



March 28, 2011

## **OTI FY 2010 Financial Results Conference Call Script**

**Operator** Good morning, good afternoon, to all OTI investors, analysts and other interested parties worldwide on our fiscal year 2010 conference call.

As a reminder, the conference call is being recorded today and will be available for replay until April 4<sup>th</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'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](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 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, 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.

OTI is opening 2011 in a unique position; the company is financially stronger after a successful public offering, and after a successful year, where we have presented improved results, solid profitability on a non-GAAP basis, and advancements in our planned turnaround. The track record of successful execution of large scale projects, the introduction of new products to existing markets, the further establishment of strategic channel partners are all significant contributors to our success and are expected to further strengthen our pipeline of opportunities, resulting in our expectation for another successful financial year.

In 2010 our strategy of focusing on unique products and turnkey solutions in the fields of SmartID, payments, parking and petroleum has been realized with improvement in all fundamentals - higher gross margin, increased level of revenues, all while maintaining similar level of operating expenses.

Recently we successfully concluded a public offering, raising 16.9 million dollars in net proceeds with offering 6 million shares at \$3 per share. This funding was aimed to further strengthen our balance sheet and enable us to successfully cope with the large projects and opportunities we are facing. The public offering was done with the support of 3 investment banks, which in our belief can increase exposure and visibility to new shareholders and new audience for the OTI story.

In 2010 we also demonstrated our ability to support significant revenue growth with our existing operations level, which ultimately resulted in operating profitability on a non-GAAP basis. While revenues increased by 71% to \$53.6 Million, operating expenses increased by mere 8% to \$26.1 million on a non-GAAP basis. Operating profit on a non-GAAP basis amounted to \$2.8 million and gross margin improved to 54%.

We are in a unique strategic position, with an ability to move to the next level in the company's growth. The track record of successful execution of large scale projects builds



additional credibility with prospective customers, provides more opportunities in target countries, and further strengthens our pipeline of opportunities for the next two to three years.

We are establishing strategic partnerships with channel partners. We are introducing new products, and we are expanding to new territories and establishing new streams of revenues.

The unique position we are at, the increased comfort level generated from the improved visibility of revenues and the growing number and size of opportunities in the pipeline enables us to discuss our expectations for 2011. We expect revenues in 2011 to be heavily back-loaded and grow to \$55-\$60 million. We also expect 2011 to be operating profitable on a non-GAAP basis as a result of our expectation to become profitable in the second half of 2011.

In 2010, we experienced significant revenue growth while being able to continue to control the level of our operating expenses. Revenues increased to \$53.6 million, with 92% from products and services and 8% from licensing and transaction fees. Licensing and transaction fee revenues increased by 37% to \$4 million from \$2.9 million last year, which is a result of the evolution in certain projects progressing from pilot stages into commercial implementation and the increase in installed base. Gross margin improved to 54% compared to 47% in 2009, mainly as a result of our revenue mix. As part of fitting the corporate structure to corporate strategy, the sale and closing process of MCT, we were able to significantly reduce the number of employees to 288 by the end of 2010.

Our revenue breakdown is consistent with our strategy. The SmartID market increased to 64% of revenues, the Payments market decreased to 19%, Petroleum market decreased to 6%, and OEM sales, decreased to 11% of total sales. The geographic mix of revenues is: the Americas 56%; Europe 22%; Africa 12%; Israel 7% and Asia 3% of total revenues.



Our non-GAAP operating expenses increased slightly to \$26.1 million, an 8% increase compared to \$24.1 million last year

The increase in revenues, improvement in gross margin and the ability to control operating expenses, resulted in a non-GAAP operating profit of \$2.8 million, compared to non-GAAP operating loss of \$9.4 million in 2009. Non-GAAP net profit attributable to shareholders was \$1.1 million, with financial expenses totaling \$1.4 million, which about \$700,000 was non cash expenses as a result of exchange rate fluctuations.

We ended the year with cash, cash equivalents and short-term investments of \$24 million. When looking at the cash and short term investment position at the end of the year, it is important to keep in mind the development the company had in 2010. We opened the year with cash and short term investment balance of approximately \$32 million. This balance included about \$12.7 million in customers advance payments in order to support large scale projects. By the end of year, in accordance with the progress in the different projects, customers advance payment balance decreased to approximately \$3.5 million, and cash and short term investment balance was \$24 million. When eliminating the impact of the customers advance payments on the cash position one can see we were able to generate about \$2.3 million in our operating cash flow.

In our press release, we included a comparison between 2010 financial results to those of 2009 on a non-GAAP basis. The adjustment to GAAP includes stock-based compensation 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 and certain relevant 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 \$3.4 million; amortization of intangible assets was \$575,000. Net loss from discontinued operations was \$3.3 million.

With regards to OTI's share repurchase program, in 2010 we were able to repurchase 562,475 shares for an average cost price of \$2.02. After careful consideration our board of directors has decided not to continue the program in 2011.

