



August 9, 2010

OTI First Half 2010 Financial Results Conference Call Script

Operator Good morning, good afternoon, to all OTI investors, analysts and other interested parties worldwide on our first half of 2010 conference call.

As a reminder, the conference call is being recorded today and will be available for replay until August 16th 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.

We are proud to report another successful quarter that represents the new OTI. The new OTI is a strong, solid company, with a unique combination, the growth potential of a technology company bundled with excellent financial fundamentals, which is a result of a properly executed strategy over the last three years.

We deliver. We have shown a second consecutive quarter with improved results and solid profitability, while maintaining a strong balance sheet. Operating income on a non-GAAP basis amounting to \$2.2 million, improved gross margin at 54% and revenues increasing by 86%, while being able to control our operating expenses.

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, provides for more opportunities in target countries we are working in and other countries, and further strengths our pipeline for the next two to three years.

We are leveraging this success to generate additional contracts from existing customers as well as new projects in new countries. 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.

In recent calls, we mentioned we are working on large scale company changing projects. We are proud to say that we are involved in several large scale opportunities that some of them are evident in our financial results.

Our unique position increases the comfort level generated from the improved visibility of revenues and the growing number and size of opportunities we are working on, which enables us to increase our revenue guidance. We expect to maintain a similar level of revenues in the second half of the year, and we therefore increase the earlier provided revenue guidance for 2010 by 15% to \$53-\$55 million. We expect to maintain the already achieved non-GAAP operating profitability for the remainder of the year.



The financial results for the first half manifest the unique story of OTI, a strong technology company with high growth potential, proven track record and strong fundamentals. We continue to maintain strong balance sheet with \$35.8 million in cash, cash equivalents and short term investments.

In the first half, we experienced significant revenue growth while being able to continue and control the level of our operating expenses. Revenues increased to \$27.8 million, with 94% from products and services and 6% from licensing and transaction fees. Licensing and transaction fee revenues represents an increase of 50% to \$1.8 million from \$ 1.2 million in the first half last year, which is a result of the evolution in certain projects, progressing from pilot stages into commercial implementation. Gross margin improved to 54% compared to 51% in the first half 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 66%, the Payments market decreased to 17%, Petroleum market decreased to 6%, and OEM sales, decreased to 11% of total sales. The Geographic Mix of Revenues is: the Americas 64%; Europe 19%; Africa 9%; Israel 6% and Asia 2% of total revenues.

Our non-GAAP operating expenses were \$13 million, a 15% increase compared to \$11.2 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 \$2.2 million, compared to operating loss of \$3.6 million last year, and non-GAAP net profit was \$1.5 million compared to net loss of \$3.7 million last year.

In our press release, we included a comparison between the first half of 2010 financial results to those of the first half 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 \$1.9 million; amortization of intangible assets was \$287,000. Net loss from discontinued operations was \$1.9 million, which included \$844,000 in finance expenses due to fluctuations of the Euro.

With regards to OTI's share repurchase program, in the second quarter we were able to repurchase 235,436 shares for an average cost price of \$2.11.

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. We are in the process of introducing new products with payment functionality to the payment and mobile markets.

In line with our strategy to leverage already-installed infrastructure for new services and improve project profitability we announced this quarter two advancements in the Warsaw Mass Transit Ticketing program. First, for the first time in Europe, passengers will be able to buy their mass transit ticket using a contactless credit or debit card issued by MasterCard. Second, we are offering a new



service for loading GSM prepaid cellular phone cards on our ticket vending machines. All this with a view to generate additional revenues from this already installed base and improve the project profitability.

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.

As part of the continued effort and focus on EasyPark we enhance the product offering, to allow for internet reloading and the ability to remotely add applications to the device, we have expanded and improved the back office architecture system which is now named ATLAS, we are launching a new website and exhibiting at targeted trade shows. In the marketing of EasyPark we are leveraging the excellent track record and proven success. In Israel alone we have more than 650,000 users, with about 70% of the on street parking in Israel done through EasyPark. 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.

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 earlier this year which followed a successful pilot from last year, and in another country, where the recently announced 2 million dollar contract followed a 17 million dollar contract win from last year. Both projects are progressing according to the government expectation and timetable. We are optimistic about further growth in this sector.

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 two major projects with MediSmart – in Kenya and South Africa. For example, in Kenya, after operating for two years the project currently has over 1,000 points of service at 29 hospitals, and additional 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 later this year.

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 encouraged by the financial results with improved results and solid profitability, while maintaining a strong balance sheet. With operating income on a non-GAAP basis amounting to \$2.2 million, improved gross margin at 54% and revenues increasing by 86%, while being able to control our operating expenses.

The financial results for the first half manifest the unique story of OTI: an excellent technology company with solid financial results. We are in a unique strategic position with proven track record, demonstrated growth potential and improved financial results, we are optimistic about the future for OTI. The successful execution of large scale projects strengthens our credibility, provides more opportunities in existing markets and in new ones, and further strengthens our pipeline for the next two to three years. We deliver.

Now we will be pleased to take your questions.