



November 30, 2011

OTI Q3 2011 Conference Call Script

Operator

Welcome to the 2011 third quarter conference call for On Track Innovations, which we refer to as OTI. On today's call are Mr. Oded Bashan, Chairman and CEO, Mr. Ohad Bashan, President, and Ms. Tanir Horn, CFO.

Today's conference call is being recorded and will be available for replay until December 7, 2011 in the investor relations section of our website along with a copy of today's prepared remarks.

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 may 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, profitability, potential, opportunities, expansion, pipeline 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, 2010, 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.

With that, I will now turn the call over to Mr. Ohad Bashan, President of OTI.

Ohad Bashan

Welcome everyone and thank you for joining us today. Our nine months revenues of 35 million dollars were lower than expected as a result of a weaker than expected third quarter. However, I am pleased to say that we are experiencing higher revenues in Q4, right now looking to be our strongest quarter of the year. In addition, the shift in timing of certain contracts although will reduce this year numbers will further increase our visibility for 2012.

Our second half results are impacted by the flooding in Thailand which has affected our ability to deliver products to our customers. This had direct impact on the Thailand plant of our principal contractor for inlays, and caused disruptions to our supply chain. Additionally, we have experienced some customer delays in executing already awarded contracts. Simply put, approximately \$6-8 million of previously anticipated 2011 revenues have now shifted into 2012.

A quick review of the second half impacts includes:

- Several million dollars in new follow-on card shipments for existing national ID customers have been delayed due to force majeure flooding in Thailand.
- Delays in execution of an already awarded multi-million dollar contracts that impact the project start date and our ability to recognize revenues for such , . For Example, we suffered project execution delays in the \$2.5 million petroleum EasyFuel deal for an African government, which originally anticipated to be recognized in the second half of 2011. To date, we have booked approximately \$700,000 in revenues.

As a result of the described developments, we have reduced our full year 2011 revenue guidance to \$50 million from \$55-60 million. However, we reiterate this is a shift which in our

belief, will contribute to the visibility for next year. Implied in our revised guidance is a solid Q4 performance with gross margins returning us to the 50% level on an annual basis, consistent with our long-term target. Given the anticipated strong Q4 revenue and gross margin, we expect to be profitable in Q4 on a non-GAAP basis.

When looking at our numbers I would like to highlight three key trends.

First, our recurring revenue, licensing and transaction fees, has grown to \$4 million in the first nine months, representing a 42% increase versus last year and 29% in the third quarter versus the same period last year. This growth reflects certain projects moving to commercial implementation as well as an ongoing increase in our installed base of customers and users. This is very important because the recurring and high margin nature of this revenue stream will ultimately improve visibility and profitability. This is consistent with our business model and we expect it to continue.

Second, our revenues are more diversified and, when excluding the large national ID contract we had in 2010, is steadily growing. It's important to recognize that in 2010 we generated approximately \$28 million in revenue from a single national ID program. This year we have received multiple follow on orders and generated multiple millions of dollars in sales. When excluding the impact of the revenues from this contract from the results of 2010 and 2011, one can see how significant our revenue growth is from additional businesses. Again, we expect the trend of getting more projects in the pipeline from new customers and new territories to continue resulting in improved visibility.

The third and last trend, OTI is actively seeking to be selected as the Prime Contractor for large credentialing and ID programs. These awards are typically with countries that fit the OTI solutions profile, with being able to work both on line and offline, and provide the best and most secured solution for both rural areas as well as developed areas in each country. These countries are ideal size for OTI to support the entire program build-out and serve as the prime contractor for the award, thus generating additional revenue for our business over multiple years - as is the case with the already announced contracts. Of course, every prime contract

award increases our credibility with potential customers, especially in that region, and helps us gain momentum internationally as a leading supplier of credentialing solutions.

Our revenue breakdown by segment for the first nine month was (approximately):

Segment	Revenue	%
SmartID Solutions	\$18,6M	53%
Payment Solutions	\$7,9M	22%
Petroleum Solutions	\$2,6M	8%
OEM sales	\$6,M	17%
Total	\$35,2M	100%

Our geographic breakdown year to date revenue was (approximately):

Territory	Revenue	Revenue %
Europe	\$12,7M	36%
Africa	\$9,7M	28%
Americas	\$8,2M	23%
Israel	\$2,7M	8%
Asia	\$1,6M	5%
Total	\$35,2M	100%

Non-GAAP operating expenses for the first nine months were \$22.2 million a little bit higher than those in the same period last year. OPEX was impacted by the weakness of the dollar, which resulted in additional expense of approximately \$1 million. In addition, OPEX reflects costs associated with supporting a growing base of projects in their early stages as well as an expanded sales and marketing efforts. It's important to note that we will not require meaningful increases in our fixed OPEX levels to support significantly higher future revenues, creating the potential for operating margin expansion. In the interim, we have made a conscious decision to continue investing in the business, which will keep OPEX at a relatively high level, because we believe the teams and support infrastructure are required maintain our momentum.

