distribution of wireless broadband devices;
- 5 March 2009: Option reports fourth quarter and full year 2008 results and announced that the Group is taking the necessary steps to re-align the Group's cost base with the new economic reality, including a one off restructuring, combined with other cost saving projects and measures.

***Technological leadership***

- 22 January 2009: Option shipping stylish new router: the GlobeSurfer III;
- 16 February 2009: Option demonstrates HSPA+;
- 16 February 2009: GlobeSurfer X●1 connects family or small business in instant 3G and WiFi network;
- 16 February 2009: Option's uCan transforms USB modem into a virtual pc.

**VALUATION RULES**

The going concern valuation rules were used both for the annual accounts and the consolidated annual accounts of the company. The Company is of the opinion that, notwithstanding the existence since the last two financial years of losses carried forward, the use of going concern valuation rules is justified taking into account the following:

*Wireless Data*

The Company operates primarily in the wireless data segment. This segment is currently one of the most important growth areas for the telecom sector. The growth potential of the sector is further evidenced by the development of new product categories (such as MID) by major IT companies and component suppliers (such as Intel). Option has been active in this market segment for more than a decade and is therefore ideally positioned to play a leading role as one of the innovators in this market segment.

*Organization:*

The current economic environment affected the fourth quarter dramatically. Until December however, the work that had been undertaken by the Company during the year was beginning to show positive results.

- 5 new products were launched on schedule in the late third and early fourth quarter
- Volume wise, October and November were two of the best months in the Company's history. More than 1 million units were shipped in the fourth quarter, resulting in a 46% year on year increase from 2007.
- The average selling price across the portfolio of products was stabilized from the third quarter, after declining more than 48% from the third quarter of 2007.
- The full transition of outsourced manufacturing to China was completed in the first quarter enabling continued cost reductions.

The Board is convinced that the recently hired COO will further strengthen the management team to successfully execute the overall Company's strategy.

*Cost Reduction Plans:*

Option continues to focus on cost reduction. Therefore, the Company is taking the necessary steps to re-align the Company's cost base with the new economic reality, including a one off restructuring, combined with other cost saving projects and measures. It is expected that overall run rate operating expenses will be reduced by 20% compared to 2008. This will be effected via a combination of headcount reductions and general improvements in the Company's non-HR cost base.

*Key Developments:*

Although the first half year of 2009 could be difficult, the Company has identified some positive indicators in the market. In the embedded module space, the Company continues to successfully expand its customer base. The success with Acer and Sony is being supplemented by deals with major ODM manufacturers Compal and USI.

In addition, the molded form factor of the GTM 501 module is being included in consumer electronic devices, extending Option’s customer base far beyond the PC manufacturers and mobile operators.

Finally, in these difficult times, Option is focusing on core geographies where profitability can be maximized. This includes the US market where Option’s share continues to grow. The US and Asia continue to value the strong quality of product Option delivers and therefore the margins remain strong there. Therefore the Company will continue to expand and deploy resources in those two regions.

The Company’s ongoing efforts to secure additional liquidity in order to strengthen the Company’s cash position and to secure its future working capital needs include:

- Negotiations with its banks to restructure the currently unavailable EUR 10 million credit line.
- Negotiations with a strategic partner for an additional secured loan facility. There are strong indicators that a positive feedback can be expected from their investment committee.
- Finally, the company continues to engage with other capital providers for additional access to cash.

## **CORPORATE GOVERNANCE**

### ***The Belgian Corporate Governance Code***

On 9 December 2004, the Corporate Governance Committee published the Belgian Corporate Governance Code. This Code entered into force on 1st January 2005. Option explicitly adheres to this Code and has, as from 1 January 2006, made public on its website [www.option.com](http://www.option.com) (refer to the “invest” section), a Corporate Governance Charter, outlining its corporate governance structure and policies, in line with said Code.

The Code has a high degree of built-in flexibility, enabling it to be adapted to each company varying size, activities and culture. It is based on a “comply or explain” system, which allows companies to deviate from the provisions of the Code when their specificities so justify, subject to providing adequate explanation.

Option adopted the “comply or explain” system with regards the following topics, also described in this annual report:

- the combination chairman – CEO
- the combination Nomination Committee – Remuneration Committee
- the proposal to grant warrants to the Board of Directors.

### ***Composition of the Board of Directors***

The articles of association stipulate that the Board of Directors is composed of a minimum of three and a maximum of nine members, who are appointed by the general shareholders meeting for a maximum period of six years. In accordance with the principles of the Code the Company’s directors are appointed for a maximum duration of four years.

