

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

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

Interim Consolidated Financial Statements as of June 30, 2010

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Interim Consolidated Balance Sheets

US dollar in thousands except share and per share data

| | June 30 2010 | December 31 2009 |
|---|-------------------------|-----------------------------|
| | <u>(Unaudited)</u> | <u>(Audited)</u> |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 28,374 | \$ 26,884 |
| Short-term investments | 7,467 | 5,086 |
| Trade receivables (net of allowance for doubtful accounts of \$2,750 and \$2,777 as of June 30, 2010 and December 31, 2009, respectively) | 3,866 | 6,595 |
| Other receivables and prepaid expenses | 2,066 | 2,478 |
| Inventories | <u>10,188</u> | <u>6,265</u> |
| Total current assets | <u>51,961</u> | <u>47,308</u> |
| Severance pay deposits fund | 1,109 | 1,112 |
| Property, plant and equipment, net | 13,614 | 14,366 |
| Intangible assets, net | 1,214 | 1,532 |
| Assets related to discontinued operation and held for sale | 3,223 | 12,358 |
| | | |
| Total Assets | <u>\$ 71,121</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

| | June 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 | \$ 5,799 | \$ 6,255 |
| Trade payables | 10,483 | 9,649 |
| Other current liabilities | 17,534 | 16,174 |
| Total current liabilities | 33,816 | 32,078 |
| Long-Term Liabilities | | |
| Long-term loans, net of current maturities | 5,064 | 2,642 |
| Accrued severance pay | 3,417 | 3,373 |
| Deferred tax liability | 102 | 120 |
| Total long-term liabilities | 8,583 | 6,135 |
| Total Liabilities | 42,399 | 38,213 |
| Liabilities related to discontinued operation | 776 | 8,495 |
| Commitments and Contingencies | | |
| Equity | | |
| Shareholders' Equity | | |
| Ordinary shares of NIS 0.1 par value: Authorized – 50,000,000 shares as of June 30, 2010 and December 31, 2009; issued and outstanding 24,684,905 and 23,946,316 shares as of June 30, 2010 and December 31, 2009, respectively | 591 | 571 |
| Additional paid-in capital | 189,357 | 187,473 |
| Accumulated other comprehensive income (loss) | (239) | 570 |
| Treasury shares at cost – 235,436 and 0 shares as of June 30, 2010 and December 31, 2009, respectively | (497) | - |
| Accumulated deficit | (161,200) | (158,623) |
| Shareholder's equity | 28,012 | 29,991 |
| Noncontrolling interest | (66) | (23) |
| Total Equity | 27,946 | 29,968 |
| Total Liabilities and Shareholders' Equity | \$ 71,121 | \$ 76,676 |

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

| | Six months ended June 30 | | Three months ended June 30 | |
|--|--------------------------|---------------------|----------------------------|---------------------|
| | 2010 (Unaudited) | 2009 (Unaudited) | 2010 (Unaudited) | 2009 (Unaudited) |
| Revenues | | | | |
| Sales | \$ 26,001 | \$ 13,769 | \$ 12,461 | \$ 5,813 |
| Licensing and transaction fees | 1,799 | 1,200 | 925 | 743 |
| Total revenues | 27,800 | 14,969 | 13,386 | 6,556 |
| Cost of revenues | | | | |
| Cost of sales | 12,665 | 7,308 | 6,507 | 3,193 |
| Total cost of revenues | 12,665 | 7,308 | 6,507 | 3,193 |
| Gross profit | 15,135 | 7,661 | 6,879 | 3,363 |
| Operating expenses | | | | |
| Research and development | 4,017 | 4,036 | 1,969 | 2,072 |
| Selling and marketing | 6,657 | 5,521 | 2,924 | 2,447 |
| General and administrative | 4,147 | 3,649 | 1,891 | 1,799 |
| Amortization of intangible assets | 287 | 515 | 143 | 251 |
| Total operating expenses | 15,108 | 13,721 | 6,927 | 6,569 |
| Operating profit (loss) | 27 | (6,060) | (48) | (3,206) |
| Financial expense, net | (575) | (368) | (30) | (572) |
| Loss before taxes on income | (548) | (6,428) | (78) | (3,778) |
| Taxes on income | (155) | 42 | (73) | 19 |
| Net loss from continuing operations | (703) | (6,386) | (151) | (3,759) |
| Net loss from discontinued operations | (1,921) | (2,512) | (1,980) | (1,305) |
| Net loss | (2,624) | (8,898) | (2,131) | (5,064) |
| Net loss attributable to noncontrolling interest | 47 | 141 | 38 | 97 |
| Net loss attributable to shareholders | \$ (2,577) | \$ (8,757) | \$ (2,093) | \$ (4,967) |
| Basic and diluted net loss attributable to shareholders per ordinary share | | | | |
| From continuing operations | \$ (0.03) | \$ (0.29) | \$ (0.01) | \$ (0.16) |
| From discontinued operations | \$ (0.08) | \$ (0.11) | \$ (0.08) | \$ (0.06) |
| | \$ (0.11) | \$ (0.40) | \$ (0.09) | \$ (0.22) |
| Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share | 24,310,558 | 22,027,070 | 24,465,199 | 22,266,869 |

