



May 27, 2008

## **OTI First Quarter 2008 Financial Results Conference Call Script**

**Operator** Good morning, good afternoon, to all OTI investors, analysts and other interested parties worldwide on our first quarter of 2008 conference call.

As a reminder, the conference call is being recorded today and will be available for replay until June 3<sup>rd</sup> and a transcript of the prepared statements will be available on our website at [www.otiglobal.com](http://www.otiglobal.com) in the Investor Relations section.

With me today on the call are Oded Bashan, OTI Chairman and CEO, Ohad Bashan, OTI President, and Guy Shafran, OTI CFO.

You should have received a copy of the press release issued before the market opened this morning. If you are not on our distribution list, please contact us at [info@otiglobal.com](mailto:info@otiglobal.com) and we'll be happy to add you for future information.

Our statements today contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other Federal securities laws. Whenever we use words such as "believe," "expect," "anticipate," "intend," "plan," "estimate" or similar expressions, we are making forward-looking statements. Because such statements deal with future events and are based on OTI's current expectations, they are subject to various risks and uncertainties and actual results, performance or achievements of OTI could differ materially from those described in or implied by these statements. For example, forward-looking statements include statements regarding our goals, beliefs, future growth strategies, objectives, plans or current expectations relating to future financial results or other aspects of our business. Forward-looking statements could be impacted by the effects of the protracted evaluation and validation period in the U.S. contactless payment cards market, the ability of OTI to successfully integrate the assets and operations purchased from SuperCom into the operations of OTI or to otherwise realize the expected benefits of the acquisition, market acceptance of new and existing products and our ability to execute production on orders, as well as the other risk factors discussed in OTI's Annual Report on Form 20-F for the year ended December 31, 2007, including the documents incorporated by reference therein, filed with the Securities and Exchange Commission. Although OTI believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. OTI disclaims any intention or obligation to update or revise any forward-looking statements, which speak only as of the date hereof, whether as a result of new information, future events or circumstances or otherwise.

At this point, I would like to turn the call over to Ohad Bashan, President of OTI, to discuss the results –



**Ohad Bashan** Thank you all for joining today's conference call. I will give an overview of the results and business developments and we will then open the call for questions which will be addressed by Oded, Guy and myself.

As we have indicated in our previous call, we are putting significant efforts on reducing our operating expenses and increasing our projects pipeline for 09' and 10' with focusing on high margin projects with recurring revenues and clear path to commercial rollouts. We believe these steps will pave a clear path to profitability for OTI. We have a strong and healthy balance sheet with \$111 Million in total assets and \$38.8 Million in cash, cash equivalents, and short term investments.

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Earlier this year we have embarked on a process of reducing our operating expenses which will be fully realized during the second part of the second half this year. In the first quarter we were able to decrease our NON GAAP operating expenses to \$7.3M from \$9.6M for the last quarter of 2007 on our way to our goal of having \$7 million quarterly operating expenses on a Non-GAAP basis. We are doing this by reducing our headcount, focusing on the necessary expenses only, cutting down on professional services and shifting them in house.

We are investing in, and are succeeding with increasing the pipeline of new projects. We are doing it in multiple fronts. First, by establishing relationships with channel partners and qualifying OTI products with the right organizations. These relationships are expected to yield significant revenues to OTI over a long period of time; however, these processes are characterized by long and extensive testing and qualification before revenues can be realized. The qualification due-diligence is done on product, company, support and financial stability basis. I am happy to report that we are making progress with these companies and hope to be able to report on it soon. Secondly, we are getting more projects in the ID, Petroleum and Payments which will provide quality margins and will contribute to our growth. Most of these projects will begin in the second half with majority of the revenues being realized in 2009 and beyond. This is consistent with our earlier forecast and estimations for 2008 being a turning point year. We still expect most of the change to happen in the second half of the year, and most of the growth to come in 2009.

Although we expected no revenue growth for the first six months of 2008 compared to the same period last year, we are not pleased with our revenues for the first quarter. Our gross margin for the quarter, decreased to 32%. The low gross margin is the result of the mix of revenues for the quarter, the decrease in license and transaction fee to \$575,000 from \$877,000 for the same quarter last year, and the fixed costs related to the manufacturing of our products. We believe that we will be able to improve on these margins through the increase in revenues, the shift in revenues mix, and by



negotiating volume purchasing agreements with our suppliers to reduce product cost. We have also updated our pricing and support contracts where possible.

At this point I'd like to give a more thorough analysis of the financial section that will be followed by an overview of the business section.

Looking at the first quarter of 2008 revenue breakdown by vertical markets, the Payments market was 43%, Petroleum Market generated 11%, the Smart ID Market generated 21%, and OEM sales were 25%.

The Geographic Mix of Revenues of the first quarter of 2008 was as follow: Europe was 49%; Asia was 17%; the Americas were 16%; Africa 6% and Israel 12% of revenues.