The Board of Directors must include at least three independent directors.

It is currently composed of eight members, namely:

Mr Jan Callewaert, executive director, chairman and managing director (“gedelegeerd bestuurder”)
Mr Arnoud De Meyer, independent director
Mr Lawrence Levy, non-executive director
Mr Jan Loeber, independent director
Mr David A. Hytha, non-executive director
Q-List BVBA, represented by Mr Philip Vermeulen (permanent representative), independent director
An Other Look To Efficiency SPRL, represented by Mr Olivier Lefebvre (permanent representative), independent director
Visinnova BVBA, represented by Mr Patrick De Smedt (permanent representative), independent director

The term of the office of Mr. Callewaert, De Meyer, Levy, Loeber and Hytha will expire immediately after the Annual General Meeting, which will be asked to approve the annual accounts for the year ending in 2008. The Board of Directors proposes to renew these mandates for a period of four years.

The term of the office of Q-List BVBA, An Other Look To Efficiency SPRL and Visinnova BVBA, all appointed by decision of the extraordinary general meeting of shareholders held on 26 August 2008, will expire immediately after the Annual General Meeting, which will be asked to approve the annual accounts for the year ending in 2011.

### ***Functioning of Board of Directors***

In 2008, the Board of Directors met twelve times, four times in person and eight times via conference call. The average attendance rate amounts to 91.46% (2007: 89.50%), with the following individual attendance rate figures:

Jan Callewaert	100.00%
Arnoud De Meyer	83.33%
Philip Vermeulen <sup>2</sup> / Q-List BVBA <sup>3</sup>	100.00%
Jan Loeber	91.67%
David Hytha	75.00%
Lawrence Levy	100.00%
An Other Look To Efficiency SPRL (from 26 August 2008 onwards) <sup>4</sup>	100.00%
Visinnova BVBA (from 26 August 2008 onwards) <sup>5</sup>	80.00%

### ***Related parties transactions***

No transactions occurred in 2008 between the Company (including its related companies) and members of the Board of Directors that triggered the application of the conflict of interest procedure foreseen by the Belgian Code of Companies (Article 523 of the Belgian Code of Companies).

The policy with regard to transactions between the Company or any of its affiliated companies on the one hand and members of the Board of Directors or the Executive Management Team (or members of their immediate families) on the other hand that could give rise to conflicts of interest (other than those defined in the Belgian Companies Act) has been defined in the Corporate Governance Charter. In line with the decision taken by the Board of Directors in 2006 the Company reports on the professional fees charged by the US based law firm Brown Rudnick LLP, since Mr. Lawrence Levy who joined the Board of Directors of the Company early 2006 is one of the Senior Counsels of this law firm. As previously agreed Mr. Lawrence Levy does not directly work on Option related matters in his capacity of Senior Counsel of Brown Rudnick LLP.

In order to avoid any ambiguity the Board of Directors decided in 2006 to report on an annual basis on the fees that were paid to Brown Rudnick LLP during the financial year. In 2008, the fees paid to Brown Rudnick LLP amounted to EUR 38k (2007: EUR 77k).

In the course of normal operations, related party transactions entered into by the Group have been contracted on an arms-length basis.

<sup>2</sup> Philip Vermeulen: (until 26 August 2008)

<sup>3</sup> Q-List BVBA: (from 26 August 2008 onwards)

<sup>4</sup> % calculated upon attendance since the appointment

<sup>5</sup> % calculated upon attendance since the appointment

### ***Audit Committee***

In 2008 the Audit Committee of the Company was composed of three independent directors. The composition change during the year as follows: Mr. Philip Vermeulen was member from the beginning of the year until 26 August 2008, Q-List BVBA was nominated director of the Company as of 26 August 2008 and appointed member of the Audit Committee by Board decision of September 2008), Mr. Arnoud De Meyer was member of the Audit Committee during the whole year, An Other Look To Efficiency SPRL was nominated director on 26 August 2008, and was appointed member of the Audit Committee by Board decision of September 2008) and Mr. Lawrence Levy was appointed member of the Audit Committee in replacement of Mr Jan Callewaert by decision of the Board of Directors of February 2008, it being understood that the audit committee did not meet in 2008 prior to his appointment, and this until the Board decision of September 2008).

