



Press Release

OTI Reports FY 2008 First Quarter Financial Results

Revenues \$9.3 Million; Non GAAP Operating Expenses Down by 24% from Fourth Quarter 2007 to \$7.3 million

Fort Lee, NJ – May 27, 2008 – 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 first quarter ended March 31, 2008. Revenues for the quarter ended March 31, 2008 were \$9.3 million, a decrease of 10% compared to \$10.4 million in the same period last year. Non GAAP operating expenses were \$7.3 million, a decrease of 24% compared to the fourth quarter of 2007. Gross margin for the quarter ended March 31, 2008 was 32% compared to 39% in the same period last year.

“We are in the process of reducing our operating expenses and increasing the pipeline of projects that can yield high margin recurring revenues and provide short and midterm growth. We believe these steps will pave a clear path to profitability for OTI,” said Oded Bashan, Chairman and CEO, OTI. “We see the first signs of our cost cutting plan in the level of operating expenses, which was down from the fourth quarter of . This is just the beginning of the process and we continue to take the necessary steps in reducing our headcount, focusing on the necessary expenses only, cutting down on professional services and shifting them in house to further reduce our operating expenses.”

“As we’ve indicated before, it is our belief that most of the significant delays are behind us and we are confident about the growth of the company.” said Mr. Bashan. “We continue to estimate that 2008 will be a turning point year in terms of the overall performance, showing a clear path to profitability, improved gross margins, and reduction in cash based expenses, and overall will reflect a revenue growth of about 10% compared to 2007 with growth expected in the second half of the year.

Conference call and Webcast Information

The Company has scheduled a conference call and simultaneous Web cast for Tuesday, May 27 2008, which will be hosted by Oded Bashan, Chairman and CEO, Ohad Bashan, President, and Guy Shafran, CFO, for 9:00 AM EDT to discuss operating results and future outlook. To participate, call: 1-866-527-8676 (U.S. toll free), 1-800-270-345 (Israel toll free), 0-800-182-6846 (Germany toll free). To listen to the Web cast, use the following link: <http://www.otiglobal.com/content.aspx?id=226> For those unable to participate, the teleconference will be available for replay until midnight June 3rd, by calling U.S.: 1-888-782-4291 on the web at: <http://www.otiglobal.com/content.aspx?id=226>

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 SFAS 123(R) and EITF 96-18, and amortization of intangible assets in 2008 and exclude non-cash equity-based compensation charges in accordance with SFAS 123(R), and amortization of intangible assets in 2007 . 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.

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, loyalty programs and secure campuses. 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.

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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. For example, forward-looking statements include statements regarding our goals, beliefs, estimates, cost cutting plan and pipeline of projects, future growth strategies, objectives, plans or current expectations. Forward-looking statements could be impacted by the effects of the protracted evaluation and validation period in the U.S. contactless payment cards market, our inability to successfully integrate the purchase of assets of SuperCom or to otherwise achieve the expected benefits of the acquisition, to close to due a failure to satisfy closing conditions, market acceptance of new and existing products and our ability to execute production on orders, as well as the other risk factors discussed in OTI’s Annual Report on Form 20-F for the year ended December 31, 2007, which is on file with the Securities and Exchange Commission. Although OTI believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that its 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 STATEMENT OF OPERATIONS
(In thousands, except share and per share data)

	Three months ended March 31	
	2008	2007
	(Unaudited)	(Unaudited)
Revenues		
Sales	\$ 8,746	\$ 9,498
Licensing and transaction fees	575	877
Total revenues	9,321	10,375
Cost of Revenues		
Cost of sales	6,338	6,342
Total cost of revenues	6,338	6,342
Gross profit	2,983	4,033
Operating Expenses		
Research and development	2,997	2,594
Selling and marketing	2,377	1,872
General and administrative	3,594	3,808
Amortization of intangible assets	329	328
Total operating expenses	9,297	8,602
Operating loss	(6,314)	(4,569)
Financial income (expenses), net	(476)	597
Other loss, net	-	(111)
Loss before taxes on income and minority interests	(6,790)	(4,083)
Taxes on income	63	66
Minority interest	-	42
Equity in loss of an affiliate	(123)	(120)
Net loss	\$ (6,850)	\$ (4,095)
Basic and diluted net loss per ordinary share	\$ (0.35)	\$ (0.22)
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share	19,424,970	18,341,227

ON TRACK INNOVATIONS LTD
RECONCILIATION BETWEEN GAAP TO NON-GAAP
STATEMENT OF OPERATIONS

(In thousands, except share and per share data)

	GAAP	Three months ended March 31, 2008 Adjustments	Non-GAAP
Revenues			
Sales	\$ 8,746	-	\$ 8,746
Licensing and transaction fees	575	-	575
Total revenues	9,321		9,321
Cost of Revenues			
Cost of sales	6,338	(15) (a)	6,323
Total cost of revenues	6,338	(15)	6,323
Gross profit	2,983	15	2,998
Operating Expenses			
Research and development	2,997	(805) (a)	2,192
Selling and marketing	2,377	(290) (a)	2,087
General and administrative	3,594	(574) (a)	3,020
Amortization of intangible assets	329	(329) (b)	-
Total operating expenses	9,297	(1,998)	7,299
Operating loss	(6,314)	2,013	(4,301)
Financial expenses, net	(476)	-	(476)
Loss before taxes on income and minority interests	(6,790)	2,013	(4,777)
Taxes on income	63	-	63
Equity in loss of affiliate	(123)	-	(123)
Net loss	\$ (6,850)	\$2,013	\$ (4,837)
Basic and diluted net loss per ordinary share	\$ (0.35)	\$ 0.10	\$ (0.25)
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share	19,424,970		19,424,970

(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.

