



## *Press Release*

### **OTI Turnaround Advances, with Strong FY 2010 Results, Improvement in all Fundamentals, Showing non-GAAP Operating Profitability. Trend Expected to Continue in 2011.**

- Revenues Increased by 71% from \$31.4 Million to \$53.6 Million
  - Non-GAAP Operating Profit of \$2.8 Million
    - Gross Margin Increased to 54%

**ISELIN, N.J., March 28, 2011** – On Track Innovations Ltd., (OTI) (NASDAQ-GM: OTIV), a global leader in contactless smart card solutions, today announced that as previously forecasted, its planned turnaround is proceeding apace, with results of operations, revenues and gross margins all increasing substantially during the year ended December 31, 2010 while maintaining similar level of operating expenses as in 2009. The following are various financial figures that compare fiscal year of 2010 to 2009.

- Total revenues of \$53.6 million, a 71% increase compared to \$31.4 million last year.
- Revenues from Licensing and Transaction Fees of \$4.0 million, a 37% increase compared to \$2.9 million last year.
- Gross margin increased to 54% vs. 47% last year.
- Non-GAAP operating expenses of \$26.1 million, an 8% increase compared to \$24.1 million last year. GAAP operating expenses of \$30.1 million, a 5% increase compared to \$28.7 million last year.
- Non-GAAP operating profit of \$2.8 million, compared to non-GAAP operating loss of \$9.4 million last year. GAAP operating loss was \$1.2 million, a 92% decrease compared to \$14.1 million last year.
- Strong balance sheet with cash, cash equivalents and short-term investments of \$24.0 million as of December 31, 2010. This amount does not include the proceeds from the public offering of February 2011.

Oded Bashan, Chairman and CEO of OTI, said: “In 2010 we demonstrated our strategy of focusing on unique products and turnkey solutions, in the fields of SmartID, payments, parking and petroleum, with improvement in all fundamentals - higher gross margin, increased level of revenues, all while maintaining similar level of operating expenses.”

Mr. Bashan continued: “we are opening 2011 in a unique position - we are financially stronger after a successful raise of about \$16.9 million in net proceeds, and after successful 2010, where we have presented improved results, solid non-GAAP profitability and advancements in our planned turnaround. The successful execution of large scale projects, the introduction of new products to existing markets, the further establishment of strategic channel partners are all significant contributors to our success and are expected to further strengthen our pipeline of opportunities, resulting in another successful financial year. We expect revenues in 2011 to be heavily back-loaded and grow to \$55-\$60 million. We also expect 2011 to be operating profitable on a non-GAAP basis as a result of our expectation to become profitable in the second half of 2011.”

## **Discontinued Operations**

During the fourth calendar quarter of 2009, the Company signed an agreement for the sale of the assets of OTI's subsidiary Millennium Card's Technology Ltd ("MCT") including the machinery and inlay production IP of OTI to SMARTRAC NV. Results for the discontinued operations have been separated and are presented separately for both 2009 and 2010 financial statements.

## **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 equity-based compensation charges 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**

The Company has scheduled a conference call and simultaneous Web cast for March 28, 2011, at 9:00 AM ET to discuss operating results and future outlook. To participate, call: **1-888-668-9141** (U.S. toll free), **1-800-227-297** (Israel toll free). To listen to the Web cast, use the following link: [http://www.otiglobal.com/Investors\\_Introduction](http://www.otiglobal.com/Investors_Introduction)

For those unable to participate, the teleconference will be available for replay until midnight April 4<sup>th</sup>, by calling U.S **1-888-782-4291** on the web at: [http://www.otiglobal.com/Investors\\_Introduction](http://www.otiglobal.com/Investors_Introduction)

## **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 and loyalty programs. 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](http://www.otiglobal.com), the content of which is not part of this press release.

### **OTI Contact:**

Galit Mendelson  
Vice President of Corporate Relations  
732 429 1900 ext. 111  
[galit@otiglobal.com](mailto:galit@otiglobal.com)

### **Investor Relations:**

Miri Segal  
MS-IR LLC  
917-607-8654  
[msegal@ms-ir.com](mailto:msegal@ms-ir.com)

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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. Forward-looking statements include statements regarding our goals, beliefs, future growth strategies, objectives, products, plans, future results of operations or current expectations. For example, we are using forward looking statements when we discuss our expectation to continue advancing our turnaround in 2011 and continue the trend of annual operating profitability on a non-GAAP basis in 2011 and that 2011 revenues will be heavily back-loaded and grow to \$55-\$60 million, with non-GAAP operating profitability expected mainly in the second half of the year. 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, 2009 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.

