



Press Release

OTI Reports FY 2009 Financial Results

- Revenues of \$31.4 Million (\$38.2 Million Including Discontinued Operations)
 - Gross Margin Increased to 47%
 - Net Cash Provided by Operating Activities of \$5.1 Million
- \$32 Million in cash, cash equivalents and short terms investments at year end

Iselin, NJ – March 1, 2010 – On Track Innovations Ltd. (OTI) (NASDAQ: OTIV), a global leader in contactless microprocessor-based smart card solutions for homeland security, payments, petroleum payments and other applications, today announced its consolidated financial results for the year ended December 31, 2009. Following are various financial figures that compare fiscal year 2009 to 2008.

- Net cash provided by continuing operating activities of \$5.1 million.
- Strong balance sheet with cash, cash equivalents and short-term investments of \$32 million at year end.
- Total revenues of \$31.4 million (\$38.2 million including revenues from discontinued operations), a 10% decrease from last year.
- Gross margin increased to 47% vs. 43% last year.
- Non-GAAP operating expenses of \$24.1 million, a 6% decrease compared to \$25.7 million last year. GAAP operating expenses of \$28.7 million compared to \$58.9 million last year (2008 GAAP operating expenses included a \$24.2 million one-time charge related to impairment of goodwill).
- Non-GAAP operating loss of \$9.4 million, a 9% decrease compared to \$10.4 million last year. GAAP operating loss of \$14.1 million, compared to \$43.7 million last year (2008 GAAP operating loss included a \$24.2 million one-time charge related to impairment of goodwill).
- Non-GAAP net loss of \$10.7 million, an 11% decrease compared to \$11.9 million last year. GAAP net loss of \$23.4 million, compared to \$49.9 million last year (2008 GAAP net loss included a \$24.2 million one-time charge related to impairment of goodwill).

Oded Bashan, Chairman and CEO of OTI, said: “We are opening 2010 in a strong position, with solid and established pipeline of large projects and a stronger balance sheet, after finishing 2009 with positive cash flow from operations. We are on target to reach operating breakeven on a non-GAAP basis for the year, with expected sales of \$48 million, which represents a 50% increase over 2009 sales.”

Mr. Bashan continued: “2009 results demonstrate the success of OTI’s strategy to focus on improving margins and reducing operating expenses, specifically in R&D and G&A.”

Mr. Bashan concluded: “The sale of the assets of MCT including the machinery and inlay production IP of OTI in the fourth quarter of 2009 for EUR 8.5 million, is a result of our continued efforts to adapt organization structure to corporate strategy, reduce our operating expenses and offer end-to-end solutions which ultimately yield high margin product sales and recurring revenues. The sale reduces OTI’s operating expenses and improves our cash flow position.”

Discontinued Operations

During the fourth quarter of 2009, the Company signed an agreement for the sale of the assets of OTI's subsidiary Millennium Card's Technology Ltd ("MCT") including the machinery and inlay production IP of OTI to SMARTRAC NV (as announced in November 2009). Results for the discontinued operations have been separated and are presented separately for both 2008 and 2009 statements.

Use of Non-GAAP Financial Information

In addition to reporting financial results in accordance with generally accepted accounting principles, or GAAP, OTI uses non-GAAP measures of gross profit, net income and earnings per share, which are adjustments from results based on GAAP to exclude non-cash equity-based compensation charges in accordance with the requirements of Accounting Standards Codification ("ASC") Topic 718 (originally issued as SFAS No. 123(R)) and ASC Subtopic 505-50 - Equity-Based Payments to Non-Employees (formerly EITF 96-18), amortization and impairment of intangible assets and goodwill and results from discontinued operations. OTI management believes the non-GAAP financial information provided in this release provides meaningful supplemental information regarding our performance and enhances the understanding of the Company's on-going economic performance. The presentation of this non-GAAP financial information is not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP. Management uses both GAAP and non-GAAP information in evaluating and operating the business and as such deemed it important to provide all this information to investors. Reconciliations between GAAP measures and non-GAAP are provided later in this press release.

