



MTS Announces Third Quarter 2012 Financial Results

*Year over Year Quarterly Revenues Increased 12% and Operating Income Increased 180%
Generated \$1.3 Million of Free Cash Flow During the First Nine Months of 2012
The Company Recorded a Non-Recurring Charge of \$0.45 Million Due to a Tax Ruling*

Ra'anana, Israel – November 8, 2012 – MTS – Mer Telemanagement Solutions Ltd. (Nasdaq Capital Market: MTSL), a global provider of MVNE services and telecommunications expense management (TEM) services and solutions, today announced its financial results for the third quarter of 2012.

Revenues for the third quarter of 2012 were \$3.4 million, compared with \$3.0 million in revenues during the same quarter last year and revenues of \$3.3 million in the second quarter of 2012. The Company's operating profit was \$692,000 in the third quarter of 2012 compared to an operating profit of \$244,000 for the third quarter of 2011 and \$517,000 in the second quarter of 2012. On a non-GAAP basis, excluding the non-recurring tax charge related to a court ruling, net income for the third quarter of 2012 was \$691,000 or \$0.15 per diluted share, compared with net income of \$226,000 or \$0.05 per diluted share in the third quarter of 2011 and \$460,000 or \$0.10 per diluted share in the second quarter of 2012. Net income for the third quarter, after a \$446,000 non-recurring tax charge, was \$245,000 or \$0.05 per diluted share, compared with net income of \$226,000 or \$0.05 per diluted share in the third quarter of 2011 and \$460,000 or \$0.10 per diluted share in the second quarter of 2012.

Revenues for the nine months period ended September 30, 2012 were \$9.6 million, compared with \$8.8 million for the comparable period in 2011. The Company's operating profit was \$1.5 million for the nine months period ended September 30, 2012 compared to an operating profit of \$439,000 for the same period last year. On a non-GAAP basis, excluding the non-recurring tax charge related to the court ruling, net income for the nine months ended September 30, 2012 was \$1.5 million or \$0.32 per diluted share, compared with net income of \$588,000 or \$0.13 per diluted share in the comparable period of 2011. Net income for the nine months ended September 30, 2012 was \$1.0 million or \$0.22 per diluted share, compared with net income of \$588,000 or \$0.13 per diluted share in the comparable period in 2011.

Net income for the third quarter and for the nine months period ending September 30, 2012 was negatively affected by a non-recurring tax charge of approximately \$446,000, as a result of a court ruling relating to the Company's appeal of a tax ruling of the Israeli tax authorities that was issued with respect to the 1997 to 1999 period. The Company has not as yet received an assessment from the tax authorities.

As of September 30, 2012, we had cash and marketable securities of \$4.6 million as compared to \$3.4 million as at December 31, 2011. During the nine month period ended September 30, 2012 we had positive operating cash flow of \$1.3 million, as compared to positive operating cash flow of \$800,000 during the nine month period ended September 30, 2011.

"Our third quarter results represent continued improvements in our financial results and indicators as a result of our efforts to develop our Mobile Virtual Network Enabler (MVNE) activity and the Telecom Expense Management opportunities through partners, new customer acquisitions and expanding our existing customer base" said Eytan Bar, CEO of MTS.

"As we previously announced, we extended our largest existing MVNO services contract, with minimum revenues of \$3.6 million during 2013. In addition, following last quarter's announcement that we signed a new managed service agreement, we recently were able to successfully launch our MVNE service with this new MVNO in the US. The Company sees other opportunities in this market and we are working diligently to turn them into new contracts. We are looking forward to improving both our top and bottom line performance," concluded Mr. Bar.

Non-GAAP Financial Measures

This release includes non-GAAP net income and diluted earnings per share financial measures. These non-GAAP measures exclude a non-recurring tax charge.

The Company's management believes that the presentation of non-GAAP measures provides useful information to investors and management regarding financial and business trends relating to the Company's financial condition and results of operations.