The Audit Committee gives guidance and controls the financial reporting of the Company. It ensures the presence of sufficient internal control mechanisms and, in co-operation with the statutory auditor of the Company, investigates questions relating to bookkeeping and valuation. The Audit Committee met five times in 2008 and reported to the Board of Directors on its activities and findings. The individual attendance rate figures (i.e. the attendance of the individual Committee member during the time he was member of the Committee) were as follows:

Arnoud De Meyer	100.00%
Philip Vermeulen (until 26 August 2008)	100.00%
Lawrence Levy (until September 2008)	100.00%
Q-List BVBA (from September 2008 onwards)	100.00%
An Other Look To Efficiency SPRL (from September 2008 onwards)	100.00%

### ***Remuneration and Nomination Committee***

The Remuneration Committee is composed of two independent directors, i.e. Mr. Philip Vermeulen until 26 August 2008 replaced by Q-List BVBA by decision of the Board of Directors of September 2008 and Mr. Arnoud De Meyer, as well as Mr. Lawrence Levy. The Remuneration Committee's role is to provide for a fair policy of remuneration for the employees and to ensure best international practices are respected when determining the remuneration and incentives of Directors and Officers, and the appointment of the latter. Given the size of the Group, the Remuneration Committee is therefore also combining the function of a nomination committee. The Remuneration Committee met two times in 2008 and reported to the Board of Directors on its activities and findings. The individual attendance rate figures (i.e. the attendance of the individual Committee member during the time he was member of the Committee) were as follows:

Arnoud De Meyer	100%
Philip Vermeulen (until 26 August 2008)	100%
Lawrence Levy	100%
Q-List BVBA (from September 2008 onwards)	100%

### ***Strategic Committee***

The composition of the Strategic Committee changed during the year. Until the Board decision of September 2008 the Committee was composed of five directors Mr. Jan Callewaert, Mr. David Hytha, Mr. Jan Loeber, Mr. Arnoud De Meyer and Mr. Lawrence Levy. In September 2008, the Board decided to change the composition of the Committee to four directors: Mr. Jan Callewaert, Mr. David Hytha, Mr. Jan Loeber and Visinnova BVBA. The Committee's role is to reflect upon the mid and long term strategy of the Company taking into account the global market evolutions and developments in the telecom sector (and more in general the high tech industry). In addition, the Committee reviews and evaluates major strategic decisions and provides guidance to the Board of Directors. The Strategic Committee met six times in 2008 (i.e. four times in person and twice via conference call) and reported to the Board of Directors on its activities and findings. The individual attendance rate figures (i.e. the

attendance of the individual Committee member during the time he was member of the Committee) were as follows:

Jan Callewaert	100.00%
Arnoud De Meyer (until September 2008)	50.00%
Jan Loeber	100.00%
David Hytha	100.00%
Lawrence Levy (until September 2008)	100.00%
Visinnova BVBA (from September 2008 onwards)	100.00%

### ***Remuneration of the directors***

The directors are remunerated for the execution of their mandate. The remuneration includes both a fixed amount for Board membership and an attendance fee for the meetings of the Board of Directors and the meetings of the Committees of the Board.

In addition to the aforementioned remuneration directors are also entitled to out-of-pocket expenses in line with the Company policies (especially travel policy) and provided such expenses are reasonable and required for the performance of their duties as director of the Company.

Although the Corporate Governance Code stipulates that it is not recommended to grant performance-related remuneration such as stock related long-term incentive schemes to the non-executive directors, the Board of Directors has proposed and the Extraordinary Shareholders' meeting has approved on 26 August 2008 a warrants plan and resolved to grant warrants to all the directors of the Company in the following proportions:

Jan Callewaert	50,000
Jan Loeber	50,000
Arnoud De Meyer	50,000
David Hytha	50,000
Lawrence Levy	50,000
Q-List BVBA	30,000
An Other Look To Efficiency SPRL	30,000
Visinnova BVBA	30,000
<b>Total</b>	<b>340,000</b>

The Board of Directors is of the opinion that granting warrants to directors allows the Company to appoint directors of the highest international standing and allows the Company to ensure the continued involvement of the directors whilst at the same time limiting the financial burden upon the Company. The Board of Directors is convinced that the integrity and experience of the directors is the best guarantee of good judgment and decision-making. Finally the vesting schedule under the warrants plan is spread out over a period of four (4) years thereby mitigating the risk of short term driven decisions.

The grant of warrants to the directors is at no real cost to the Company, and the exercise of the warrants to the directors can only result in a very small dilution. In addition, the grant of the warrants is in line with common practice in the international and highly competitive high-tech and telecom sector.

In 2008, the global compensation for the Board of Directors amounted to EUR 321k (2007: 270k).

