



Press Release

OTI Reports First Nine Months 2011 Financial Results

- *Revenues were \$35.2M with Gross Margin of 49%*
- *Strong Balance Sheet with \$30.8M in Cash, Cash Equivalents and Short Term Investments*

ISELIN, NJ, – November 30, 2011 – On Track Innovations Ltd. (“OTI”) (NASDAQ GM: OTIV), designs, develops and markets secure identification, payment and transaction processing technologies and solutions for use in secure ID, payment and loyalty applications based on its extensive patent and IP portfolio, today announced results for the third quarter and first nine months ended September 30, 2011.

The following are various financial figures that compare first nine months of 2011 to the same period last year.

First Nine Months 2011 Highlights:

- Total revenues of \$35.2M decreased 19% vs. \$43.6M last year.
- Revenues from Licensing and Transaction Fees increased by 42% to \$4.0M vs. \$2.8M last year.
- Gross margin was 49% for the first nine months of 2011.
- Non-GAAP operating expenses increased by 17% to \$22.2M compared to \$19.0M last year. GAAP operating expenses increased by 9% to \$24.2M vs. \$22.2M last year.
- Non-GAAP operating loss was \$5.0M, compared to non-GAAP operating profit of \$4.6M last year. GAAP operating loss was \$7.0M, compared to GAAP operating profit of \$1.4M last year.
- GAAP net loss attributable to shareholders was \$7.4M, compared to \$2.0M last year.
- Strong balance sheet with cash, cash equivalents and short-term investments of \$30.8M at September 30, 2011.

Oded Bashan, Chairman and Chief Executive Officer of OTI, commented, “Our nine months revenues were lower than expected as a result of a weaker than expected third quarter. However, we are experiencing higher revenues in Q4 which right now looks to be our strongest quarter of the year. In addition, the shift in timing of certain contracts although will reduce this year numbers will further increase our visibility for 2012.

Our second half results are being impacted by the flooding in Thailand which has affected our ability to deliver products to certain customers. The delays are due both to the direct impact at the Thailand plant of our principal contractor for inlays, as well as disruptions in our supply chain. Additionally, we have experienced some customer delays which have impacted existing contracts and their execution and as a result our revenue recognition. In summary, approximately \$6M to \$8M of previously anticipated 2011 revenues have now been shifted into 2012.”

Mr. Bashan, concluded, “As a result of these developments, we have reduced our full year 2011 revenue guidance to \$50M, from \$55 to \$60M. However, we reiterate this is a shift, which in our belief, will contribute to the visibility in 2012. Implied in our revised guidance is a solid Q4 performance with gross margins returning to our long term target level of 50% on annual basis.

Given the anticipated strong Q4 revenue and gross margin, we expect to be profitable in Q4 on a non-GAAP basis.”

Repurchase Plan

We have now completed our \$2 million share repurchase plan since the reactivation of the program, as previously reported in our six months results.

Discontinued Operations

During Q4 2009, OTI agreed to sell the assets of its Millennium Card's Technology Ltd ("MCT") subsidiary, including the machinery and inlay production IP of OTI, to SMARTRAC NV. Results for the discontinued operations have been separated and are presented separately.

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 operating expenses, operating income, net income and earnings per share, which are adjustments from results based on GAAP to exclude non-cash stock-based compensation expenses related to employees and non employees 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 of intangible assets; 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 measures are provided later in this press release.

Conference Call and Webcast Information

OTI will host a conference call and simultaneous Webcast today at 9:00 AM ET to discuss its operating results and the company’s outlook. Details are as follows:

Dial in #: Toll Free **1-866-652-8972** (U.S.) or **1-800-227-297** (Israel)

Live Webcast/Replay: http://www.otiglobal.com/Investors_Introduction

Telephone Reply: **1-877-456-0009** (U.S. toll free) until midnight 12/7/11

About On Track Innovations Ltd. (www.otiglobal.com)

On Track Innovations Ltd. ("OTI") designs, develops and markets secure identification, payment and transaction processing technologies and solutions for use in secure ID, payment and loyalty applications based on its extensive patent and IP portfolio. OTI combines state-of-the-art, contactless microprocessor-based technologies and enabling hardware with proprietary software applications to deliver high performance, end-to-end solutions that are secure, robust and scalable. OTI solutions have been deployed around the world to address homeland security, national ID, medical ID, contactless payment and loyalty applications, petroleum payment, parking and mass transit ticketing. OTI markets and supports its solutions through a global network of regional offices and alliances.

OTI Contacts:

Galit Mendelson	Jay M. Meier
VP, Corporate Relations	SVP, Business Development & Investor Relations
732 429 1900 ext. 111	OTI America, Inc.

galit@otiglobal.com

732 429 1900 ext. 104

jaym@otiglobal.com

Investor Relations:

Norberto Aja/David Collins

Jaffoni & Collins

212-835-8500

otiv@jcir.com

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, products, plans, and future results of operations 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 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, 2010, 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.