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

|   | <b>December 31</b> |                    |
|---|--------------------|--------------------|
|   | <b>2009</b>        | <b>2010</b>        |
|   | <b>(Audited)</b>   | <b>(Unaudited)</b> |
| <b>Assets</b>   |                    |                    |
| <b>Current assets</b>   |                    |                    |
| Cash and cash equivalents   | \$ 26,884          | \$ 15,409          |
| Short-term investments  | 5,086              | 8,594              |
| Trade receivables (net of allowance for doubtful<br>accounts of \$2,777 and \$2,832 as of December 31, 2009<br>and December 31, 2010, respectively) | 6,595              | 5,072              |
| Receivables from sale of operation  | -                  | 2,336              |
| Other receivables and prepaid expenses  | 2,478              | 1,532              |
| Inventories   | 6,265              | 8,448              |
| Total current assets  | 47,308             | 41,391             |
| <b>Severance pay deposits fund</b>  | 1,112              | 1,355              |
| <b>Property, plant and equipment, net</b>   | 14,366             | 14,826             |
| <b>Intangible assets, net</b>   | 1,532              | 942                |
| <b>Assets from discontinued operation – held for sale</b>   | 12,358             | -                  |
| <b>Total Assets</b>   | <b>\$ 76,676</b>   | <b>\$ 58,514</b>   |

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

|  | <b>December 31</b> |                    |
|--|--------------------|--------------------|
|  | <b>2009</b>        | <b>2010</b>        |
|  | <b>(Audited)</b>   | <b>(Unaudited)</b> |
| <b>Liabilities and Equity</b>  |                    |                    |
| <b>Current Liabilities</b>   |                    |                    |
| Short-term bank credit and current maturities<br>of long-term bank loans   | \$ 6,255           | \$ 6,881           |
| Trade payables   | 9,649              | 6,874              |
| Other current liabilities  | 16,174             | 8,954              |
| <b>Total current liabilities</b>   | <b>32,078</b>      | <b>22,709</b>      |
| <b>Long-Term Liabilities</b>   |                    |                    |
| Long-term loans, net of current maturities   | 2,642              | 5,189              |
| Accrued severance pay  | 3,373              | 3,727              |
| Deferred tax liability   | 120                | 84                 |
| <b>Total long-term liabilities</b>   | <b>6,135</b>       | <b>9,000</b>       |
| <b>Total Liabilities</b>   | <b>38,213</b>      | <b>31,709</b>      |
| <b>Liabilities related to discontinued operation</b>   | <b>8,495</b>       | <b>689</b>         |
| <b>Commitments and Contingencies</b>   |                    |                    |
| <b>Equity</b>  |                    |                    |
| <b>Shareholders' Equity</b>  |                    |                    |
| Ordinary shares of NIS 0.1 par value: Authorized –<br>50,000,000 shares as of December 31, 2009 and<br>December 31, 2010; issued: 23,946,316 and 25,384,010<br>shares as of December 31, 2009 and December 31, 2010,<br>respectively; outstanding: 23,946,316 and 24,821,535 shares<br>as of December 31, 2009 and December 31, 2010, respectively | 571                | 610                |
| Additional paid-in capital   | 187,473            | 190,933            |
| Treasury shares at cost – 0 and 562,475 shares as of December 31, 2009<br>and December 31, 2010, respectively  | -                  | (1,136)            |
| Accumulated other comprehensive income   | 570                | 645                |
| Accumulated deficit  | (158,623)          | (164,812)          |
| <b>Shareholder's equity</b>  | <b>29,991</b>      | <b>26,240</b>      |
| <b>Non-controlling interest</b>  | <b>(23)</b>        | <b>(124)</b>       |
| <b>Total Equity</b>  | <b>29,968</b>      | <b>26,116</b>      |
| <b>Total Liabilities and Equity</b>  | <b>\$ 76,676</b>   | <b>\$ 58,514</b>   |

