

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

**Interim Consolidated Financial
Statements
As of September 30, 2010
(Unaudited)**

Interim Consolidated Financial Statements as of September 30, 2010

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Interim Consolidated Balance Sheets

US dollar in thousands except share and per share data

	September 30	December 31
	2010	2009
	<u>(Unaudited)</u>	<u>(Audited)</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 18,695	\$ 26,884
Short-term investments	8,017	5,086
Trade receivables (net of allowance for doubtful accounts of \$2,641 and \$2,777 as of September 30, 2010 and December 31, 2009, respectively)	5,983	6,595
Other receivables and prepaid expenses	2,408	2,478
Inventories	<u>7,732</u>	<u>6,265</u>
Total current assets	<u>42,835</u>	<u>47,308</u>
Severance pay deposits fund	1,185	1,112
Property, plant and equipment, net	15,217	14,366
Intangible assets, net	1,088	1,532
Assets related to discontinued operation and held for sale	2,791	12,358
Total Assets	<u>\$ 63,116</u>	<u>\$ 76,676</u>

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

	September 30 2010 (Unaudited)	December 31 2009 (Audited)
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term bank credit and current maturities of long-term bank loans	\$ 7,078	\$ 6,255
Trade payables	7,021	9,649
Other current liabilities	9,563	16,174
Total current liabilities	<u>23,662</u>	<u>32,078</u>
Long-Term Liabilities		
Long-term loans, net of current maturities	5,364	2,642
Accrued severance pay	3,563	3,373
Deferred tax liability	93	120
Total long-term liabilities	<u>9,020</u>	<u>6,135</u>
Total Liabilities	<u>32,682</u>	<u>38,213</u>
Liabilities related to discontinued operation	694	8,495
Commitments and Contingencies		
Equity		
Shareholders' Equity		
Ordinary shares of NIS 0.1 par value: Authorized – 50,000,000 shares as of September 30, 2010 and December 31, 2009; issued and outstanding 25,047,644 and 23,946,316 shares as of September 30, 2010 and December 31, 2009, respectively	601	571
Additional paid-in capital	190,240	187,473
Accumulated other comprehensive income (loss)	571	570
Treasury shares at cost – 494,205 and 0 shares as of September 30, 2010 and December 31, 2009, respectively	(997)	-
Accumulated deficit	(160,592)	(158,623)
Shareholder's equity	<u>29,823</u>	<u>29,991</u>
Noncontrolling interest	<u>(83)</u>	<u>(23)</u>
Total Equity	<u>29,740</u>	<u>29,968</u>
Total Liabilities and Shareholders' Equity	<u>\$ 63,116</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

	Nine months ended September 30		Three months ended September 30	
	2010 (Unaudited)	2009 (Unaudited)	2010 (Unaudited)	2009 (Unaudited)
Revenues				
Sales	\$ 40,786	\$ 20,961	\$ 14,785	\$ 7,192
Licensing and transaction fees	2,798	1,874	999	674
Total revenues	43,584	22,835	15,784	7,866
Cost of revenues				
Cost of sales	20,016	11,507	7,351	4,199
Total cost of revenues	20,016	11,507	7,351	4,199
Gross profit	23,568	11,328	8,433	3,667
Operating expenses				
Research and development	6,179	5,935	2,162	1,899
Selling and marketing	9,516	8,020	2,859	2,499
General and administrative	6,036	6,255	1,889	2,606
Amortization of intangible assets	431	766	144	251
Total operating expenses	22,162	20,976	7,054	7,255
Operating profit (loss)	1,406	(9,648)	1,379	(3,588)
Financial expense, net	(817)	(741)	(242)	(373)
Profit (loss) before taxes on income	589	(10,389)	1,137	(3,961)
Taxes on income	(165)	(35)	(10)	(77)
Net profit (loss) from continuing operations	424	(10,424)	1,127	(4,038)
Net loss from discontinued operations	(2,457)	(3,671)	(536)	(1,159)
Net profit (loss)	(2,033)	(14,095)	591	(5,197)
Net loss (profit) attributable to noncontrolling interest	64	133	17	(8)
Net profit (loss) attributable to shareholders	\$ (1,969)	\$ (13,962)	\$ 608	\$ (5,205)
Basic an diluted net profit (loss) attributable to shareholders per ordinary share				
From continuing operations	\$ 0.02	\$ (0.47)	\$ 0.04	\$ (0.18)
From discontinued operations	\$ (0.10)	\$ (0.16)	\$ (0.02)	\$ (0.05)
	\$ (0.08)	\$ (0.63)	\$ 0.02	\$ (0.23)
Weighted average number of ordinary shares used in computing basic net profit (loss) per ordinary share	24,441,691	22,331,068	24,703,957	22,939,063
Weighted average number of ordinary shares used in computing diluted net profit (loss) per ordinary share	26,725,145	22,331,068	26,925,411	22,939,063

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

Interim Consolidated Statements of Changes in Equity and Comprehensive Profit (Loss)