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 | 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 six months period ended June 30, 2009: (unaudited) | | | | | | | | |
| Stock-based compensation related to options and shares issued to employees and others | - | - | 1,988 | - | - | - | - | 1,988 |
| Exercise of options, warrants and receipts in respect of employee share purchase plan | 1,339,896 | 34 | 216 | - | - | - | - | 250 |
| Adjustment to contingent consideration in connection with the purchase of a subsidiary | - | - | 88 | - | - | - | - | 88 |
| Foreign currency translation adjustments | - | - | - | - | 364 | - | (3) | 361 |
| Net unrealized loss on available-for-sale securities | - | - | - | - | (13) | - | - | (13) |
| Net loss | - | - | - | - | - | (8,757) | (141) | (8,898) |
| Balance as of June 30, 2009 (unaudited) | <u>22,874,684</u> | <u>\$ 542</u> | <u>\$ 185,236</u> | <u>\$ -</u> | <u>\$ 26</u> | <u>\$ (144,198)</u> | <u>\$ 271</u> | <u>\$ 41,877</u> |
| Balance as of December 31, 2009 (audited) | 23,946,316 | \$ 571 | \$ 187,473 | \$ - | \$ 570 | \$ (158,623) | \$ (23) | \$ 29,968 |
| Changes during the six months period ended June 30, 2010: (unaudited) | | | | | | | | |
| Stock-based compensation related to options and shares issued to employees and others | - | - | 1,878 | - | - | - | - | 1,878 |
| Exercise of options and warrants | 738,589 | 20 | 6 | - | - | - | - | 26 |
| Payments to acquire treasury shares | - | - | - | (497) | - | - | - | (497) |
| Foreign currency translation adjustments | - | - | - | - | (949) | - | 4 | (945) |
| Net unrealized gain on available-for-sale securities | - | - | - | - | 140 | - | - | 140 |
| Net loss | - | - | - | - | - | (2,577) | (47) | (2,624) |
| Balance as of June 30, 2010 (unaudited) | <u>24,684,905</u> | <u>\$ 591</u> | <u>\$ 189,357</u> | <u>\$ (497)</u> | <u>\$ (239)</u> | <u>\$ (161,200)</u> | <u>\$ (66)</u> | <u>\$ 27,946</u> |

| | Six months ended June 30 | | Three months ended June 30 | |
|---|--------------------------|---------------------|----------------------------|---------------------|
| | 2010 (Unaudited) | 2009 (Unaudited) | 2010 (Unaudited) | 2009 (Unaudited) |
| Total comprehensive loss: | | | | |
| Net loss | \$ (2,577) | \$ (8,898) | \$ (2,131) | \$ (5,064) |
| Foreign currency translation adjustments | (945) | 361 | (714) | 573 |
| Net unrealized gain (loss) on available-for sale securities | 140 | (13) | 44 | - |
| Total comprehensive loss | \$ (3,382) | \$ (8,550) | \$ (2,801) | \$ (4,491) |
| Comprehensive loss attributable to the non-controlling interest | 43 | 144 | 34 | 96 |
| Total comprehensive loss attributable to shareholders | <u>\$ (3,339)</u> | <u>\$ (8,406)</u> | <u>\$ (2,767)</u> | <u>\$ (4,395)</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

| | Six months ended June 30 | |
|---|---------------------------------|--------------------|
| | 2010 | 2009 |
| | (Unaudited) | (Unaudited) |
| Cash flows from operating activities | | |
| Net loss from continuing operations | \$ (703) | \$ (6,386) |
| 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 | 1,878 | 1,988 |
| Gain on sale of property and equipment | (11) | - |
| Amortization of intangible assets | 287 | 515 |
| Depreciation | 727 | 671 |
| Accrued severance pay, net | 47 | (230) |
| Accrued interest on short term investments and linkage differences on long-term loans | 115 | (11) |
| Decrease in deferred tax liability | (18) | (43) |
| Decrease (increase) in trade receivables, net | 2,584 | (122) |
| Decrease (increase) in other receivables and prepaid expenses | 290 | (877) |
| increase in inventories | (4,298) | (257) |
| Increase (decrease) in trade payables | 1,363 | (553) |
| Increase in other current liabilities | 1,458 | 206 |
| Net cash provided by (used in) continuing operating activities | <u>3,719</u> | <u>(5,099)</u> |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (1,275) | (553) |
| Purchase of available-for-sale securities | (3,543) | (514) |
| Proceeds from maturity of available-for-sale securities | 1,185 | 1,372 |
| Other, net | 10 | - |
| Net cash provided by (used in) continuing investing activities | <u>(3,623)</u> | <u>305</u> |
| Cash flows from financing activities | | |
| Increase (decrease) in short-term bank credit, net | (533) | 936 |
| Proceeds from long-term bank loans | 3,616 | 368 |
| Repayment of long-term bank loans | (454) | (257) |
| Payments to acquire treasury shares | (497) | - |
| Proceeds from receipt on account of shares and exercise of options and warrants, net | 26 | 250 |
| Net cash provided by continuing financing activities | <u>2,158</u> | <u>1,297</u> |
| Cash flows from discontinued operations | | |
| Net cash used in discontinued operating activities | (1,600) | (1,890) |
| Net cash provided by discontinued investing activities | 1,121 | - |
| Total net cash used in discontinued activities | <u>(479)</u> | <u>(1,890)</u> |
| Effect of exchange rate changes on cash | <u>(285)</u> | <u>54</u> |
| Increase (decrease) in cash and cash equivalents | 1,490 | (5,333) |
| 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>28,374</u> | <u>21,863</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>Six months ended June 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 | <u>\$ 96</u> | <u>\$ 11</u> |

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:

| | June 30 2010 (Unaudited) | December 31 2009 (Audited) |
|-------------------|---|---|
| Raw materials | \$ 3,788 | \$ 3,128 |
| Work in progress | 3,641 | 916 |
| Finished products | 2,759 | 2,221 |
| | <u>\$ 10,188</u> | <u>\$ 6,265</u> |