Conference call and Webcast Information

The Company has scheduled a conference call and simultaneous Web cast for March 1, 2010, at 9:00 AM ET to discuss operating results and future outlook. To participate, call: 1-888-668-9141 (U.S. toll free), 1-800-227-297 (Israel toll free). To listen to the Web cast, use the following link: http://www.otiglobal.com/Investors_Introduction

For those unable to participate, the teleconference will be available for replay until midnight March 7th, by calling U.S.: 1-888-295-2634 on the web at:

http://www.otiglobal.com/Investors_Introduction

About OTI

Established in 1990, OTI (NASDAQ GM: OTIV) designs, develops and markets secure contactless microprocessor-based smart card technology to address the needs of a wide variety of markets. Applications developed by OTI include product solutions for petroleum payment systems, homeland security solutions, electronic passports and IDs, payments, mass transit ticketing, parking and loyalty programs. OTI has a global network of regional offices to market and support its products. The company was awarded the Frost & Sullivan 2005 and 2006 Company of the Year Award in the field of smart cards.

For more information on OTI, visit www.otiglobal.com, the content of which is not part of this press release.

OTI Contact:

Galit Mendelson
Vice President of Corporate Relations
201 944 5200 ext. 111
galit@otiglobal.com

Investor Relations:

Miri Segal
MS-IR LLC
917-607-8654
msegal@ms-ir.com

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(TABLES TO FOLLOW)

Safe Harbor for Forward-Looking Statements:

This press release contains 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. Forward-looking statements include statements regarding our goals, beliefs, future growth strategies, objectives, plans or current expectations. For example, when we say that we are opening 2010 in a strong position, with solid and established pipeline of large projects and a stronger balance sheet, after finishing 2009 with positive cash flow from operations, or when we say that we are on target to reach operating breakeven on a non-GAAP basis for the year, with expected sales of \$48 million, which represents a 50% increase over 2009 sales, or when we say that 2009 results demonstrate the success of our strategy to focus on improving margins and reducing operating expenses, specifically in R&D and G&A, or when we say that the sale of the assets of MCT including the machinery and inlay production IP of OTI in the fourth quarter of 2009 for EUR 8.5 million is a result of our continued efforts to adapt organization structure to corporate strategy, reduce our operating expenses and offer end-to-end solutions which ultimately yield high margin product sales and recurring revenues, or when we say that the sale reduces our operating expenses and improves our cash flow position, we are using forward looking statements. 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, 2008 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.

ON TRACK INNOVATIONS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands, except share and per share data)

	December 31 2008	December 31 2009
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 27,196	\$ 26,884
Short-term investments	904	5,086
Trade receivables (net of allowance for doubtful accounts of \$3,315 and \$2,777 as of December 31, 2008 and December 31, 2009, respectively)	4,567	6,595
Other receivables and prepaid expenses	2,994	2,478
Inventories	12,343	6,265
Total current assets	48,004	47,308
Severance pay deposits fund	1,189	1,112
Investment in an affiliated company	-	-
Property, plant and equipment, net	18,613	14,366
Intangible assets, net	2,503	1,532
Assets from discontinued operations – held for sale	-	12,358
	\$ 70,309	\$ 76,676
Total Assets		

ON TRACK INNOVATIONS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands, except share and per share data)