These non-GAAP financial measures are not in accordance with, or an alternative for, generally accepted accounting principles. In addition, these non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles. The Company believes that non-GAAP financial measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP and that these measures should only be used to evaluate the Company's results of operations in conjunction with the corresponding GAAP measures. Please refer to the reconciliation of GAAP to Non-GAAP table below.

About MTS

Mer Telemanagement Solutions Ltd. (MTS) is a worldwide provider of innovative products and services for comprehensive telecom expense management (TEM) and enterprise mobility management (EMM) solutions used by enterprises, telecom billing solutions used by telecommunication service providers, and mobile virtual network operators and enablers (MVNO/MVNE) solutions used by mobile service providers.

Headquartered in Israel, MTS markets its solutions through wholly owned subsidiaries in the United States, Hong Kong and The Netherlands as well as through OEM partnerships with Siemens, Phillips, NEC and other vendors. MTS shares are traded on the NASDAQ Capital Market (symbol MTSL). For more information please visit the MTS web site: www.mtsint.com.

Certain matters discussed in this news release are forward-looking statements that involve a number of risks and uncertainties including, but not limited to, risks in product development plans and schedules, rapid technological change, changes and delays in product approval and introduction, customer acceptance of new products, the impact of competitive products and pricing, market acceptance, the lengthy sales cycle, proprietary rights of the Company and its competitors, risk of operations in Israel, government regulations, dependence on third parties to manufacture products, general economic

conditions and other risk factors detailed in the Company's filings with the United States Securities and Exchange Commission.

Company Contact:

Alon Mualem

CFO

Tel: +972-9-7777-540

Email: Alon.Mualem@mtsint.com

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

| | <u>September 30,</u> <u>2012</u> | <u>December 31,</u> <u>2011</u> |
|-----------------------------------|-------------------------------------|------------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 4,516 | \$ 3,269 |
| Restricted cash | 146 | 45 |
| Restricted marketable securities | 123 | 127 |
| Trade receivables, net | 751 | 854 |
| Prepaid expenses and other assets | 152 | 93 |
| | <hr/> | <hr/> |
| <u>Total</u> current assets | 5,688 | 4,388 |
| LONG-TERM ASSETS: | | |
| Severance pay fund | 696 | 619 |
| Other long term assets | 35 | 37 |
| | <hr/> | <hr/> |
| <u>Total</u> long-term assets | 731 | 656 |
| PROPERTY AND EQUIPMENT, NET | <hr/> | <hr/> |
| | 201 | 161 |
| OTHER ASSETS: | | |
| Goodwill | 3,479 | 3,479 |
| Other intangible assets, net | 809 | 1,050 |
| | <hr/> | <hr/> |
| <u>Total</u> other assets | 4,288 | 4,529 |
| <u>Total</u> assets | <u>\$ 10,908</u> | <u>\$ 9,734</u> |

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

| | <u>September 30,</u> <u>2012</u> | <u>December 31,</u> <u>2011</u> |
|---|-------------------------------------|------------------------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Trade payables | \$ 255 | \$ 326 |
| Accrued expenses and other liabilities | 2,694 | 2,354 |
| Deferred revenues | 1,690 | 2,025 |
| Liabilities of discontinued operations | 435 | 435 |
| <u>Total current liabilities</u> | <u>5,074</u> | <u>5,140</u> |
| LONG-TERM LIABILITIES - | | |
| Accrued severance pay | 835 | 762 |
| COMMITMENTS AND CONTINGENT LIABILITIES | | |
| SHAREHOLDERS' EQUITY: | | |
| Share capital | 13 | 13 |
| Additional paid-in capital | 19,903 | 19,773 |
| Treasury shares | (29) | (29) |
| Accumulated other comprehensive income | 3 | (19) |
| Accumulated deficit | (14,891) | (15,906) |
| <u>Total shareholders' equity</u> | <u>4,999</u> | <u>3,832</u> |
| <u>Total liabilities and shareholders' equity</u> | <u>\$ 10,908</u> | <u>\$ 9,734</u> |