The content of websites or website links mentioned or provided herein are not part of this press release.

###

(TABLES TO FOLLOW)

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

	September 30 2011	December 31 2010
	<u>(Unaudited)</u>	<u>(Audited)</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 22,690	\$ 15,409
Short-term investments	8,111	8,594
Trade receivables (net of allowance for doubtful accounts of \$289 and \$2,832 as of September 30, 2011 and December 31, 2010, respectively)	5,979	5,072
Receivables from sale of operation	1,182	2,336
Other receivables and prepaid expenses	2,395	1,532
Inventories	<u>9,123</u>	<u>8,448</u>
Total current assets	<u>49,480</u>	<u>41,391</u>
Severance pay deposits fund	1,307	1,355
Property, plant and equipment, net	13,948	14,826
Intangible assets, net	709	942
Goodwill	485	-
Total Assets	<u><u>\$ 65,929</u></u>	<u><u>\$ 58,514</u></u>

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

	September 30 2011	December 31 2010
	<u>(Unaudited)</u>	<u>(Audited)</u>
Liabilities and Equity		
Current Liabilities		
Short-term bank credit and current maturities of long-term bank loans	\$ 6,168	\$ 6,881
Trade payables	8,126	6,874
Other current liabilities	5,831	8,954
Total current liabilities	<u>20,125</u>	<u>22,709</u>
Long-Term Liabilities		
Long-term loans, net of current maturities	4,829	5,189
Accrued severance pay	3,830	3,727
Deferred tax liability	68	84
Total long-term liabilities	<u>8,727</u>	<u>9,000</u>
Total Liabilities	<u>28,852</u>	<u>31,709</u>
Liabilities related to discontinued operation	458	689
Commitments and Contingencies		
Equity		
Shareholders' Equity		
Ordinary shares of NIS 0.1 par value: Authorized – 50,000,000 shares as of September 30, 2011 and December 31, 2010; issued: 32,240,281 and 25,384,010 shares as of September 30, 2011 and December 31, 2010, respectively; outstanding: 31,547,006 and 24,821,535 shares as of September 30, 2011 and December 31, 2010, respectively	806	610
Additional paid-in capital	209,419	190,933
Treasury shares at cost –693,275 shares as of September 30, 2011 And 562,475 shares as December 31, 2010.	(1,318)	(1,136)
Accumulated other comprehensive income	98	645
Accumulated deficit	(172,202)	(164,812)
Shareholder's equity	<u>36,803</u>	<u>26,240</u>
Non-controlling interest	<u>(184)</u>	<u>(124)</u>
Total Equity	<u>36,619</u>	<u>26,116</u>
Total Liabilities and Equity	<u>\$ 65,929</u>	<u>\$ 58,514</u>

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

	Nine months ended September 30		Three months ended September 30	
	2011	2010	2011	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues				
Sales	\$ 31,241	\$ 40,786	\$ 7,243	\$ 14,785
Licensing and transaction fees	3,972	2,798	1,290	999
Total revenues	<u>35,213</u>	<u>43,584</u>	<u>8,533</u>	<u>15,784</u>
Cost of revenues				
Cost of sales	18,067	20,016	4,724	7,351
Total cost of revenues	<u>18,067</u>	<u>20,016</u>	<u>4,724</u>	<u>7,351</u>
Gross profit	<u>17,146</u>	<u>23,568</u>	<u>3,809</u>	<u>8,433</u>
Operating expenses				
Research and development	6,705	6,179	2,184	2,162
Selling and marketing	10,110	9,516	3,207	2,859
General and administrative	6,960	6,036	2,240	1,889
Amortization of intangible assets	410	431	126	144
Total operating expenses	<u>24,185</u>	<u>22,162</u>	<u>7,757</u>	<u>7,054</u>
Operating profit (loss)	(7,039)	1,406	(3,948)	1,379
Financial expense, net	(269)	(817)	(292)	(242)
Profit (loss) before taxes on income	(7,308)	589	(4,240)	1,137
Taxes on income	(142)	(165)	(58)	(10)
Net profit (loss) from continuing operations	(7,450)	424	(4,298)	1,127
Net loss from discontinued operations	-	(2,457)	-	(536)
Net profit (loss)	(7,450)	(2,033)	(4,298)	591
Net loss (profit) attributable to noncontrolling interest	60	64	(5)	17
Net profit (loss) attributable to shareholders	<u>\$ (7,390)</u>	<u>\$ (1,969)</u>	<u>\$ (4,303)</u>	<u>\$ 608</u>
Basic and diluted net profit (loss) attributable to shareholders per ordinary share				
From continuing operations	\$ (0.24)	\$ 0.02	\$ (0.13)	\$ 0.04
From discontinued operations	\$ -	\$ (0.10)	\$ -	\$ (0.02)
	<u>\$ (0.24)</u>	<u>\$ (0.08)</u>	<u>\$ (0.13)</u>	<u>\$ 0.02</u>
Weighted average number of ordinary shares used in computing basic net profit (loss) per ordinary share	<u>31,349,133</u>	<u>24,441,691</u>	<u>32,396,386</u>	<u>24,703,957</u>
Weighted average number of ordinary shares used in computing diluted net profit (loss) per ordinary share	<u>31,349,133</u>	<u>26,725,145</u>	<u>32,396,386</u>	<u>26,925,411</u>

ON TRACK INNOVATIONS LTD.