During the first quarter we burned \$2.9 M in cash from operating activities. We have strong and healthy balance sheet. Our cash, cash equivalents and short term investments were about \$ 38.8 million.

When comparing the operating expenses on to the same quarter last year, Our GAAP operating expenses in the first quarter of 2008 grew to \$9.3 million compared to \$8.6 million in the same period of 2007. On a non-GAAP basis, our operating expenses grew to \$7.3 million from \$7.0 million.

When comparing the operating expenses on a non-GAAP basis to the fourth quarter of 2007, our expenses actually decreased significantly – from \$9.6 million to \$7.3M, which is a result of the cost cutting steps we have embarked on.

Our operating expenses are influenced and are suffering from the weakness of the dollar vs. the Israeli Shekel and the Euro. In the first quarter of 2008 the Israeli Shekel appreciated about 9% vs the USD. Which translated to about additional \$200,000 in operating expenses.

The R&D expenses on a non GAAP basis decreased by 35% to \$2.2M compared to \$3.4M in the fourth quarter of 2007.

The Selling and Marketing expenses on a non GAAP basis decreased by 20% to \$2.1M compared to \$2.6M in the last quarter of 2007.

The G&A expenses on a non GAAP basis decrease by 18% to \$3M compared to \$3.7M in the last quarter of 2007.

In our press release, we included a comparison of the first quarter of 2008 to 2007 on a non-GAAP basis for comparative purposes. In the reconciliation of GAAP to non-GAAP results on our P&L, FAS 123R had very little impact on COGS. It did, however, have a significant impact on operating expenses. The impact of FAS 123R and EITF 96-18 on the first quarter of 2008 operating expenses was about \$1.7 million and amortization of intangible assets was \$329,000.



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And now I would like to give you an update about the business developments:

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

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. At the end of 2007 we saw the beginning of the introduction in Europe which is expected to continue this year.

The EMV market in Europe offers a great opportunity for OTI. The more stringent product requirements mean that we can leverage our technological know-how and offer a fully-certified product to the card associations, banks and merchants. We hope to be able to share penetration to additional new countries, collaborations and product sales in support of the growing contactless payment market in Europe this year.

In the US, we see some encouraging indicators that orders and volume of contactless banking cards should increase this year, mainly in the second half. Although volume didn't pick up as expected in the last two years, it is important to mention that the price pressure on contactless component prices remains very high, and prices have decreased at a rate of about 20%-25% over the last two years, mainly the silicon prices. As a result the gross margin on inlay products is lower compared to other products we provide and we may decide to pass on some opportunities that can be considered as losing opportunities in this market.

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 continue our efforts to market EasyPark internationally. EasyPark is our in-vehicle patented parking meter device. We are in the midst of discussions with local system integrators for a number of projects, since we believe that partnerships with well established integrators will reduce our time to market and accelerate our penetration and hope to be able to announce additional progress this year.



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, applications processing and more. The system includes 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 digital certificate storage for signature verification.

During the first quarter we announced that OTI will supply its end-to-end ePassport and border control system to a European country. OTI is providing eStickers which enable the upgrade of existing passports to electronic Passports, and an advanced infrastructure for ePassport issuing, border control passenger inspection and verification. The eStickers, represent a breakthrough solution that enables upgrading existing passports to ePassports in a simple, quick and cost effective manner without the need to manufacture new passport. The upgrade of existing passports is done by placing the secured eSticker, which includes the electronic components, within the existing passport.

MediSmart is our medical card for verification of patient, physician and patient benefits. In MediSmart, we implement our business model where we generate revenues not just from product sale but also from transaction fees. We hope to be able to update you regarding our progress with MediSmart this year.

Our joint venture for manufacturing and selling electronic travel document inlays for a major Asian government experienced some delays that are not related to OTI's performance. We believe that most of the delays are behind us and expect the project to start this year with initial orders in the second half, and 2009 to be the first full year of production.

In the petroleum market, we see good feedback from the initial Chevron implementation and we estimate that the solution will start to be implemented in Asia Pacific during the year.

During the first quarter, members of OTI's management Members, led by Oded Bashan, used their personal funds to purchase OTI shares in the open market. Members of management purchased an aggregate of 53,860 Ordinary Shares.

To summarize, during the first quarter, we focused on reducing our expenses and increasing our projects pipeline. This is apparent from the level of expenses we are at right now and we continue with the implementation of the process. , in parallel, we are focusing on securing high margin projects with recurring revenues and building a strong pipeline focused on short and midterm growth.



It is our belief that most of the significant delays are behind us and we are confident about the growth of the company. We continue to estimate that 2008 will be a turning point year in terms of the overall performance, showing a clear path to profitability, improved gross margins, and reduction in cash based expenses, and overall will reflect a revenue growth of about 10% compared to 2007 with the growth expected in the second half of the year.

Now we will be pleased to take your questions.