Name	Board meetings attended		Audit Committees attended	Remuneration Committees attended	Strategic Committees Attended	Total remuneration Thousands EUR
	<i>Physical attendance</i>	<i>calls</i>				
Jan Callewaert (1)	4/4	8/8	N.A.	N.A.	6/6	48.50 (2007: 45)
Arnoud De Meyer	4/4	6/8	5/5	2/2	2/4	49.00 (2007: 45)
Philip Vermeulen	2/2	5/5	3/3	1/2	N.A.	20.50 (2007: 45)
Lawrence Levy	4/4	8/8	3/3	2/2	4/4	49.00 (2007: 43.75)
Jan Loeber	4/4	7/8	N.A.	N.A.	6/6	47.50 (2007: 41,5)
David Hytha	4/4	5/8	N.A.	N.A.	6/6	45.50 (2007: 41,5)
Q-List BVBA	2/2	3/3	2/2	1/2	N.A.	26.50 (2007: N.A.)
An Other Look To Efficiency SPRL	2/2	3/3	2/2	N.A.	N.A.	16.83 (2007: N.A.)
Visinnova BVBA	2/2	2/3	N.A.	N.A.	2/2	18.08 (2007: N.A.)

(1) Excluding CEO remuneration to Mondo NV

In addition, one non-executive Board member received an amount of EUR 4k in his capacity of member of the Board in Ireland.

### ***Executive Management Team***

The Executive Management Team is currently composed of the following members:

Jan Callewaert <sup>6</sup> , Founder and Chief Executive Officer (CEO)
Filip Buerms <sup>7</sup> , Vice President Global Sales & Distribution
Patrick Hofkens, General Counsel & Vice President Global Strategic Alliances
Philippe Rogge <sup>8 9</sup> , Chief Operating Officer (COO)
Bernard Schaballie, Vice President Global Engineering
David Whelan, Vice President Global Operations
John Patrick Ziegler <sup>10</sup> Chief Financial Officer (CFO)

### ***Executive officers compensation (Executive Management Team)***

The CEO of the Group (its permanent representative, Mr. Jan Callewaert) controls a management company which performs management services for the Group. The remuneration for these management services in 2008 amounted to EUR 540k fixed (2007: EUR 540k). The variable compensation related to 2008 was waived.

The outstanding receivable towards Pepper NV (100% Jan Callewaert) amounted to EUR 51k in 2008 and remained unchanged compared to 2007. Jan Callewaert holds together with Pepper NV (which he controls) 17.34% of the shares of the Company.

For the year 2008, an aggregate gross amount of EUR 1.404k was attributed to the other five members of the Executive Management Team (2007: EUR 958k to six members of the Executive Management Team). In 2008, an amount of EUR 108k was accrued as variable pay relating to 2008 performance (2007: EUR 0). For the members of the Executive Committee, benefits include an extra-legal pension scheme, the cost of which amounted to EUR 68k (2007: EUR 73k).

<sup>6</sup> Mondo NV, a company incorporated and organised under Belgian law, represented by Jan Callewaert

<sup>7</sup> Encore Plus BVBA, a company incorporated and organised under Belgian law, represented by Filip Buerms.

<sup>8</sup> Pirogue Consulting BVBA, a company incorporated and organized under Belgian law, represented by Philippe Rogge.

<sup>9</sup> As from 19 January 2009.

<sup>10</sup> Brayoe Consultants BVBA, a company incorporated and organised under Belgian law, represented by John Patrick Ziegler.

The 2007 compensations have been restated in order to be consistent and comparable with the amounts disclosed in 2008, including only the compensations of the Executive Management Team (2007: based on Vice Presidents).

The following numbers of warrants “V” were granted to the members of the Executive Team in the course of 2008:

Mondo NV, represented by Jan Callewaert	75,000
Encore Plus BVBA, represented by Filip Buerms	50,000
Patrick Hofkens	50,000
Bernard Schaballie	50,000
David Whelan	50,000
Brayoe Consultants BVBA, represented by John Patrick Ziegler	50,000
<b>Total</b>	<b>325,000</b>

All the above warrants were timely accepted.

The main terms and conditions of the warrants plan “V” governing the above warrants are as follows:

- the warrants are subject to a vesting scheme (20% vested 6 months after the offer; 20% 1 year after the offer, 20% 2 years after the offer, 20% 3 years after the offer and 20% 4 years after the offer);
- the exercise price of the above warrants amounts to EUR 2.84 per warrant for all the members of the Executive Management Team;
- the exercise must take place during exercise windows (i.e. May, September or December);
- upon conversion of their warrants the warrant holders receive one ordinary share of the Company per warrant;
- the plan provides for an accelerated vesting and exercise in the event of a change of control.