The non-GAAP operating loss was \$5 million and non-GAAP net loss attributable to shareholders for the first nine months of 2011 was \$5.4 million. We provide reconciliations of GAAP measures to non GAAP measures in today's release, which demonstrate that approximately \$2 million of the 9 month net loss was non-cash expense comprised of stock based compensation expense plus the amortization of intangible assets.

We ended the first nine months with a strong balance sheet with cash, cash equivalents and short-term investments totaling approximately \$31M.

Since we reactivated our share repurchase program, as reported in our last quarterly call, we have completed our share repurchase plan. By now, we utilized the remaining authorized capital under the plan of \$2 million.

Looking at the developments on the business side, we are pleased to report that we are making progress this year.

Some of our pilots and contract awards are moving into a deployment or roll-out phase. Our base business, including recurring and high margin transaction fees, is growing and our sales are becoming more diversified. Further, our pipeline is growing as we are seeing a growing number of pilots paving the way to rollouts over the next few years. Lastly, our previous sales and marketing efforts are paying off, while we invest in new markets, including several recently announced commercial alliances in NFC, petroleum and parking, and expand our business development team in the United States.

OTI's product strategy is to offer unique, added value contactless end-to-end solutions. Our products are based on our significant patent and IP portfolio and the unique know-how we have gained over the years with contactless microprocessor-based smart card technology. Our focus is on projects and solutions that generate both product and recurring revenues.

Let me now briefly review our key product areas and the traction we are achieving within our areas of focus: SmartID , Payment including Parking and Petroleum solutions .

- In the **SmartID** market our product offering includes end-to-end ID solutions for electronic passports and visas for border crossings, national and medical ID's. Consistent with our

strategy, we offer complete ID solutions to enable emerging and developed countries to deploy new systems or upgrade their existing ID platforms. We are involved in a growing number of projects, as with \$17 million contract that started to generate revenues this year, and other existing programs that are expanding, as with our announced \$6 million follow-on order from the large national ID contract that commenced in 2010, and which brings our revenues from this project to more than \$40 Million overall. We are constantly working to continue and improve the pipeline of new projects and follow on orders in the ID market and hope to be able to announce additional contracts wins.

- **MediSmart**, our medical ID solution, integrates with any legacy health IT systems to providing a convenient, secure and portable electronic medical record. MediSmart projects are typically characterized by long sales cycles. However, we are currently involved in a few successful opportunities with MediSmart. Kenya, for example, has now deployed our MediSmart IDs to over 300,000 subscribers and our infrastructure at 3,500 points of service at 29 hospitals, pharmacies and general practitioner sites across the country after just two years in operation. We believe the U.S. market for MediSmart is becoming a viable and we have recently invested, and will continue to invest, in resources to target the potentially enormous U.S. market.
- Our **Payment solutions** product lines include a range of contactless and NFC readers and payment devices, mass transit ticketing solutions and EasyPark our parking payment system. We are focused on offering a unique array of products that address key areas of efficiency, security and convenience, while also lowering infrastructure costs for the systems operator.

In late 2010 we introduced our new Near Field Communication (NFC) and contactless payment device, "**COPNI**". COPNI is based on OTI's patents and knowhow and is an aftermarket device that provides contactless payment functionality to SIM-enabled mobile phones. It provides NFC with contactless payment functionality TODAY, rather than in some future device due for release in coming years. COPNI provides a clear consumer benefit while enhancing a mobile carrier's and card issuer value proposition. We have already signed agreements to support the largest mobile network operators in Russia and Turkey,

with a combined base over 100 million subscribers, and we foresee additional agreements with new customers in the future.

Our **EasyPark** parking payment management system enables convenient parking payment management without the often cost-prohibitive infrastructure build-out. Market acceptance is quite high as a result. Earlier this month Lille, France - the country's 4th largest city with more than 1 million people - agreed to deploy EasyPark. Lille is the 20th municipality in France to select our solution since its introduction approximately one year ago, and we continue to seek other markets in France. We have also recently announced that we are entering in to the large Brazilian market and expect more progress on this to be reported during next year when the project will start to be deployed.