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

|  | <b>Year ended December 31</b>   |                                   | <b>Three months ended December 31</b> |                                   |
|--|---------------------------------|-----------------------------------|---------------------------------------|-----------------------------------|
|  | <b>2009</b><br><b>(Audited)</b> | <b>2010</b><br><b>(Unaudited)</b> | <b>2009</b><br><b>(Unaudited)</b>     | <b>2010</b><br><b>(Unaudited)</b> |
| <b>Revenues</b>  |                                 |                                   |                                       |                                   |
| Sales  | \$ 28,488                       | \$ 49,590                         | \$ 7,527                              | \$ 8,804                          |
| Licensing and transaction fees   | 2,949                           | 4,037                             | 1,075                                 | 1,239                             |
| <b>Total revenues</b>  | <b>31,437</b>                   | <b>53,627</b>                     | <b>8,602</b>                          | <b>10,043</b>                     |
| <b>Cost of revenues</b>  |                                 |                                   |                                       |                                   |
| Cost of sales  | 16,782                          | 24,748                            | 5,275                                 | 4,732                             |
| <b>Total cost of revenues</b>  | <b>16,782</b>                   | <b>24,748</b>                     | <b>5,275</b>                          | <b>4,732</b>                      |
| <b>Gross profit</b>  | <b>14,655</b>                   | <b>28,879</b>                     | <b>3,327</b>                          | <b>5,311</b>                      |
| <b>Operating expenses</b>  |                                 |                                   |                                       |                                   |
| Research and development   | 8,127                           | 8,373                             | 2,192                                 | 2,194                             |
| Selling and marketing  | 10,371                          | 11,643                            | 2,351                                 | 2,127                             |
| General and administrative   | 9,230                           | 9,479                             | 2,975                                 | 3,443                             |
| Amortization of intangible assets  | 978                             | 575                               | 212                                   | 144                               |
| <b>Total operating expenses</b>  | <b>28,706</b>                   | <b>30,070</b>                     | <b>7,730</b>                          | <b>7,908</b>                      |
| <b>Operating loss</b>  | <b>(14,051)</b>                 | <b>(1,191)</b>                    | <b>(4,403)</b>                        | <b>(2,597)</b>                    |
| Financial expense, net   | (1,153)                         | (1,397)                           | (412)                                 | (580)                             |
| <b>Loss before taxes on income</b>   | <b>(15,204)</b>                 | <b>(2,588)</b>                    | <b>(4,815)</b>                        | <b>(3,177)</b>                    |
| Taxes on income  | (89)                            | (411)                             | (54)                                  | (246)                             |
| <b>Net loss from continuing operations</b>   | <b>(15,293)</b>                 | <b>(2,999)</b>                    | <b>(4,869)</b>                        | <b>(3,423)</b>                    |
| <b>Net loss from discontinued operations</b>   | <b>(8,078)</b>                  | <b>(3,292)</b>                    | <b>(4,407)</b>                        | <b>(835)</b>                      |
| <b>Net loss</b>  | <b>(23,371)</b>                 | <b>(6,291)</b>                    | <b>(9,276)</b>                        | <b>(4,258)</b>                    |
| Net loss attributable to noncontrolling interest   | 189                             | 102                               | 56                                    | 38                                |
| <b>Net loss attributable to shareholders</b>   | <b>\$ (23,182)</b>              | <b>\$ (6,189)</b>                 | <b>\$ (9,220)</b>                     | <b>\$ (4,220)</b>                 |
| <b>Basic and diluted net loss attributable to shareholders per ordinary share</b>                          |                                 |                                   |                                       |                                   |
| From continuing operations   | \$ (0.67)                       | \$ (0.12)                         | \$ (0.20)                             | \$ (0.14)                         |
| From discontinued operations   | \$ (0.35)                       | \$ (0.13)                         | \$ (0.19)                             | \$ (0.03)                         |
|  | <b>\$ (1.02)</b>                | <b>\$ (0.25)</b>                  | <b>\$ (0.39)</b>                      | <b>\$ (0.17)</b>                  |
| Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share | 22,635,479                      | 24,615,526                        | 23,548,712                            | 25,137,031                        |

