



May 10, 2010

OTI First Quarter 2010 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 2010 conference call.

As a reminder, the conference call is being recorded today and will be available for replay until May 17th 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, products, 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, 2009 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 reviewing the results and business developments. We will then open the call for questions which Oded, Tanir and I will address.

We have started 2010 in a strong position, with solid pipeline of projects and opportunities and excellent financial results. We have finished the first quarter with strong balance sheet of about \$40 million in cash, cash equivalents and short term investments. Revenues have increased to \$14.4 million with gross margin increasing to 57%, leading to operating profit on a non-GAAP basis of \$1.2 million and net profit of \$574,000 on a non-GAAP basis.

The strong financial results in the first quarter are a direct result of a lengthy, calculated process, of reorganization and strategy shift that we have been implementing in the past two years. We focus on projects that provide high gross margin, we have successfully implemented a cost cutting program, while increasing our marketing and sales efforts, and we made a strategic decision to exit the non profitable card manufacturing business through the sale of MCT assets.

We have made significant efforts and progress in adapting the organization structure to corporate strategy. On the corporate and operating side, we constantly monitor our operating expenses level. We assess the contribution of each business segment, including revenue contribution, operating cost impact and cash burn.

OTI's product strategy is to offer unique added value contactless products. Our focus is on projects that generate both product and recurring revenues in the fields of ID, Payment and Petroleum.

In **SmartID** we offer complete ID solutions to emerging countries to fulfill their needs to upgrade the existing ID solution to a secured one; in **MediSmart**, our personal portable medical database, we focus on executing the current opportunities we have in hand; in **EasyPark**, we are focusing on building an



operator network to support 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 and introducing new products; and in **Petroleum**, we are focusing on offering the EasyFuel to oil companies in new territories.

I will now discuss the first quarter of 2010 financial results. We have ended the first quarter with a strong balance sheet of \$40.4 million in cash, cash equivalents and short term investments. Net cash provided by operating activity totaled \$9.5 million, which also included down payment received from large scale customers.

We have experienced significant revenue growth while being able to continue and control the level of our operating expenses. Revenues for the first quarter increased to \$14.4 million. In our Revenue 94% came from products and services and 6% from licensing and transaction fees. Revenues from licensing and transaction fees increased by 91% to \$874,000 from \$457,000 in the first quarter last year, mainly as a result of the progress in the Warsaw mass transit ticketing project. Gross margin improved to 57% compared to 51% in the first quarter of last year, mainly as a result of our revenue mix.

Our revenue breakdown is consistent with our strategy. The Smart ID market increased to 67%, the Payments market decreased to 17%, Petroleum market decreased to 6%, and OEM sales, decreased to 10% of total sales. The Geographic Mix of Revenues was the Americas were 67%; Europe 19%; Africa and Israel represented each 6% and Asia was 2% of total revenues.

Our non-GAAP operating expenses were \$7.1 million, a 19% increase compared to \$5.9 million last year. The increase is mainly related to the increase in marketing and sales expenses.

The increase in revenues, improvement in gross margin and the ability to control operating expenses, resulted in a Non-GAAP operating profit of \$1.2 million, compared to operating loss of \$1.6 million last year, and non-GAAP net profit was \$574,000 compared to net loss of \$1.4 million last year.



In our press release, we included a comparison between the first quarter of 2010 financial results to those of the first quarter of 2009 on a non-GAAP basis. The adjustment to GAAP includes stock-based compensation in accordance in accordance with ASC Topic 718 and ASC Subtopic 505-50 ,, amortization of intangible assets and the effect of discontinued operation. During the fourth quarter of 2009, the Company signed an agreement for the sale of the assets of OTI's subsidiary MCT including the machinery and inlay production IP of OTI to SMARTRAC NV. Results for the discontinued operations have been separated and are presented separately.

In the reconciliation of GAAP to non-GAAP results on our P&L, ASC Topic 718 and ASC Subtopic 505-50 had very little impact on COGS. It did, however, have an impact on operating expenses. The impact of ASC Topic 718 and ASC Subtopic 505-50 on 2010 operating expenses was about \$976,000, amortization of intangible assets was \$144,000. Operating loss from discontinued operations was \$369,000, mitigated by finance income due to exchange rate of \$428,000 which resulted in net profit of \$59,000.

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

Our Payment product lines include a range of contactless readers and payment devices, mass transit ticketing solutions and an in vehicle-parking meter system called EasyPark. We are in the process of introducing new products with payment functionality to the payment and mobile markets. We are making headways in selling contactless readers. We see both in Europe and South Africa as leading markets in the deployment of contactless technology. We are aligning ourselves with local channel partners to be able to support the expected growth.

In line with our strategy of focusing on projects that generate both product sales and recurring revenues, we continue with the marketing efforts of EasyPark. For EasyPark we have established a franchise model, where local operators can buy the EasyPark solution and deploy it in targeted countries. We also continue to improve our product offering, which allow for internet reloading of the device and the ability to remotely add applications to the device. We have more than 650,000 users in Israel and we are involved in three new international markets, Italy, Bermuda and France. The three



new markets have started deployment last year and we hope to be able to report progress on the ramp up of the different programs. So far, market acceptance and operators feedback is in line with our expectation and we continue to support each of the programs. We are working on signing up new distributors. We are exhibiting at trade shows and investing more efforts in marketing the EasyPark product.

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

In the past few months we have announced two major wins in this market: one is a BOT project for \$17 million which will be operated over the next three years and is expected to generate revenues starting the second half this year, the other, of over \$30 million in contracts for national eID program which advance payment has been received and the project is entirely cash flow positive.

Regarding our ID projects in China, we have made 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 Optical Character Recognition units, for which we have commenced deliveries during the first quarter.

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 sale cycles and a long implementation cycle due to the complexity of the implementation and the infrastructure to integrate with. We recently announced that SMART in Kenya has placed an order for additional 100,000 cards, after operating for two years. The project currently has 150,000 cards in circulation which generate monthly licensing for OTI and over 1,000 points of service at hospitals, pharmacies and general practitioner sites across Kenya.

OTI is involved in a consortium that has been awarded with a national scale medical card program, phase zero of the project which includes design and build up of the system has commenced and we hope to be able to report further progress during the year.

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Now we will be pleased to take your questions.