

**On Track Innovations Ltd.
and its Subsidiaries**

**Interim Consolidated Financial
Statements
As of March 31, 2010
(Unaudited)**

Interim Consolidated Financial Statements as of March 31, 2010

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Interim Consolidated Balance Sheets

US dollar in thousands except share and per share data

	March 31 2010 (Unaudited)	December 31 2009 (Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 33,386	\$ 26,884
Short-term investments	7,016	5,086
Trade receivables (net of allowance for doubtful accounts of \$2,794 and \$2,777 as of March 31, 2010 and December 31, 2009, respectively)	4,342	6,595
Other receivables and prepaid expenses	2,529	2,478
Inventories	8,946	6,265
Total current assets	56,219	47,308
Severance pay deposits fund	1,139	1,112
Property, plant and equipment, net	13,826	14,366
Intangible assets, net	1,374	1,532
Assets from discontinued operation – held for sale	5,795	12,358
Total Assets	\$ 78,353	\$ 76,676

The accompanying notes are an integral part of these interim consolidated financial statements.

Interim Consolidated Balance Sheets

US dollar in thousands except share and per share data

	March 31 2010	December 31 2009
	(Unaudited)	(Audited)
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term bank credit and current maturities of long-term bank loans	\$ 5,268	\$ 6,255
Trade payables	8,022	9,649
Other current liabilities	26,809	16,174
Total current liabilities	<u>40,099</u>	<u>32,078</u>
Long-Term Liabilities		
Long-term loans, net of current maturities	2,770	2,642
Accrued severance pay	3,478	3,373
Deferred tax liability	111	120
Total long-term liabilities	<u>6,359</u>	<u>6,135</u>
Total Liabilities	<u>46,458</u>	<u>38,213</u>
Liabilities related to discontinued operation	1,555	8,495
Commitments and Contingencies		
Equity		
Shareholders' Equity		
Ordinary shares of NIS 0.1 par value: Authorized – 50,000,000 shares as of March 31, 2010 and December 31, 2009; issued and outstanding 24,380,137 and 23,946,316 shares as of March 31, 2010 and December 31, 2009, respectively	583	571
Additional paid-in capital	188,461	187,473
Accumulated other comprehensive income	435	570
Accumulated deficit	(159,107)	(158,623)
Shareholder's equity	<u>30,372</u>	<u>29,991</u>
Noncontrolling interest	<u>(32)</u>	<u>(23)</u>
Total Equity	<u>30,340</u>	<u>29,968</u>
Total Liabilities and Shareholders' Equity	<u>\$ 78,353</u>	<u>\$ 76,676</u>

The accompanying notes are an integral part of these interim consolidated financial statements.

Interim Consolidated Statements of Operations

US dollar in thousands except share and per share data

	Three months ended March 31	
	2010	2009
	(Unaudited)	(Unaudited)
Revenues		
Sales	\$ 13,540	\$ 7,956
Licensing and transaction fees	874	457
Total revenues	<u>14,414</u>	<u>8,413</u>
Cost of revenues		
Cost of sales	6,158	4,115
Total cost of revenues	<u>6,158</u>	<u>4,115</u>
Gross profit	<u>8,256</u>	<u>4,298</u>
Operating expenses		
Research and development	2,048	1,964
Selling and marketing	3,733	3,074
General and administrative	2,256	1,850
Amortization of intangible assets	144	264
Total operating expenses	<u>8,181</u>	<u>7,152</u>
Operating profit (loss)	75	(2,854)
Financial income (expense), net	<u>(545)</u>	<u>204</u>
Loss before taxes on income	(470)	(2,650)
Taxes on income	<u>(82)</u>	<u>23</u>
Net loss from continuing operations	(552)	(2,627)
Net profit (loss) from discontinued operations	<u>59</u>	<u>(1,207)</u>
Net loss	(493)	(3,834)
Net loss attributable to noncontrolling interest	9	44
Net loss attributable to shareholders	<u>\$ (484)</u>	<u>\$ (3,790)</u>
Basic and diluted net profit (loss) attributable to shareholders per ordinary share		
From continuing operations	\$ (0.02)	\$ (0.12)
From discontinued operations	\$ 0.00	\$ (0.05)
	<u>\$ (0.02)</u>	<u>\$ (0.17)</u>
Weighted average number of ordinary shares used in computing basic net profit (loss) per ordinary share	<u>24,155,916</u>	<u>21,787,272</u>
Weighted average number of ordinary shares used in computing diluted net profit (loss) per ordinary share	<u>26,865,470</u>	<u>21,787,272</u>

The accompanying notes are an integral part of these interim consolidated financial statements.