	December 31 2008	December 31 2009
	(Unaudited)	
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term bank credit and current maturities of long-term bank loans	\$ 4,984	\$ 6,255
Trade payables	8,071	9,649
Other current liabilities	3,517	16,174
Total current liabilities	16,572	32,078
Long-Term Liabilities		
Long-term loans, net of current maturities	1,762	2,642
Accrued severance pay	3,672	3,373
Deferred tax liability	202	120
Total long-term liabilities	5,636	6,135
Total Liabilities	22,208	38,213
Liabilities related to discontinued operations	-	8,495
Commitments and Contingencies		
Equity		
Shareholders' Equity		
Ordinary shares of NIS 0.1 par value: Authorized – 50,000,000 shares as of December 31, 2008 and December 31, 2009; issued 21,534,788 and 23,946,316 shares as of December 31, 2008 and December 31, 2009, respectively; outstanding 21,495,409 and 23,946,316 shares as of December 31, 2008 and December 31, 2009, respectively	508	571
Additional paid-in capital	182,944	187,473
Accumulated other comprehensive income (loss)	(325)	570
Accumulated deficit	(135,441)	(158,623)
Shareholder's equity	47,686	29,991
Noncontrolling interest	415	(23)
Total Equity	48,101	29,968
Total Liabilities and Shareholders' Equity	\$ 70,309	\$ 76,676

ON TRACK INNOVATIONS LTD.
NON GAAP CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except share and per share data)

	<u>Year ended December 31</u>		<u>Three months ended</u>	
	<u>2008</u>	<u>2009</u>	<u>December 31</u>	
			<u>2008</u>	<u>2009</u>
	<u>(Unaudited)</u>			
Revenues				
Sales	\$ 32,387	\$ 28,488	\$ 7,084	\$ 7,527
Licensing and transaction fees	2,635	2,949	751	1,075
Total revenues	<u>35,022</u>	<u>31,437</u>	<u>7,835</u>	<u>8,602</u>
Cost of revenues				
Cost of sales	19,729	16,738	4,403	5,270
Total cost of revenues	<u>19,729</u>	<u>16,738</u>	<u>4,403</u>	<u>5,270</u>
Gross profit	<u>15,293</u>	<u>14,699</u>	<u>3,432</u>	<u>3,332</u>
Operating expenses				
Research and development	7,399	6,034	1,587	1,669
Selling and marketing	9,112	9,684	3,030	2,210
General and administrative	9,176	8,392	2,657	2,867
Total operating expenses	<u>25,687</u>	<u>24,110</u>	<u>7,274</u>	<u>6,746</u>
Operating loss	(10,394)	(9,411)	(3,842)	(3,414)
Financial income (expense), net	(474)	(1,153)	114	(413)
Loss before taxes on income	(10,868)	(10,564)	(3,728)	(3,827)
Taxes on income	205	(89)	28	(54)
Equity in loss of affiliate	(1,270)	-	(928)	-
Net loss	(11,933)	(10,653)	(4,628)	(3,881)
Net loss (income) attributable to noncontrolling interest	(57)	189	(57)	56
Net loss attributable to shareholders	<u>(11,990)</u>	<u>(10,464)</u>	<u>(4,685)</u>	<u>(3,825)</u>
Basic and diluted net loss attributable to shareholders per ordinary share				
	\$ (0.59)	\$ (0.46)	\$ (0.22)	\$ (0.16)
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share	<u>20,413,578</u>	<u>22,635,479</u>	<u>21,378,887</u>	<u>23,548,712</u>

Adjustments from results based on GAAP to exclude:

- (a) The effect of stock-based compensation in accordance with SFAS 123(R) and EITF 96-18.
- (b) The effect of amortization and impairment of intangible assets and goodwill for 2008 and amortization of intangible assets for 2009.
- (c) The effect of discontinued operation.

ON TRACK INNOVATIONS LTD.
GAAP CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except share and per share data)