## RELEVANT INFORMATION IN THE EVENT OF A PUBLIC TAKE-OVER BID

### *Capital structure – capital shares/securities - rights*

The share capital of the Company amounts to EUR 6,116,067.18<sup>11</sup>. It is fully issued and is represented by 41,249,296 equal ordinary shares without nominal value, each with a par value of EUR 0.1483 (rounded amount).

The shares exist, as a general rule, in dematerialized form. However each shareholder is entitled to request, at any time and at his/her own cost, the conversion of his/her shares into registered shares. On 31 December 2008 41,249,295 shares existed in dematerialized form and 1 share in registered form.

Beside the above capital shares, the Company has issued 2,500,000 naked subscription rights (warrants) “V”, following a resolution of the extraordinary general meeting of shareholders held on 26 August 2008.

A total of 2,241,540 warrants “V” were offered in the course of financial year 2008:

- 340,000 warrants were granted to the directors (100% accepted in 2008);
- 325,000 warrants were granted to the members of the Executive Management Team<sup>12</sup> (100% accepted in 2008);
- 1,576,540 warrants were offered to employees and self-employed advisors of Option NV and subsidiaries (offered on December 23, 2008).

None of the warrants offered and accepted in 2008 were vested on 31 December 2008.

<sup>11</sup> Situation on 31 December 2008.

<sup>12</sup> Except Philippe Rogge (Pirogue Consulting BVBA), who only became a member of the Executive Management Team in 2009)

The above extraordinary general meeting of shareholders of 26 August 2008 also resolved to withdraw all 2,200,000 warrants “U”, as issued following resolutions of the extraordinary general meeting of shareholders of 30 March 2007 and none of which had ever been offered or granted.

***Transfer restrictions imposed by the law or the bylaws***

None of the capital shares issued by the Company is subjected to any legal or statutory transfer restrictions.

Pursuant to the warrant plan as approved by the extraordinary general meeting of shareholders held on 26 August 2008 of the warrants (subscription rights) “V” – as already awarded or to be awarded in the future - may be transferred by the warrant holders, except in the event of a decease.

***Holders with special rights***

Pursuant to Article 14 of the bylaws of the Company Mr Jan Callewaert has a binding proposition right for the nomination of one director for each tranche of 3% (three percent) of the total amount of issued shares of the Company he holds directly or indirectly, with a maximum proposition right for the nomination of five (5) directors. He has this right on the condition that and as long as he holds at least 15% (fifteen percent) of the total amount of shares issued by the Company.

***Systems of control of any employee share scheme where the control rights are not exercised directly by the employees***

There are no such employee share schemes relating to the Company.

***Restrictions on voting rights***

None of the capital shares of the Company is subject to any legal or statutory voting power restrictions. Each capital share entitles its holder to one vote.

The voting rights attached to the capital shares issued by the Company are however suspended in the following events:

- Voting rights attached to shares to which the Company itself subscribes, directly or indirectly (Articles 442 and 585 of the Belgian Code of Companies) (currently not applicable to the Company<sup>13</sup>);
- Voting rights attached to shares held by different owners, as long as these co-owners have not designated one of them as sole owner vis-à-vis the Company (Article 461 paragraph 1 of the Belgian Code of Companies) (currently not applicable to the Company<sup>14</sup>);
- Voting rights attached to shares that have not been fully paid-up despite a valid request thereto (Article 541 paragraph 3 of the Belgian Code of Companies and Article 9 of the bylaws) (currently not applicable to the Company<sup>15</sup>).
- Voting rights attached to shares in the Company acquired, held or pledged by the Company or a direct subsidiary of the Company (Articles 622 §1 first paragraph, 627 and 630 §1 paragraph 1 of the Belgian Code of Companies) (currently not applicable to the Company<sup>16</sup>);
- Voting rights attached to shares in the Company held by a subsidiary to the Company, representing more than 10% of the voting rights attached to all shares in the Company (Article 631 §1 paragraph 1 of the Belgian Code of Companies) (currently not applicable to the Company<sup>17</sup>);
- Voting rights attached to shares held in a cross-participation between independent companies, representing more than 10% of the voting rights, if not transferred within one year, as imposed

---

<sup>13</sup> Situation on 31 December 2008.

<sup>14</sup> Situation on 31 December 2008.

<sup>15</sup> Situation on 31 December 2008.

<sup>16</sup> Situation on 31 December 2008.