ON TRACK INNOVATIONS LTD
RECONCILIATION BETWEEN GAAP TO NON-GAAP
STATEMENT OF OPERATIONS

(In thousands, except share and per share data)

	GAAP	Three months ended March 31, 2007 Adjustments	Non-GAAP
Revenues			
Sales	\$ 9,498	-	\$ 9,498
Licensing and transaction fees	877	-	877
Total revenues	10,375		10,375
Cost of Revenues			
Cost of sales	6,342	(11) (a)	6,331
Total cost of revenues	6,342	(11)	6,331
Gross profit	4,033	11	4,044
Operating Expenses			
Research and development	2,594	(487) (a)	2,107
Selling and marketing	1,872	(72) (a)	1,800
General and administrative	3,808	(719) (a)	3,089
Amortization of intangible assets	328	(328) (b)	0
Total operating expenses	8,602	(1,606)	6,996
Operating loss	(4,569)	1,617	(2,952)
Financial income, net	597	-	597
Other expenses, net	(111)	-	(111)
Loss before taxes on income and minority interests	(4,083)	1,617	(2,466)
Taxes on income	66	-	66
Minority interests	42	-	42
Equity in loss of an affiliate	(120)	-	(120)
Net loss	\$ (4,095)	\$ 1,617	\$ (2,478)
Basic and diluted net loss per ordinary share	\$ (0.22)	\$ 0.08	\$ (0.14)
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share	18,341,227		18,341,227

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

(b) The effect of amortization of intangible assets.

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

	March 31 2008	December 31 2007
	(Unaudited)	(Audited)
Assets		
Current Assets		
Cash and cash equivalents	\$ 36,468	\$ 35,470
Short-term investments	2,295	6,379
Trade receivables (net of allowance for doubtful accounts of \$ 2,796 and \$2,767 as of March 31, 2008 and December 31, 2007)	5,207	8,028
Other receivables and prepaid expenses	3,510	3,636
Inventories	12,856	13,242
 Total current assets	 60,336	 66,755
 Severance Pay Deposits Fund	 1,812	 1,576
 Investment In An Affiliated Company	 1,259	 1,382
 Property, Plant and Equipment, Net	 20,497	 20,851
 Intangible Assets, Net	 4,180	 4,509
 Goodwill	 23,387	 23,387
 Total Assets	 \$ 111,471	 \$ 118,460

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

	<u>March 31</u> <u>2008</u>	<u>December 31</u> <u>2007</u>
	<u>(Unaudited)</u>	<u>(Audited)</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term bank credit and current maturities of long-term bank loans	\$ 5,616	\$ 5,336
Trade payables	7,476	10,291
Other current liabilities	5,448	5,344
Total current liabilities	<u>18,540</u>	<u>20,971</u>
Long-Term Liabilities		
Long-term loans, net of current maturities	2,447	2,432
Accrued severance pay	4,463	3,981
Deferred tax liabilities	662	728
Total long-term liabilities	<u>7,572</u>	<u>7,141</u>
Total liabilities	<u>26,112</u>	<u>28,112</u>
Shareholders' Equity		
Ordinary shares of NIS 0.1 par value: authorized - 50,000,000 shares as of March 31, 2008 and December 31, 2007; issued 19,954,212 and 19,627,068 shares as of March 31, 2008 and December 31, 2007, respectively; Outstanding 19,823,946 and 19,434,011 as of March 31, 2008 and December 31, 2007, respectively	463	454
Additional paid-in capital	176,268	174,494
Accumulated other comprehensive income	924	846
Accumulated deficit	<u>(92,296)</u>	<u>(85,446)</u>
Total shareholders' equity	<u>85,359</u>	<u>90,348</u>
Total Liabilities and Shareholders' Equity	<u>\$ 111,471</u>	<u>\$ 118,460</u>

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

	Three months ended March 31	
	2008	2007
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net loss	\$ (6,850)	\$ (4,095)
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	1,684	1,661
Equity in net losses of an affiliated company	123	120
Amortization of intangible assets	329	328
Depreciation	877	690
Minority interest	-	(42)
Accrued severance pay, net	246	216
Decrease (increase) in trade receivables	2,888	(94)
Decrease in other receivables and prepaid expenses	171	263
Decrease (increase) in inventories	509	(1,226)
Decrease in trade payables	(2,932)	(175)
Increase in other current liabilities	49	677
Other, net	(17)	(268)
Net cash used in operating activities	(2,923)	(1,945)
 Cash flows from investing activities		
Proceeds from maturity of available-for sale securities	4,100	12,085
Purchase of available-for sale securities	-	(28,692)
Purchase of property and equipment	(389)	(767)
Receipts on account of loans and receivables	-	84
Other, net	10	(19)
Net cash provided by (used in) investing activities	3,721	(17,309)
 Cash flows from financing activities		
Increase in short-term bank credit, net	257	878
Repayment of long-term bank loans	(107)	(87)
Exercise of options and warrants	9	3
Net cash provided by financing activities	159	794
Effect of exchange rate changes on cash	41	17
 Increase (decrease) in cash and cash equivalents	998	(18,443)
Cash and cash equivalents at the beginning of the period	35,470	30,049
 Cash and cash equivalents at the end of the period	\$ 36,468	\$ 11,606