	Year ended December 31		Three months ended December 31	
	2008	2009	2008	2009
	(Unaudited)			
Revenues				
Sales	\$ 32,387	\$ 28,488	\$ 7,084	\$ 7,527
Licensing and transaction fees	2,635	2,949	751	1,075
Total revenues	35,022	31,437	7,835	8,602
Cost of revenues				
Cost of sales	19,789	16,782	4,418	5,275
Total cost of revenues	19,789	16,782	4,418	5,275
Gross profit	15,233	14,655	3,417	3,327
Operating expenses				
Research and development	10,300	8,127	2,120	2,192
Selling and marketing	10,370	10,371	3,224	2,351
General and administrative	11,210	9,230	3,034	2,974
Amortization and impairment of intangible assets	2,794	978	1,769	212
Impairment of goodwill	24,217	-	24,217	-
Total operating expenses	58,891	28,706	34,364	7,729
Operating loss	(43,658)	(14,051)	(30,947)	(4,402)
Financial income (expense), net	(474)	(1,153)	114	(413)
Loss before taxes on income	(44,132)	(15,204)	(30,833)	(4,815)
Taxes on income	675	(89)	498	(54)
Equity in loss of affiliate	(1,270)	-	(928)	-
Net loss from continuing operation	(44,727)	(15,293)	(31,263)	(4,869)
Net loss from discontinued operation	(5,211)	(8,078)	(1,320)	(4,407)
Net loss	(49,938)	(23,371)	(32,583)	(9,276)
Net loss (income) attributable to noncontrolling interest	(57)	189	(57)	56
Net loss attributable to shareholders	(49,995)	(23,182)	(32,640)	(9,220)
Basic and diluted net loss attributable to shareholders per ordinary share				
From continuing operation	\$ (2.19)	\$ (0.67)	\$ (1.47)	\$ (0.20)
From discontinued operation	\$ (0.26)	\$ (0.35)	\$ (0.06)	\$ (0.19)
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share	20,413,578	22,635,479	21,378,887	23,548,712

ON TRACK INNOVATIONS LTD.
RECONCILIATION BETWEEN GAAP TO NON-GAAP
UNAUDITED STATEMENT OF OPERATIONS
(In thousands, except share and per share data)

	GAAP	Year ended December 31, 2009 Adjustments	Non-GAAP
Revenues			
Sales	\$ 28,488	-	\$ 28,488
Licensing and transaction fees	2,949	-	2,949
Total revenues	31,437		31,437
Cost of Revenues			
Cost of sales	16,782	(44) (a)	16,738
Total cost of revenues	16,782	(44)	16,738
Gross profit	14,655	44	14,699
Operating Expenses			
Research and development	8,127	(2,093) (a)	6,034
Selling and marketing	10,371	(687) (a)	9,684
General and administrative	9,230	(838) (a)	8,392
Amortization of intangible assets	978	(978) (b)	-
Total operating expenses	28,706	(4,596)	24,110
Operating loss	(14,051)	4,640	(9,411)
Financial expenses, net	(1,153)	-	(1,153)
Loss before taxes on income	(15,204)	4,640	(10,564)
Taxes on income	(89)	-	(89)
Net loss from continuing operation	(15,293)	4,640	(10,653)
Net loss from discontinued operation	(8,078)	8,078 (c)	-
Net loss	\$ (23,371)	\$12,718	\$ (10,653)
Net loss attributable to noncontrolling interest	189	-	189
Net loss attributable to shareholders	\$ (23,182)	\$12,718	\$ (10,464)

Basic and diluted net loss attributable to shareholders per ordinary share			
From continuing operation	\$ (0.67)	\$ 0.21	\$ (0.46)
From discontinued operation	\$ (0.35)	\$ 0.35	-
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share	22,635,479		22,635,479

- (a) The effect of stock-based compensation in accordance with SFAS 123(R) and EITF 96-18.
(b) The effect of amortization of intangible assets.
(c) The effect of discontinued operation.

ON TRACK INNOVATIONS LTD.
RECONCILIATION BETWEEN GAAP TO NON-GAAP
UNAUDITED STATEMENT OF OPERATIONS
(In thousands, except share and per share data)