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OTI's product strategy is to offer unique added value contactless products. Our products are based on significant patent and IP portfolio and unique know-how we have gained over the years with contactless microprocessor-based smart card technology. 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 solutions to secured ones; 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; 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 and through channel partners.

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. Last December we introduced COPNI – which enables financial issuers and mobile network operators to add NFC with contactless payments capabilities to their existing handset devices, independent of the handset type and model. We are bringing innovation, creativity and unique



know-how to this market all bundled in the contactless payment and NFC insert, which is a true aftermarket solution adding contactless payment capabilities to the phone SIM card and enabling users to have one device that is both a mobile phone and a mobile wallet. OTI's unique solution for mobile payment is a win-win-win linking mobile network operators or MNOs, banks, merchants and users together.

We see great potential for the COPNI as an aftermarket solution. MNOs are looking for new ways to increase revenues, enhance branding and loyalty and increase market share. Near Field Communication or NFC is one of the best ways to get there. COPNI solves the lack of availability of NFC embedded phones, allows MNOs to have a large addressable market via a cost effective solution while staying independent of the handset manufacturer. We are getting positive feedback from the different players to COPNI, and we already announced that initial orders were received and additional active discussions taking place.

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, 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 marketing of EasyPark, we are leveraging the excellent track record and proven success. In Israel alone we have more than 700,000 users. In the international arena we are working through local operators. Deployments are in their early stages and the results so far are encouraging. In France we recently started deployments and expect more cities to join this year. In Italy we reached 16 cities, through the 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.



Recently we announced the acquisition of the assets of Ganis systems, a provider of parking solutions. The transaction benefits OTI's marketing and product offering. On the marketing side, it enables OTI to leverage Ganis' existing projects and pipeline of opportunities. OTI plans to bring its financial and implementation capabilities into selected projects and opportunities Ganis built over the years, offering customers a strong and stable company that can support their parking needs in the long term.

We are in the process of integrating some of Ganis' products and intellectual property that complement our existing solutions to enhance product offering, and by that offer municipalities and parking authorities a complete and unique turnkey solution with a comprehensive back-office network, advanced parking payment collection system offering the utmost utilization of city resources, improved traffic management, efficient enforcement and on-line access to real-time parking information.

In the ID market our product offering includes end to end ID solutions for electronic passports, border crossings, national ID and MediSmart, our medical card solution. The unique solution is based on significant IP covering 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.

Our strategy in the ID market is to focus on the opportunities where the customer can enjoy the full benefits of our solution and our system through the on line and off line capabilities, the ability to securely enroll people into the system, no matter where they are located and what level of IT infrastructure exists. Once able to secure a project in a target country through the already established marketing and operation teams, we are able to demonstrate the unique added value of our solution, the OTI commitment to success, and our ability to successfully cope with tight lead time and complex requirements, ultimately, resulting in improving our chances of winning additional projects. This is what's happening in few of the countries we are operating in, such as the national ID project for 30 million dollar in contracts



announced at the beginning of 2010, and in a different country, where we announced a 2 million dollar contract followed a 17 million dollar contract win.

In both countries the projects are progressing according to the government expectation and timetable. With regards to 17 Million dollar contract, we recently started generating revenues from and the project will mainly impact 2011, 2012 and 2013 financials, as to the national ID project for more than 30 million dollar in contracts announced last year, we have met and exceeded the government's expectations, completing the national infrastructure phase and are now working with the government for additional deliveries according to the progress in the project.

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. 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 are currently involved in few opportunities with MediSmart – in Kenya and South Africa. For example, in Kenya, after operating for two years the project currently has over 150,000 subscribers, 2,000 points of service at 29 hospitals, and additional pharmacies and general practitioner sites across Kenya.

With EasyFuel, our strategy is to focus on oil companies and channel partners, in order to leverage our customers' sale and marketing network and enhance their product offering to their existing customers. We recently announced that Tokheim, Europe's leading supplier of forecourt and retail automation equipment selected EasyFuel system to provide customers with a secure and reliable fuel management system incorporating vehicle identification. OTI's



EasyFuel system has already been integrated to Tokheim's FuelPOS. The Tokheim relationship reflects our strategy with EasyFuel, by integrating the product to an already established leading player in the petroleum market, we are able to leverage our partner's sales channel, and significantly reduce time to market.

To summarize, we are opening 2011 in a unique position; the company is financially stronger after a successful public offering, and after a successful year, where we have presented improved results, solid profitability on a non-GAAP basis, and advancements in our planned turnaround. The track record of successful execution of large scale projects, the introduction of new products to existing markets, the further establishment of strategic channel partners are all significant contributors to our success and are expected to further strengthen our pipeline of opportunities, resulting in our expectation for another successful financial year.

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Now we will be pleased to take your questions.