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands (except share and per share data)

| | Nine months ended September 30, | | Three months ended September 30, | |
|---|------------------------------------|------------------|-------------------------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | |
| Product sales | \$ 2,622 | \$ 2,933 | \$ 870 | \$ 926 |
| Services | 7,026 | 5,911 | 2,515 | 2,083 |
| <u>Total revenues</u> | <u>9,648</u> | <u>8,844</u> | <u>3,385</u> | <u>3,009</u> |
| Cost of revenues: | | | | |
| Product sales | 887 | 836 | 269 | 255 |
| Services | 2,458 | 1,982 | 846 | 662 |
| <u>Total cost of revenues</u> | <u>3,345</u> | <u>2,818</u> | <u>1,115</u> | <u>917</u> |
| Gross profit | <u>6,303</u> | <u>6,026</u> | <u>2,270</u> | <u>2,092</u> |
| Operating expenses: | | | | |
| Research and development, net of grants from the OCS | 1,003 | 1,445 | 299 | 500 |
| Selling and marketing | 1,600 | 1,465 | 557 | 439 |
| General and administrative | 2,206 | 2,267 | 717 | 909 |
| <u>Total operating expenses</u> | <u>4,809</u> | <u>5,587</u> | <u>1,573</u> | <u>1,848</u> |
| Operating profit | 1,494 | 439 | 697 | 244 |
| Financial income (expenses), net | (20) | 79 | 1 | (11) |
| Capital gain on sale of investment | - | 78 | - | - |
| Income before taxes on income | 1,474 | 596 | 698 | 233 |
| Tax on income (benefit), net | 459 | 8 | 453 | 7 |
| Net income | <u>\$ 1,015</u> | <u>\$ 588</u> | <u>\$ 245</u> | <u>\$ 226</u> |
| Net Income per share: | | | | |
| Basic net income per Ordinary share | <u>\$ 0.23</u> | <u>\$ 0.13</u> | <u>\$ 0.05</u> | <u>\$ 0.05</u> |
| Diluted net income per Ordinary share | <u>\$ 0.22</u> | <u>\$ 0.13</u> | <u>\$ 0.05</u> | <u>\$ 0.05</u> |
| Weighted average number of Ordinary shares used in computing basic net income per share | <u>4,462,807</u> | <u>4,459,057</u> | <u>4,470,306</u> | <u>4,459,057</u> |
| Weighted average number of Ordinary shares used in computing diluted net income per share | <u>4,525,694</u> | <u>4,459,057</u> | <u>4,533,193</u> | <u>4,459,057</u> |

RECONCILIATION OF GAAP TO NON-GAAP RESULTS

U.S. dollars in thousands (except share and per share data)

| | Nine months ended September 30, | | Three months ended September 30, | |
|---|------------------------------------|------------------|-------------------------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| GAAP Net Income | 1,015 | 588 | 245 | 226 |
| Tax charge related to court ruling | 446 | - | 446 | - |
| Non-GAAP Net income | <u>\$ 1,461</u> | <u>\$ 588</u> | <u>\$ 691</u> | <u>\$ 226</u> |
| Net Income per share: | | | | |
| GAAP diluted net income per Ordinary share | <u>\$ 0.22</u> | <u>\$ 0.13</u> | <u>\$ 0.05</u> | <u>\$ 0.05</u> |
| Non-GAAP diluted net income per Ordinary share | <u>\$ 0.32</u> | <u>\$ 0.13</u> | <u>\$ 0.15</u> | <u>\$ 0.05</u> |
| Weighted average number of Ordinary shares used in computing GAAP diluted net income per share | <u>4,525,694</u> | <u>4,459,057</u> | <u>4,533,193</u> | <u>4,459,057</u> |
| Weighted average number of Ordinary shares used in computing Non-GAAP diluted net income per share | <u>4,525,694</u> | <u>4,459,057</u> | <u>4,533,193</u> | <u>4,459,057</u> |