	GAAP	Three months ended December 31, 2009 Adjustments	Non-GAAP
Revenues			
Sales	\$ 7,527	-	\$ 7,527
Licensing and transaction fees	1,075	-	1,075
Total revenues	8,602		8,602
Cost of Revenues			
Cost of sales	5,275	(5) (a)	5,270
Total cost of revenues	5,275	(5)	5,270
Gross profit	3,327	5	3,332
Operating Expenses			
Research and development	2,192	(523) (a)	1,669
Selling and marketing	2,351	(141) (a)	2,210
General and administrative	2,974	(107) (a)	2,867
Amortization of intangible assets	212	(212) (b)	-
Total operating expenses	7,729	(983)	6,746
Operating loss	(4,402)	988	(3,414)
Financial expenses, net	(413)	-	(413)
Loss before taxes on income	(4,815)	988	(3,827)
Taxes on income	(54)	-	(54)
Net loss from continuing operation	(4,869)	988	(3,881)
Net loss from discontinued operation	(4,407)	4,407 (c)	-
Net loss	\$ (9,276)	\$5,395	\$ (3,881)
Net loss attributable to noncontrolling interest	56	-	56
Net loss attributable to shareholders	\$ (9,220)	\$5,395	\$ (3,825)
Basic and diluted net loss attributable to shareholders per ordinary share			
From continuing operation	\$ (0.20)	\$ 0.04	\$ (0.16)
From discontinued operation	\$ (0.19)	\$ 0.19	-
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share	23,548,712		23,548,712

(a) The effect of stock-based compensation in accordance with SFAS 123(R) and EITF 96-18.

(b) The effect of amortization of intangible assets.

(c) The effect of discontinued operation.

ON TRACK INNOVATIONS LTD
RECONCILIATION BETWEEN GAAP TO NON-GAAP
UNAUDITED STATEMENT OF OPERATIONS
(In thousands, except share and per share data)

	GAAP	Year ended December 31, 2008 Adjustments	Non-GAAP
Revenues			
Sales	\$ 32,387	-	\$ 32,387
Licensing and transaction fees	2,635	-	2,635
Total revenues	35,022		35,022
Cost of Revenues			
Cost of sales	19,789	(60) (a)	19,729
Total cost of revenues	19,789	(60)	19,729
Gross profit	15,233	60	15,293
Operating Expenses			
Research and development	10,300	(2,901) (a)	7,399
Selling and marketing	10,370	(1,258) (a)	9,112
General and administrative	11,210	(2,034) (a)	9,176
Amortization and impairment of intangible assets	2,794	(2,794) (b)	-
Impairment of goodwill	24,217	(24,217) (b)	-
Total operating expenses	58,891	(33,204)	25,687
Operating loss	(43,658)	33,264	(10,394)
Financial expenses, net	(474)	-	(474)
Loss before taxes on income	(44,132)	33,264	(10,868)
Taxes on income	675	(470) (b)	205
Equity in loss of affiliate	(1,270)	-	(1,270)
Net loss from continuing operation	(44,727)	32,794	(11,933)
Net loss from discontinued operation	(5,211)	5,211 (c)	-
Net loss	\$ (49,938)	\$38,005	\$ (11,933)
Net income attributable to noncontrolling interest	(57)	-	(57)
Net loss attributable to shareholders	\$ (49,995)	\$38,005	\$ (11,990)

Basic and diluted net loss attributable to shareholders per ordinary share			
From continuing operation	\$ (2.19)	\$ 1.60	\$ (0.59)
From discontinued operation	\$ (0.26)	\$ 0.26	-
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share	20,413,578		20,413,578

(a) The effect of stock-based compensation in accordance with SFAS 123(R) and EITF 96-18.

(b) The effect of amortization and impairment of intangible assets and goodwill.

(c) The effect of discontinued operation.

ON TRACK INNOVATIONS LTD
RECONCILIATION BETWEEN GAAP TO NON-GAAP
UNAUDITED STATEMENT OF OPERATIONS
(In thousands, except share and per share data)

