



November 15, 2010

## **OTI First Nine Months 2010 Financial Results Conference Call Script**

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

As a reminder, the conference call is being recorded today and will be available for replay until November 22<sup>nd</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, 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.

We are proud to report another successful quarter with improved results and solid profitability. The financial results for the first nine months reflect our continuing commitment to, and our successful implementation of, our planned turnaround, with results of operations, revenues and gross margins all increasing substantially while maintaining the same level of operating expenses.

As a result of our ability to control operating expenses while increasing revenues by 91%, the operating profit for the first nine months on a non-GAAP basis amounted to \$4.6 million and gross margin improved to 54%. We maintain the previously provided revenue guidance for 2010.

The financial results for the first nine months reflect the unique story of OTI, a strong technology company with high growth potential, proven track record and strong fundamentals. The results are yet another cornerstone for the company's turnaround we did in recent years, taking the company to profitability and overall improvement.

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 for more opportunities in target countries we are currently working in and in other countries, and further strengthens our pipeline of opportunities 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.

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 going into next year's numbers. We expect the



solid financial performance we demonstrated this year to continue next year. This includes increased visibility, larger pipeline of commercial implementations, new products in growing markets and strong financial parameters such as high gross margins and maintaining operating profitability on a non-GAAP basis.

In the first nine months, we experienced significant revenue growth while being able to continue to control the level of our operating expenses. The results do not include revenues from the \$17 million contract announced last year, which we will start recognizing revenues for in the fourth quarter and is expected to continue over the next three years. Revenues increased to \$43.6 million, with 94% from products and services and 6% from licensing and transaction fees. Licensing and transaction fee revenues represents an increase of 49% to \$2.8 million from \$ 1.9 million in the first nine months 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 50% in the first nine months 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 68%, the Payments market decreased to 16%, Petroleum market decreased to 6%, and OEM sales, decreased to 10% of total sales. The Geographic Mix of Revenues is: the Americas 65%; Europe 18%; Africa 8%; Israel 6% and Asia 3% of total revenues.

Our non-GAAP operating expenses were \$19 million, a 9% increase compared to \$17.4 million last year. The increase is mainly related to the increase in marketing and sales expenses.

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 289 by the end of the third quarter.

The increase in revenues, improvement in gross margin and the ability to control operating expenses, resulted in a Non-GAAP operating profit of \$4.6 million, compared to Non



GAAP operating loss of \$6.0 million last year. Non-GAAP net profit attributable to shareholders was \$3.7 million compared to Non GAAP net loss attributable to shareholders of \$6.6 million last year.

When looking at the cash and short term investment position at the end of the third quarter, it is important to keep in mind the development the company had this year. We opened 2010 with cash and short term investment balance of approximately \$32 million. This balance included about \$12.7 million in customer advance payments in order to support large scale projects. By the end of Q3 in accordance with the progress in the different projects, customer advance payment balance decreased to approximately \$5.5 million, and cash and short term investment balance was \$26.7 million. When eliminating the impact of the customer advance payments on the cash position one can see we were able to generate about \$2 million in our operating cash flow.

In our press release, we included a comparison between the first nine months of 2010 financial results to those of the first nine months 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 IP of OTI to SMARTRAC NV. Results for the discontinued operations have been separated and are presented separately. We expect to complete the closing procedures for MCT and cease reporting the results of discontinued operation by the end of 2010.

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 \$2.7 million; amortization of intangible assets was \$431,000. Net loss from



discontinued operations was \$2.8 million, which included \$555,000 in finance expenses due to fluctuations of the Euro.

With regards to OTI's share repurchase program, in the third quarter we were able to repurchase 258,769 shares for an average cost price of \$1.93. By the end of the third quarter we were able to repurchase a total of 494,205 shares.

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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. We are in the process of introducing new products with payment functionality to the payment and mobile markets. The mobile payment solutions enable financial issuers and mobile operators to add 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 post market 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 operators, banks, merchants and users together .

In line with our strategy to leverage already-installed infrastructure for new services and improve project profitability, we announced in the third 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 700,000 users, with about 70% of the on street parking in Israel done through EasyPark. In the international arena we are working through local operators. Deployments are in their early stages and the results so far are encouraging. We have recently started deployment in France. More cities are joining the EasyPark program in Italy, through the local operator, Neos Park. In Bermuda, our operator has launched a website and a promotion



campaign on the radio, and achieved 35% penetration. All these projects provide OTI revenues from products as well as recurring fees.

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 a different country, where the recently announced 2 million dollar contract followed a 17 million dollar contract win from last year, which are expected to start generating revenues in the fourth quarter.

In both countries the projects are progressing according to the government expectation and timetable. With regards to the national ID project for more than 30 million dollar in contracts, we have completed most of deliveries, which included the nationwide infrastructure and initial quantity of ID cards. We are now working on expanding the project and supporting the next stages. 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 2,000 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.

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, the financial results for the first nine months reflect our continuing commitment to, and our successful implementation of, our planned turnaround, with results of operations, revenues and gross margins all increasing substantially while maintaining the same level of operating expenses. Our results reflect OTI's unique story - that of a strong technology company with high growth potential, a proven track record and strong fundamentals. Our track record of successful execution of large scale projects has built additional credibility for the company. We are working diligently to leverage this success by expanding our relationships with existing customers and creating opportunities in strategic markets with new clients. Through the introduction of new products, establishment of strategic channel partnerships and expansion into new territories, we hope to further strengthen our pipeline of opportunities and establish new streams of revenues for the next two to three years.

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Now we will be pleased to take your questions.