<sup>17</sup> Situation on 31 December 2008.

by Article 632 §3 of the Belgian Code of Companies (Article 632 §4 of the Belgian Code of Companies) (currently not applicable to the Company<sup>18</sup>).

Furthermore, no one may, as a general rule, cast votes at a general meeting of shareholders of the Company attached to securities that he/she has not disclosed at least twenty (20) days prior to a general meeting in accordance with the legislation on important participations (Article 545 of the Code of Companies).

The voting rights attached to shares encumbered with a life tenancy (“vruchtgebruik”) are exercised by the life tenant. As far as pledged shares are concerned, the voting rights are exercised by the owner-pledgee.

Holders of subscription rights (warrants) only have an advisory voting right at general meetings.

### ***Shareholders’ agreements***

To the best knowledge of the board of directors of the Company there are no shareholders’ agreements, which may result in restrictions on the transfer of securities and/or the exercise of voting rights.

### ***Rules governing the appointment and replacement of the members of the Board of Directors of the Company***

The directors of the Company are appointed by the general meeting of shareholders, deciding by a simple majority of votes. There are no attendance requirements for the appointment of directors.

If a legal entity is appointed director, it must appoint a permanent representative from amongst its shareholders, directors or employees, who is to be charged with the execution of the task in the name of and for the account of the legal personality-director.

Pursuant to Article 14 of the bylaws of the Company Mr Jan Callewaert has a binding proposition right for the nomination of one director for each tranche of 3% (three percent) of the total amount of issued shares of the Company he holds directly or indirectly, with a maximum proposition right for five (5) directors. He has this right on the condition that and as long as he holds at least 15% (fifteen percent) of the total amount of shares issued by the Company.

Directors can at all times be dismissed by the general meeting of shareholders, by a simple majority of votes. There are no attendance requirements for the dismissal of directors.

The bylaws of the Company provide the possibility for the board of directors to appoint directors in the event of a vacancy. In that case the Board of Directors has the right to provide a temporary replacement. The next general meeting of shareholders is to decide on the definitive appointment. The new director completes the term of office of his/her predecessor.

### ***Rules governing the amendments to the bylaws of the Company***

Save for capital increases decided by the board of directors within the limits of the authorized capital, only the (extraordinary) general meeting of shareholders is entitled to amend the Company’s bylaws.

The general meeting of shareholders may only deliberate on amendments to the bylaws – including mergers, de-mergers and a winding-up – if fifty percent (50%) of the share capital is represented. If that attendance quorum is not reached, a new extraordinary general of meeting of shareholders must be convened, which may deliberate regardless of the portion of the share capital represented.

Amendments to the bylaws are only adopted, if approved by seventy-five percent (75%) of the votes cast.

---

<sup>18</sup> Situation on 31 December 2008.

The following amendments to the bylaws require however a special majority approval of eighty percent (80%) of the votes cast:

- Amendments to the provisions regarding the appointment and the dismissal of directors (Article 14 of the bylaws);
- Amendments to the corporate purpose (Article 559 of the Belgian Code of Companies);
- Modification of the legal form (Article 781 of the Code of Companies).

***Powers of the Board of Directors relating to the issuance or buy-back of shares of the Company***

The share capital of the Company may be increased following a decision of the board of directors, within the limits of the “authorized capital”. The authorization thereto must be granted by an extraordinary general meeting of shareholders; it is limited in time and amount and is subject to specific justification and purpose requirements. On 19 April 2006 the extraordinary general meeting of shareholders of the Company has authorized the Board of Directors to increase the share capital, in one or more times, by a maximum amount of EUR 6,116,067.21. This authorization has been granted for a period of five years from 16 May 2006 (date of the publication of the above decision) onwards. The board of directors has furthermore expressly been authorized to use this “authorized capital” in the event of a public take-over bid, within the limits of the Belgian Code of Companies, for a period of three years from 16 May 2006 onwards.

The Board of Directors of the Company has also been authorized to cause the Company to acquire own shares, where such acquisition is necessary to avoid serious and imminent harm to the Company. Said authorization was granted for a 3-year period from 9 September 2008 (date of the publication of the resolution of the extraordinary general meeting of shareholders held on 26 August 2008) onwards.