To put the potential of our EasyPark solutions into context, in Israel more than 700,000 drivers out of a total of more than 1 million drivers, across over 40 cities are using EasyPark. This business generates revenues of approximately \$2.5 million per year - with a blended equipment and fee margin. In Italy we are progressing and signing up more cities through our local operator, Neos Park. In Bermuda, our operator achieved 35% penetration rate and won technology awards for the implementation of EasyPark. All these projects provide OTI revenues from products as well as recurring fees. So as you can see as we deploy solutions in new markets, we expect their contribution to grow over several years as the system gains greater awareness and penetration of each market.

- In **Petroleum**, with EasyFuel, our strategy is to focus on oil companies, gas station infrastructure suppliers and channel partners, in order to leverage their sales and marketing network. EasyFuel adds value by enhancing their product offering to their existing customers. In the third quarter last year we announced that Tokheim, Europe's leading supplier of gas-pump and related retail infrastructure, selected EasyFuel system to provide certain of its customers with a secure and reliable fuel management.

We have made solid progress with EasyFuel this year including a \$2.5 million deployment for a government ministry in Africa which suffered some delays but is expected to continue into 2012. OTI also expects to generate ongoing revenues over the 10 year duration of the contract for the provision of other services.

We were happy to report today that we were able to conclude a sizable licensing deal in the amount of \$7 million with a multi-billion dollar corporation. In this transaction we demonstrate how valuable our technology is to third parties, where only a portion of our IP was licensed and only to cover certain vertical market. We are constantly evaluating the best ways to leverage our extensive IP and patent portfolio through licensing and partnership opportunities. OTI Intellectual property portfolio covers, among others, product applications, significant know-how, product concepts, product architecture and more in the fields of contactless payment, NFC, ID solutions, petroleum solutions, parking solutions and more.

As we have previously stated, we are constantly making changes in our corporate structure to fit to the corporate strategy. Among these expansion are a new global manager for our petroleum solutions, a new president for our subsidiary PARX to promote the parking solutions worldwide, a product management team for NFC & Contactless payment solutions and more, last but not least, in an effort to revamp our U.S. sales & marketing efforts and to provide greater access and continuity to our investor relations outreach, I have relocated to the U.S. to work out of our New Jersey office. I can think of no stronger signal of our commitment to drive business and shareholder value, and look forward to meeting with new and existing investors in the coming months. In addition, in the process to continue with the ultimate goal of gaining substantial shareholder value we made a change in our external Investor Relations firm, appointing Jaffoni & Collins to expand our investor outreach and to enhance the value of our investment community interactions and communications and we have also expended our internal IR team with a recently hired IR person, a former Wall Street analyst.

Finally, I do want to make a few comments regarding a concerns expressed by shareholders following recent filings made with the SEC and the erroneous media coverage of those filings. I want to be clear that there are no plans to make any changes in our senior leadership at this time. While we share the frustration from the disconnect between our current share price and the strong technology, solutions, large addressable market and opportunities we have been engaged with and anticipate for the future, we assure our customers, employees, partners and shareholders that this management team and Board of Directors remain firmly committed to the company, its success and to the creation of significant shareholder value over the long-

term. Given our strong balance sheet, substantial business development pipeline, our IP base, our customer breadth and growing base of recurring revenues, and broad base of business development opportunity, to pursue the strategy reflected in recent filings is not in our shareholders' best interests.

We hope we have clearly communicated our strategy and the plans we have put in place to create long-term growth and that you can see the progress we have been making. As you have seen, our business is "lumpy" on a quarterly basis given the timing and magnitude of various contract awards and deployments, but looking at our business on a longer term basis, the progress becomes more apparent.

In closing, though nine months results in general and Q3 specifically were lower than expected, and the impact of the flooding in Thailand has required that we revise the expected timing of certain contracts and shipments from the second half of 2011 into 2012, the business is more diversified, remains strong and the outlook over the next two or three years is very promising. OTI has highly specialized expertise, IP and systems that uniquely position us to deliver efficient, state of the art ID, payment and management solutions. OTI is also financially solid and can leverage from the growing track record of successful execution on large scale projects around the world.

On this solid base, we continue to introduce new products in new and existing markets and verticals while already deployed systems gain scale and generate increasing license and transaction fees from an expanded base of consumer adoption and use.

We very much appreciate your interest, investment and your participation on today's call, and now we would be pleased to take your questions.

Operator?