US dollar in thousands, except share and per share data

	Number of Shares issued	Share capital	Additional paid-in capital	Treasury Shares	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 nine months period ended September 30, 2009: (unaudited)								
Stock-based compensation related to options and shares issued to employees and others	-	-	2,886	-	-	-	-	2,886
Exercise of options, warrants and receipts in respect of employee share purchase plan	1,532,041	39	216	-	-	-	-	255
Receipt on account of shares	-	-	255	-	-	-	-	255
Adjustment to contingent consideration in connection with the purchase of a subsidiary	-	-	7	-	-	-	-	7
Foreign currency translation adjustments	-	-	-	-	838	-	(2)	836
Net unrealized loss on available-for-sale securities	-	-	-	-	(13)	-	-	(13)
Increase of the Company's ownership interests in a subsidiary	-	-	247	-	-	-	(247)	-
Net loss	-	-	-	-	-	(13,962)	(133)	(14,095)
Balance as of September 30, 2009 (unaudited)	<u>23,066,829</u>	<u>\$ 547</u>	<u>\$ 186,555</u>	<u>\$ -</u>	<u>\$ 500</u>	<u>\$ (149,403)</u>	<u>\$ 33</u>	<u>\$ 38,232</u>
Balance as of December 31, 2009 (audited)	23,946,316	\$ 571	\$ 187,473	\$ -	\$ 570	\$ (158,623)	\$ (23)	\$ 29,968
Changes during the nine months period ended September 30, 2010: (unaudited)								
Stock-based compensation related to options and shares issued to employees and others	-	-	2,754	-	-	-	-	2,754
Exercise of options and warrants	1,101,328	30	13	-	-	-	-	43
Payments to acquire treasury shares	-	-	-	(997)	-	-	-	(997)
Foreign currency translation adjustments	-	-	-	-	(249)	-	4	(245)
Net unrealized gain on available-for-sale securities	-	-	-	-	250	-	-	250
Net loss	-	-	-	-	-	(1,969)	(64)	(2,033)
Balance as of September 30, 2010 (unaudited)	<u>25,047,644</u>	<u>\$ 601</u>	<u>\$ 190,240</u>	<u>\$ (997)</u>	<u>\$ 571</u>	<u>\$ (160,592)</u>	<u>\$ (83)</u>	<u>\$ 29,740</u>

	Nine months ended September 30		Three months ended September 30	
	2010 (Unaudited)	2009 (Unaudited)	2010 (Unaudited)	2009 (Unaudited)
Total comprehensive profit (loss):				
Net profit (loss)	\$ (2,033)	\$ (14,095)	\$ 591	\$ (5,197)
Foreign currency translation adjustments	(245)	836	700	475
Net unrealized gain (loss) on available-for sale securities	250	(13)	110	-
Total comprehensive profit (loss)	\$ (2,028)	\$ (13,272)	\$ 1,401	\$ (4,722)
Comprehensive loss (profit) attributable to the non-controlling interest	60	131	17	(13)
Total comprehensive profit (loss) attributable to shareholders	<u>\$ (1,968)</u>	<u>\$ (13,141)</u>	<u>\$ 1,418</u>	<u>\$ (4,735)</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

	Nine months ended September 30	
	2010	2009
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net profit (loss) from continuing operations	\$ 424	\$ (10,424)
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	2,754	2,886
Gain on sale of property and equipment	(11)	(4)
Amortization of intangible assets	431	766
Depreciation	1,106	1,038
Accrued severance pay, net	117	(96)
Accrued interest on short term investments and linkage differences on long-term loans	7	-
Decrease in deferred tax liability	(27)	(62)
Decrease (increase) in trade receivables, net	615	(1,222)
Decrease (increase) in other receivables and prepaid expenses	31	(288)
increase in inventories	(1,597)	(367)
Increase (decrease) in trade payables	(2,564)	232
Increase (decrease) in other current liabilities	(6,598)	438
Net cash used in continuing operating activities	<u>(5,312)</u>	<u>(7,103)</u>
Cash flows from investing activities		
Purchase of property and equipment	(2,265)	(2,693)
Purchase of available-for-sale securities	(4,487)	(514)
Proceeds from maturity of available-for-sale securities	1,831	1,418
Other, net	21	19
Net cash used in continuing investing activities	<u>(4,900)</u>	<u>(1,770)</u>
Cash flows from financing activities		
Increase in short-term bank credit, net	130	1,148
Proceeds from long-term bank loans	4,282	1,437
Repayment of long-term bank loans	(740)	(388)
Payments to acquire treasury shares	(997)	-
Proceeds from receipt on account of shares and exercise of options and warrants, net	43	510
Net cash provided by continuing financing activities	<u>2,718</u>	<u>2,707</u>
Cash flows from discontinued operations		
Net cash used in discontinued operating activities	(2,357)	(2,754)
Net cash provided by discontinued investing activities	1,716	-
Total net cash used in discontinued activities	<u>(641)</u>	<u>(2,754)</u>
Effect of exchange rate changes on cash	<u>(54)</u>	<u>105</u>
Decrease in cash and cash equivalents	<u>(8,189)</u>	<u>(8,815)</u>
Cash and cash equivalents at the beginning of the period	<u>26,884</u>	<u>27,196</u>
Cash and cash equivalents at the end of the period	<u>18,695</u>	<u>18,381</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

	<u>Nine months ended September 30</u>	
	<u>2010</u>	<u>2009</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Supplementary cash flows activities:		
A. Cash paid during the period for:		
Interest	\$ 191	\$ 31

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:

	September 30 2010 (Unaudited)	December 31 2009 (Audited)
Raw materials	\$ 3,344	\$ 3,128
Work in progress	2,209	916
Finished products	2,179	2,221
	<u>\$ 7,732</u>	<u>\$ 6,265</u>