Finally the Board of Directors has also been authorized to acquire, for a period of eighteen (18) months from 9 September 2008 (date of the publication of the resolution of the extraordinary general meeting of shareholders held on 26 August 2008) onwards, the maximum number of own shares or profit-sharing certificates as permitted by the Companies Code, being such number whose aggregate par value does not exceed ten percent (10%) of the capital, at a price equal to the average closing price of the share over the last thirty (30) calendar days prior to the transaction, increased or decreased by ten percent (10%), as well as, as far as necessary, to renew the authorization to transfer the own shares through sale or exchange or on the stock exchange, according to the same conditions as those set for the acquisition of own shares

***Significant agreements to which the Company is a party and which take effect, alter or terminate upon a change of control of the Company following a take-over bid, and the effects thereof***

**1. Supply agreements**

- Supply agreement entered into with Vodafone (possibility to terminate with immediate effect within 2 months after notification of change of control by the Company);
- T-Mobile Supply and Purchase Framework Agreement (possibility to terminate within a 30 days notice);
- Cingular Wireless/AT&T Supply Agreement (non-assignment rights/obligations without consent other party);
- Virgin Mobile Australia Supply Agreement (non-assignment of rights/obligations without consent other party);
- Telstra Sourcing Agreement Mobile Services (non-assignment of rights/obligations without consent other party);
- Sanshin Electronics Corporation Limited Supply Agreement (non-assignment of rights/obligations without consent other party);
- Corporate Sourcing Contract France Telecom (Orange) (non-assignment of rights/obligations without prior consent other party).

## 2. License agreements:

- Qualcomm CDMA Modem Card License Agreement (non-assignment of rights/obligations without prior written consent of Qualcomm – change of control falls under definition of “assignment”);
- Motorola License Agreement dated (non-assignment without prior written approval Motorola);
- Interdigital License Agreement dated (non-assignment of rights/obligations);
- Ericsson Global Patent License Agreement (unilateral termination right in favour of Ericsson if more than 25% of the Company’s ownership changes by merger, acquisition, consolidation, transfer or otherwise and the acquirer has business within the telecommunication or data-communication areas and as such constitutes a major competitor of Ericsson – Ericsson has in any event a unilateral termination right if more than 50% of the Company’s ownership changes by merger, acquisition, consolidation, transfer or otherwise).

### ***Agreements between the Company and its directors or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a take-over bid***

None of the agreements entered with the directors of the Company or any of its subsidiaries contains a provision providing for compensation if they resign or are made redundant without valid reason or if their mandate is terminated because of a take-over bid.

The service agreement of John Patrick Ziegler provides for a success fee in the following events:

- (1) change of control prior to a grant of warrants/subsorption rights (success fee equal to: 50,000 x (share price – 5.50 EUR) with a maximum of 200,000 EUR), and
- (2) termination at will by the Company without new service agreement.

## **EVENTS THAT COULD INFLUENCE THE DEVELOPMENT OF THE GROUP: OVERVIEW OF RISKS AND UNCERTAINTIES**

In accordance with Article 96 of the Belgian Company Code, the annual report must describe the main risks and uncertainties that Option is confronted with. Whilst most of such risks and uncertainties are related to the evolution of the market in which the Group is active as further outlined in the Review of Operations we would like to specifically mention the following risks and uncertainties:

- (1) Option depends on third parties to offer wireless data communications services. If these services are not deployed as anticipated, consumers would be unable to use Option innovative products and revenues could decline.
- (2) Option is outsourcing manufacturing of its products to third parties and can be dependent upon the development and deployment of these third parties’ manufacturing abilities and the overall quality of their work. The inability of any supplier or manufacturer to fulfil the Option’s supply requirement could impact future results. Option has short term supply commitments to its outsource manufacturers based on its estimation of customer and market demand. Where actual results vary from those estimates, whether due to execution on Option’s parts or market conditions, Option could be at commercial risk.
- (3) The 2008 revenues are realized with two global groups of companies representing respectively 24% and 16% whilst in 2007, these two groups of companies represented respectively 24% and 12%.  
The Group deals with the individual affiliated companies who are free to negotiate and manage their own contracts and placement of purchase orders. All these affiliated companies have different credit risk profiles and benefit from different terms and conditions.
- (4) Competition from bigger more established companies with greater resources may prevent the Group from increasing or maintaining its market share and could result in price reductions and reduced revenues.

The wireless data industry is intensely competitive and subject to rapid technological change. Competition might further intensify. More established and larger companies with greater financial, technical and marketing resources can start selling products that might compete with Company products. Existing or future competitors may be able to respond more quickly to technological developments and changes or may independently develop and patent technologies and products that are superior to those of the Group or achieve greater acceptance due to factors such as more favorable pricing or more efficient sales channels. If the Group would be unable to compete effectively with competitors' pricing strategies, technological advances and other initiatives, its market share and revenues may be reduced.