UNAUDITED RECONCILIATION OF NON-GAAP ADJUSTMENT

The following tables reflect selected On Track Innovations Ltd, non-GAAP results reconciled to GAAP results:

(In thousands, except share and per share data)

	Nine months ended September 30		Three months ended September 30	
	2011	2010	2011	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
OPERATING EXPENSES				
GAAP operating expenses	\$ 24,185	\$ 22,162	\$ 7,757	\$ 7,054
Less:				
Stock based compensation expenses	(1,571)	(2,734)	(390)	(867)
Amortization of intangible assets	(410)	(431)	(126)	(144)
Non GAAP Operating expenses	\$ 22,204	\$ 18,997	\$ 7,241	\$ 6,043
OPERATING PROFIT (LOSS)				
GAAP Operating profit (loss)	\$ (7,039)	\$ 1,406	\$ (3,948)	\$ 1,379
Plus:				
Stock based compensation expenses	1,588	2,754	404	876
Amortization of intangible assets	410	431	126	144
Non GAAP Operating profit (loss)	\$ (5,041)	\$ 4,591	\$ (3,418)	\$ 2,399
NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS				
GAAP Net profit (loss) attributable to shareholders	\$ (7,390)	\$ (1,969)	\$ (4,303)	\$ 608
Plus:				
Stock based compensation expenses	1,588	2,754	404	876
Amortization of intangible assets	410	431	126	144
Net loss from discontinued operations	-	2,457	-	536
Non GAAP net profit (loss) attributable to shareholders	\$ (5,392)	\$ 3,673	\$ (3,773)	\$ 2,164
BASIC NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS PER ORDINARY SHARE				
GAAP Basic net profit (loss) attributable to shareholders per ordinary share	\$ (0.24)	\$ (0.08)	\$ (0.13)	\$ 0.02
Plus:				
Stock based compensation expenses	0.05	0.11	0.01	0.04
Amortization of intangible assets	0.02	0.02	0.00	0.01
Net loss from discontinued operations	-	0.10	-	0.02
Non GAAP Basic net profit (loss) attributable to shareholders per ordinary share	\$ (0.17)	\$ 0.15	\$ (0.12)	\$ 0.09

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

	Nine months ended September 30	
	2011	2010
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net profit (loss) from continuing operations	\$ (7,450)	\$ 424
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	1,588	2,754
Loss (gain) on sale of property and equipment	24	(11)
Amortization of intangible assets	410	431
Depreciation	1,247	1,106
Changes in operation assets and liabilities:		
Accrued severance pay, net	151	117
Accrued interest on short term investments and linkage differences on long-term loans	(205)	7
Decrease in deferred tax liability	(16)	(27)
Linkage differences on receivable from sale of operation	(102)	-
Decrease (increase) in trade receivables, net	(949)	615
Decrease (increase) in other receivables and prepaid expenses	(890)	31
Increase in inventories	(625)	(1,597)
Increase (decrease) in trade payables	1,621	(2,564)
Decrease in other current liabilities	(3,210)	(6,598)
Net cash used in continuing operating activities	<u>(8,406)</u>	<u>(5,312)</u>
Cash flows from investing activities		
Purchase of property and equipment	(1,065)	(2,265)
Purchase of short term investments	(5,042)	(4,487)
Acquisition of business operation	(400)	-
Proceeds from maturity and sale of available-for-sale securities	5,541	1,831
Proceeds from sale of property and equipment	93	21
Net cash used in continuing investing activities	<u>(873)</u>	<u>(4,900)</u>
Cash flows from financing activities		
Increase (decrease) in short-term bank credit, net	(2,070)	130
Proceeds from long-term bank loans	2,638	4,282
Repayment of long-term bank loans	(1,517)	(740)
Proceeds from issuance of shares, net of issuance expenses	16,619	-
Payments to acquire treasury shares	(182)	(997)
Proceeds from exercise of options and warrants, net	199	43
Net cash provided by continuing financing activities	<u>15,687</u>	<u>2,718</u>
Cash flows from discontinued operations		
Net cash used in discontinued operating activities	(231)	(2,357)
Net cash provided by discontinued investing activities	1,256	1,716
Total net cash provided by (used in) discontinued activities	<u>1,025</u>	<u>(641)</u>
Effect of exchange rate changes on cash	(152)	(54)
Increase (decrease) in cash and cash equivalents	<u>7,281</u>	<u>(8,189)</u>
Cash and cash equivalents at the beginning of the period	<u>15,409</u>	<u>26,884</u>
Cash and cash equivalents at the end of the period	<u>\$ 22,690</u>	<u>\$ 18,695</u>