Interim Consolidated Statements of Changes in Equity and Comprehensive Loss

US dollar in thousands, except share and per share data

	Number of Shares issued	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Noncontrolling interest	Total shareholders' equity
Balance as of December 31, 2008 (audited)	21,534,788	\$ 508	\$ 182,944	\$ (325)	\$ (135,441)	\$ 415	\$ 48,101
Changes during the three-month period ended March 31, 2009 (unaudited):							
Stock-based compensation related to options and shares issued to employees and others	-	-	954	-	-	-	954
Exercise of options and warrants	339,617	8	-	-	-	-	8
Receipt on account of shares	-	-	224	-	-	-	224
Adjustment to contingent consideration in connection with the purchase of a subsidiary	-	-	4	-	-	-	4
Foreign currency translation adjustments	-	-	-	(208)	-	(4)	(212)
Net unrealized loss on available-for-sale securities	-	-	-	(13)	-	-	(13)
Net loss	-	-	-	-	(3,790)	(44)	(3,834)
Balance as of March 31, 2009 (unaudited)	<u>21,874,405</u>	<u>\$ 516</u>	<u>\$ 184,126</u>	<u>\$ (546)</u>	<u>\$ (139,231)</u>	<u>\$ 367</u>	<u>\$ 45,232</u>
Balance as of December 31, 2009 (audited)	23,946,316	\$ 571	\$ 187,473	\$ 570	\$ (158,623)	\$ (23)	\$ 29,968
Changes during the three month period ended March 31, 2010: (unaudited)							
Stock-based compensation related to options and shares issued to employees and others	-	-	982	-	-	-	982
Exercise of options and warrants	433,821	12	6	-	-	-	18
Foreign currency translation adjustments	-	-	-	(231)	-	-	(231)
Net unrealized loss on available-for-sale securities	-	-	-	96	-	-	96
Net loss	-	-	-	-	(484)	(9)	(493)
Balance as of March 31, 2010 (unaudited)	<u>24,380,137</u>	<u>\$ 583</u>	<u>\$ 188,461</u>	<u>\$ 435</u>	<u>\$ (159,107)</u>	<u>\$ (32)</u>	<u>\$ 30,340</u>
					Three months ended March 31		
					<u>2010</u>	<u>2009</u>	
Total comprehensive loss:							
Net loss					\$ (484)	\$ (3,790)	
Foreign currency translation adjustments					(231)	(208)	
Net unrealized gain (loss) on available-for-sale securities					110	(13)	
Reclassification adjustment for gain on available-for-sale securities					(14)	-	
Total comprehensive loss					<u>\$ (619)</u>	<u>\$ (4,011)</u>	
Comprehensive loss attributable to the non-controlling interest					<u>(9)</u>	<u>(48)</u>	
Total comprehensive loss attributable to shareholders					<u>\$ (628)</u>	<u>\$ (4,059)</u>	

The accompanying notes are an integral part of these interim consolidated financial statements.

Interim Consolidated Statements of Cash Flows

US dollar in thousands except share and per share data

	Three months ended March 31	
	2010	2009
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net loss from continuing operations	\$ (552)	\$ (2,627)
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	982	954
Gain on sale of property and equipment	(6)	-
Amortization of intangible assets and goodwill	144	264
Depreciation	370	338
Accrued severance pay, net	78	(380)
Accrued interest and linkage differences on long-term loans	14	(24)
Decrease in deferred tax liability	(9)	(22)
Decrease (increase) in trade receivables, net	2,217	(206)
Increase in other receivables and prepaid expenses	(68)	(560)
Decrease (increase) in inventories	(2,804)	179
Decrease in trade payables	(1,543)	(600)
Decrease in other current liabilities	10,664	790
Net cash provided by (used in) continuing operating activities	<u>9,487</u>	<u>(1,894)</u>
Cash flows from investing activities		
Purchase of property and equipment	(179)	(213)
Purchase of available-for-sale securities	(2,830)	(514)
Proceeds from maturity of available-for-sale securities	984	1,372
Other, net	6	-
Net cash provided by (used in) continuing investing activities	<u>(2,019)</u>	<u>645</u>
Cash flows from financing activities		
Increase (decrease) in short-term bank credit, net	(972)	606
Proceeds from long-term bank loans	419	-
Repayment of long-term bank loans	(110)	(93)
Proceeds from receipt on account of shares and exercise of options and warrants, net	18	232
Net cash provided by continuing financing activities	<u>(645)</u>	<u>745</u>
Cash flows from discontinued operations		
Net cash used in discontinued operating activities	<u>(306)</u>	<u>(909)</u>
Total net cash provided by (used in) discontinued activities	<u>(306)</u>	<u>(909)</u>
Effect of exchange rate changes on cash	<u>(15)</u>	<u>12</u>
Increase (decrease) in cash and cash equivalents	<u>6,502</u>	<u>(1,401)</u>
Cash and cash equivalents at the beginning of the year	<u>26,884</u>	<u>27,196</u>
Cash and cash equivalents at the end of the year	<u>\$ 33,386</u>	<u>\$ 25,795</u>

The accompanying notes are an integral part of these interim consolidated financial statements.

Interim Consolidated Statements of Cash Flows (cont'd)

US dollar in thousands except share and per share data

	Three months ended March 31	
	2010	2009
	(Unaudited)	(Unaudited)
Supplementary cash flows activities:		
A. Cash paid during the period for:		
Interest	\$ 44	\$ 6

The accompanying notes are an integral part of these interim consolidated financial statements.

Notes to the Consolidated Financial Statements

In thousands, except share and per share data

Note 1 - Organization and Basis of Presentation

A. Description of business

On Track Innovations Ltd. (the “Company”) was founded in 1990, in Israel. The Company and its subsidiaries (together “the Group”) are principally engaged in the field of design and development of contactless microprocessor-based smart card systems. Commencing November 2002, the Company’s shares are listed for trading on NASDAQ.

B. Basis of presentation

The accompanying unaudited interim consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly, the financial information included therein. It is suggested that these financial statements be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 20-F for the year ended December 31, 2009. Results for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

Note 2 - Inventories

Inventories consisted of the following:

	March 31 2010 (Unaudited)	December 31 2009 (Audited)
Raw materials	\$ 4,999	\$ 3,128
Work in progress	2,355	916
Finished products	1,592	2,221
	<u>\$ 8,946</u>	<u>\$ 6,265</u>