- (5) Option may have difficulty managing its growth, which may damage its ability to retain key personnel and to compete effectively. Furthermore, growth outside Europe is becoming increasingly important (Japan, US) and therefore Option becomes exposed to local market instability and impact of exchange difference.
- (6) The market is evolving rapidly and the product life cycles are becoming shorter every year. In the event Option would be unable to design and develop new innovative products that gain sufficient commercial acceptance, the Group may be unable to recover its research and development expenses and Option may not be able to maintain its market share and the revenues could decline. Furthermore, because of the short product life cycles Option's future growth is increasingly depending upon designing and developing new products that may not have been commercially tested. The ability to design and develop new products depends on a number of factors, including, but not limited to the following:
- the ability of the Group to attract and retain skilled technical employees;
  - the availability of critical components from third parties;
  - the ability of the Group to successfully complete the development of products in a timely manner;
  - the ability of the Group to manufacture products at an acceptable price and quality.

A failure by Option or its suppliers in any of these areas, or a failure of these products to obtain commercial acceptance, could result in Option being unable to recover its research and development expenses and could result in a decrease in bottom line result.

- (7) *Going concern.* The Board of Directors is from the opinion that, notwithstanding the existence since the last two financial years of losses carried forward, the use of going concern valuation rules is justified, based on the facts that:
- o there is a budget that appears realistic and conservative;
  - o the continued focus on cost reduction for which it is expected that overall expenses will be reduced with 20% compared to 2008;
  - o the Groups ongoing efforts to secure additional liquidity in order to strengthen the Groups cash position and secure its future working capital needs.
  - o the Group operates in the wireless data segment, one of the most important growth areas for the Telecom sector. The growth potential is further evidenced by the development of new product categories, such as MID (Mobile Internet Devices) in which the Group is ideally positioned to play a leading role as one of the innovators in this segment.

The budget prepared by the management and approved by the Board of Directors has a realistic and conservative approach.

- (8) We may infringe on the intellectual property rights of others. The industry in which we operate has many participants that own, or claim to own, proprietary intellectual property. In the past we have received, and in the future may receive assertions or claims from third parties alleging that our products violate or infringe their intellectual property rights. The Company may be subject to these claims directly or through indemnities against these claims which the Company has provided to certain customers. Regardless of whether these infringement claims have merit or not, we may be subject to the following:
- We may be liable for potentially substantial damages, liabilities and litigation costs, including attorneys' fees;
  - We may be prohibited from further use of the intellectual property and may be required to cease selling our products that are subject to the claim;

- We may have to license the third party intellectual property, incurring royalty fees that may or may not be on commercially reasonable terms. In addition, there is no assurance that we will be able to successfully negotiate and obtain such a license from the third party;
- We may have to develop a non-infringing alternative, which could be costly and delay or result in the loss of sales. In addition, there is no assurance that we will be able to develop such a non-infringing alternative;
- The diversion of management's attention and resources;
- We may be required to indemnify our customers for certain costs and damages they incur in such a claim.

## **FINANCIAL INSTRUMENTS AND RISKS**

Derivative financial instruments are used to reduce the exposure to fluctuations in foreign exchange rates. These instruments are subject to the risk of market rates changing subsequent to acquisition. The risks of these changes are generally offset by the opposite effects of hedging, however not all financial risks can be fully hedged.

Credit evaluations are performed on all customers requiring credit over a certain amount. The credit risk is monitored on a continuous basis.

The Group is not subject to material interest risk. As in 2007, the Group has no floating rate financial assets or liabilities and interest rate derivatives.

The Group is subject to material currency risk, as the larger part of its purchase transactions are in US dollars. The Group aims to match foreign currency cash inflows with foreign cash outflows. In 2008, the Group entered into derivative financial instruments to manage its exposure on the US dollar cash flows. The effect of the foreign exchange contracts has been recognized as exchange rate gains/(losses) in the income statement.

As indicated above, the wireless data industry is increasingly competitive and subject to rapid technological change. The arrival of more established and larger companies, as well as the rapid technological change may create price erosion and affect Option's margins and profitability.

The Group has a credit facility for EUR 10 million which was not available under the current covenants and no other loans.

## **CONFLICTS OF INTERESTS**

The conflict of interest procedure foreseen in article 523 of the Belgian Code of Companies was not applied in 2008.

For an overview of the transactions with affiliated parties are concerned, we refer to explanatory note 22 of the annual report.

## STATEMENT

The Board, to the best of their knowledge, declares the following:

- a) the annual financial statements were prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the undertakings included in the consolidation taken as a whole;
- b) the annual report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Leuven, March 19, 2009

The Board of Directors