



August 28, 2008

OTI First Half and Second 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 half and second quarter of 2008 conference call.

As a reminder, the conference call is being recorded today and will be available for replay until September 4th 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 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 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. Forward-looking statements include statements regarding our goals, beliefs, future growth strategies, objectives, plans or current expectations. 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. Forward-looking statements could be impacted by the effects of the protracted evaluation and validation period in the U.S. contactless payment cards market, our inability to successfully integrate the purchase of assets of SuperCom or to otherwise achieve the expected benefits of the acquisition, to close to due a failure to satisfy closing conditions, 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, which is on file 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. Except as otherwise required by law, OTI disclaims any intention or obligation to update or revise any forward-looking statements, which speak only as of the date hereof, whether as a result of new information, future events or circumstances or otherwise.

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



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

Consistent with our discussions in the last conference call, we are primarily focusing on controlling and reducing our operating expenses to the most efficient and effective level required to carry out our current and pending pipeline of projects for 09' and 10'. We continue to shift our focus toward high margin projects with recurring revenues combined with commercial rollouts. We believe our actions will pave a clear path to profitability for OTI. We continue to have a strong and healthy balance sheet with \$110 Million in total assets and \$34.3 Million in cash, cash equivalents, and short term investments.

During the first half of this year we have taken significant measures aimed at reducing our operating expenses. The impact of these measures will be fully realized during the latter part of the second half this year. Total operating expenses for the first half were \$19.1 million on GAAP basis and \$14.5 million on on-GAAP basis, Our operating expenses are influenced and are suffering from the weakness of the dollar vs. the Israeli Shekel . In the first half of 2008 the Israeli Shekel appreciated about 15% vs the USD rate of the same period last year . During the first half we burned \$7.1 M in cash from operating activities. We have strong and healthy balance sheet. Our cash, cash equivalents and short term investments were about \$ 34.3 million. The relatively high rate of cash burn during the second quarter is mainly related to the decrease in trade payables and receivables at the end of the second quarter. We are on track to reach 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.

The first half results are in line with our expectations, with revenues of \$20.3 Million relatively flat compared to \$20.6 million in the first half of 2007. Based on mid-year results, together with our current visibility until year-end we are maintaining our guidance of 10% growth year over year, with most of the growth coming in the fourth quarter of the year.

The second quarter was better than the first quarter this year: Revenues increased by 18% to \$11 million and the gross margin increased to 39% from 32%. Significantly, GAAP net loss decreased 17% to \$5.7 Million and non-GAAP net Loss decreased 35% to \$3.1 Million. These results are due to a shift in the revenue mix in the payment sector from components intended for the US contactless card payments market to greater sales of readers, solutions for the mass transit market, EasyPark and more, as well as contactless card payments in non-US markets. While we have been continuing our strategy of reducing manpower, the resultant savings take two to three quarters to show up in the P&L.

Looking at the first half of 2008 revenue breakdown by vertical markets, the Payments market was 50%, Petroleum Market generated 12%, the Smart ID Market generated 12%, and OEM sales were 26%.



The Geographic Mix of Revenues for the first half of 2008 was as follow: Europe was 50%; Asia was 18%; the Americas were 12 %; Africa 10% and Israel 10 % of revenues.

In our press release, we included a comparison between the first half and second quarter of 2008 to 2007 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 a significant impact on operating expenses. The impact of FAS 123R and EITF 96-18 on the first half of 2008 operating expenses was about \$3.9 million and amortization of intangible assets was \$658,000. The impact on the second quarter of 2008 operating expenses was about \$2.2 million and amortization of intangible assets was \$329,000.

Our pipeline of new projects continues to increase as a result of our long term strategic initiatives on multiple fronts. We are enhancing and broadening our relationships with channel partners and qualifying OTI products with the right organizations. While these relationships are expected to yield significant revenues to OTI over time, they involve processes characterized by long and extensive testing and qualification before revenues can be realized. The qualification due-diligence is done on the basis of the product, company, support and financial stability. I am pleased to say that we are making progress with these companies and hope to be able to report on it soon. We are making headways in being able to secure additional projects in the verticals of ID, Petroleum and Payments, most of which will initialize in the second half with majority of the revenues realized in 2009 and beyond. These projects are expected to provide higher margins and contribute to our growth.

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 show in 2009.

And now I would like to give you an update on some of 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.

The EMV market in Europe offers a great opportunity for OTI. The more stringent product requirements mean that we are able to leverage our technological know-how and offer a fully-certified product to the card associations, banks and merchants. We already see new markets in Europe beginning to adopt contactless payments with increased contactless infrastructure sales and a growing pipeline of orders and hope to be able to share specific additional new countries, collaborations and product sales in support of the growing contactless payments market in Europe this year.

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.

This quarter we've seen advancements in the mass transit market, as we reported that OTI's wholly owned subsidiary in Poland – ASEC - will provide the Transport Department of the City of Warsaw with additional public transportation and street parking contactless e-tickets. This is an additional award, following deliveries of more than a million cards that have already been supplied as part of the program. The additional contract award deliveries are expected to be completed this year.

In the US, we see some encouraging indicators that orders and volumes of contactless banking cards should increase. 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 might be considered as non profitable opportunities in this market.

We continue our efforts to market EasyPark internationally. EasyPark is our in-vehicle patented parking meter device. As we recently announced, through our subsidiary PARX Ltd., OTI acquired 100% of the share capital of ID Parking, a Paris based company that provides electronic parking solutions. PARX is OTI's subsidiary responsible for marketing, operating and distributing advanced parking solutions, including the EasyPark product, in the international markets outside of Israel. This acquisition is in accordance with OTI's strategy of focusing on products and projects which generate high margin recurring revenues and supports OTI's global efforts to market the EasyPark product. The transaction provides OTI with a platform to readily access the French electronic parking payment market and offer multiple solutions for parking payment, including EasyPark. The EasyPark business model is one in which revenues are generated from product sales, transaction fees and customer support.

We continue to progress 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 report 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 is based on OTI's MAGNA™ - a modular platform that offers short implementation and quick integration with a country's existing border control system and provides external interfaces to the country's central electronic certificate storage for signature verification.

We recently announced that OTI signed a contract with the Electoral Commission of an African Country to implement the upgrade of the Country's Permanent Voter Registry, including new biometric-based voter cards. The value of the initial contract is over \$2 million, with more than \$1 Million expected to be realized in 2008.

The project's objectives are to verify the voter identity, detect and avoid double registration attempts, and issue a new Voter ID card bearing advanced security features, which will be used in the next elections. The system will ensure "one person - one vote".

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 yet another successful implementation of our business model in which revenues are generated not only from product sales, but also from transaction fees. We look forward to being 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 expected before the end of the year, and 2009 to be the first year of commercial production.

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

To summarize, during the first half of 2008, we focused on making our global operations more efficient and effective by reducing our expenses while increasing our projects pipeline. This is reflected by our current level of expenses while we continue implementing cost saving measures. In parallel, we are focusing on securing high margin projects with recurring revenues and building a strong pipeline focused on short and midterm growth.

As we've indicated before, it is our belief that most of the significant delays are behind us and we are confident about the Company's growth. We still believe that 2008 will be a turning point for OTI in terms of showing a clear path to profitability and will reflect a revenue growth of about 10% over 2007, with most of the growth expected in the fourth quarter of the year.



Now we will be pleased to take your questions.