	GAAP	Three months ended December 31, 2008 Adjustments	Non-GAAP
Revenues			
Sales	\$ 7,084	-	\$ 7,084
Licensing and transaction fees	751	-	751
Total revenues	7,835		7,835
Cost of Revenues			
Cost of sales	4,418	(15) (a)	4,403
Total cost of revenues	4,418	(15)	4,403
Gross profit	3,417	15	3,432
Operating Expenses			
Research and development	2,120	(533) (a)	1,587
Selling and marketing	3,224	(194) (a)	3,030
General and administrative	3,034	(377) (a)	2,657
Amortization and impairment of intangible assets	1,769	(1,769) (b)	-
Impairment of goodwill	24,217	(24,217) (b)	-
Total operating expenses	34,364	(27,090)	7,274
Operating loss	(30,947)	27,105	(3,842)
Financial income, net	114	-	114
Loss before taxes on income	(30,833)	27,105	(3,728)
Taxes on income	498	(470) (b)	28
Equity in loss of affiliate	(928)	-	(928)
Net loss from continuing operation	(31,263)	26,635	(4,628)
Net loss from discontinued operation	(1,320)	1,320 (c)	-
Net loss	\$ (32,583)	\$27,955	\$ (4,628)
Net income attributable to noncontrolling interest	(57)	-	(57)
Net loss attributable to shareholders	\$ (32,640)	\$27,955	\$ (4,685)
Basic and diluted net loss attributable to shareholders per ordinary share			
From continuing operation	\$ (1.47)	\$ 1.25	\$ (0.22)
From discontinued operation	\$ (0.06)	\$ 0.06	-
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share	21,378,887		21,378,887

- (a) The effect of stock-based compensation in accordance with SFAS 123(R) and EITF 96-18.
(b) The effect of amortization and impairment of intangible assets and goodwill.
(c) The effect of discontinued operation.

ON TRACK INNOVATIONS LTD.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands, except share and per share data)

	Year ended December 31	
	2008	2009
	(Unaudited)	
Cash flows from operating activities		
Net loss	\$ (44,727)	\$ (15,293)
Adjustments required to reconcile net loss to net cash used in operating activities:		
Stock-based compensation related to options and shares issued to employees and others	6,253	3,662
Loss (gain) on sale of property and equipment	25	(3)
Amortization and impairment of intangible assets and goodwill	27,011	978
Depreciation	3,044	2,632
Equity in net losses of an affiliated company	1,270	-
Accrued severance pay, net	78	(222)
Accrued interest and linkage differences on long-term loans	(27)	36
Decrease in deferred tax liability	(711)	(82)
Decrease (increase) in trade receivables	2,702	(1,326)
Increase (decrease) in allowance for doubtful account	548	(538)
Decrease in other receivables and prepaid expenses	567	663
Decrease in inventories	869	429
Increase (decrease) in trade payables	(1,859)	1,334
Increase (decrease) in other current liabilities	(2,008)	12,788
Net cash provided by (used in) continuing operating activities	<u>(6,965)</u>	<u>5,058</u>
Cash flows from investing activities		
Acquisition of consolidated subsidiary, net of cash acquired	(565)	-
Purchase of property and equipment	(1,518)	(4,124)
Purchase of available-for-sale securities	(29,068)	(5,623)
Proceeds from maturity of available-for-sale securities	34,551	1,418
Other, net	30	22
Net cash provided by (used in) continuing investing activities	<u>3,430</u>	<u>(8,307)</u>
Cash flows from financing activities		
Increase (decrease) in short-term bank credit, net	(358)	911
Proceeds from long-term bank loans	-	1,636
Repayment of long-term bank loans	(508)	(543)
Proceeds from receipt on account of shares and exercise of options and warrants, net	1,464	521
Net cash provided by continuing financing activities	<u>598</u>	<u>2,525</u>
Net cash used in discontinued operating activities	(5,211)	(6,763)
Net cash provided by discontinued investing activities	-	7,060
Total net cash provided by (used in) discontinued activities	<u>(5,211)</u>	<u>297</u>
Effect of exchange rate changes on cash	<u>(126)</u>	<u>115</u>
decrease in cash and cash equivalents	(8,274)	(312)
Cash and cash equivalents at the beginning of the year	35,470	27,196
Cash and cash equivalents at the end of the year	\$ 27,196	\$ 26,884