**ON TRACK INNOVATIONS LTD.**  
**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)

|   | <u>Year ended December 31</u> |                    | <u>Three months ended December 31</u> |                    |
|---|-------------------------------|--------------------|---------------------------------------|--------------------|
|   | <u>2009</u>                   | <u>2010</u>        | <u>2009</u>                           | <u>2010</u>        |
|   | <u>(Unaudited)</u>            | <u>(Unaudited)</u> | <u>(Unaudited)</u>                    | <u>(Unaudited)</u> |
| <b>OPERATING EXPENSES</b>   |                               |                    |                                       |                    |
| GAAP operating expenses   | \$ 28,706                     | \$ 30,070          | \$ 7,730                              | \$ 7,908           |
| Less:   |                               |                    |                                       |                    |
| Stock based compensation expenses   | (3,618)                       | (3,394)            | (771)                                 | (660)              |
| Amortization of intangible assets   | (978)                         | (575)              | (212)                                 | (144)              |
| <b>Non GAAP Operating expenses</b>  | <b>\$ 24,110</b>              | <b>\$ 26,101</b>   | <b>\$ 6,747</b>                       | <b>\$ 7,104</b>    |
| <b>OPERATING PROFIT (LOSS)</b>  |                               |                    |                                       |                    |
| GAAP Operating loss   | \$ (14,051)                   | \$ (1,191)         | \$ (4,403)                            | \$ (2,597)         |
| Plus:   |                               |                    |                                       |                    |
| Stock based compensation expenses   | 3,662                         | 3,419              | 776                                   | 665                |
| Amortization of intangible assets   | 978                           | 575                | 212                                   | 144                |
| <b>Non GAAP Operating profit (loss)</b>   | <b>\$ (9,411)</b>             | <b>\$ 2,803</b>    | <b>\$ (3,415)</b>                     | <b>\$ (1,788)</b>  |
| <b>NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS</b>                                   |                               |                    |                                       |                    |
| GAAP Net loss attributable to shareholders  | \$ (23,182)                   | \$ (6,189)         | \$ (9,220)                            | \$ (4,220)         |
| Plus:   |                               |                    |                                       |                    |
| Stock based compensation expenses   | 3,662                         | 3,419              | 776                                   | 665                |
| Amortization of intangible assets   | 978                           | 575                | 212                                   | 144                |
| Net loss from discontinued operations   | 8,078                         | 3,292              | 4,407                                 | 835                |
| <b>Non GAAP net profit (loss) attributable to shareholders</b>                          | <b>\$ (10,464)</b>            | <b>\$ 1,097</b>    | <b>\$ (3,825)</b>                     | <b>\$ (2,576)</b>  |
| <b>BASIC NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS PER ORDINARY SHARE</b>          |                               |                    |                                       |                    |
| GAAP Basic net loss attributable to shareholders per ordinary share                     | \$ (1.02)                     | \$ (0.25)          | \$ (0.39)                             | \$ (0.17)          |
| Plus:   |                               |                    |                                       |                    |
| Stock based compensation expenses   | 0.16                          | 0.14               | 0.03                                  | 0.03               |
| Amortization of intangible assets   | 0.05                          | 0.02               | 0.01                                  | 0.01               |
| Net loss from discontinued operations   | 0.35                          | 0.13               | 0.19                                  | 0.03               |
| <b>Non GAAP Basic net profit (loss) attributable to shareholders per ordinary share</b> | <b>\$ (0.46)</b>              | <b>\$ 0.04</b>     | <b>\$ (0.16)</b>                      | <b>\$ (0.10)</b>   |

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

|   | <b>Year ended December 31</b> |                           |
|---|-------------------------------|---------------------------|
|   | <b>2009</b>                   | <b>2010</b>               |
|   | <u><b>(Audited)</b></u>       | <u><b>(Unaudited)</b></u> |
| <b>Cash flows from operating activities</b>   |                               |                           |
| Net loss from continuing operations   | \$ (15,293)                   | \$ (2,999)                |
| Adjustments required to reconcile net loss to net cash provided by (used in) continuing operating activities: |                               |                           |
| Stock-based compensation related to options and shares issued to employees and others                         | 3,662                         | 3,419                     |
| Gain on sale of property and equipment  | (3)                           | (3)                       |
| Amortization of intangible assets   | 978                           | 575                       |
| Depreciation  | 1,413                         | 1,553                     |
| Accrued severance pay, net  | (222)                         | 111                       |
| Accrued interest and linkage differences on long-term loans   | 36                            | 164                       |
| Decrease in deferred tax liability  | (82)                          | (36)                      |
| Decrease (increase) in trade receivables  | (1,326)                       | 1,484                     |
| Increase (decrease) in allowance for doubtful accounts  | (538)                         | 29                        |
| Decrease in other receivables and prepaid expenses  | 663                           | 892                       |
| Decrease (increase) in inventories  | 429                           | (2,377)                   |
| Increase (decrease) in trade payables   | 1,334                         | (2,704)                   |
| Increase (decrease) in other current liabilities  | 12,788                        | (7,020)                   |
| Net cash provided by (used in) continuing operating activities  | <u>3,839</u>                  | <u>(6,912)</u>            |
| <b>Cash flows from investing activities</b>   |                               |                           |
| Purchase of property and equipment  | (4,124)                       | (2,346)                   |
| Payment of contingent consideration in connection with the purchase of a subsidiary                           | -                             | (186)                     |
| Purchase of available-for-sale securities   | (5,623)                       | (5,230)                   |
| Proceeds from maturity or sale of available-for-sale securities   | 1,418                         | 2,013                     |
| Other, net  | 22                            | 20                        |
| Net cash used in continuing investing activities  | <u>(8,307)</u>                | <u>(5,729)</u>            |
| <b>Cash flows from financing activities</b>   |                               |                           |
| Increase (decrease) in short-term bank credit, net  | 911                           | (311)                     |
| Proceeds from long-term bank loans  | 1,636                         | 4,650                     |
| Repayment of long-term bank loans   | (543)                         | (1,031)                   |
| Payments to acquire treasury shares   | -                             | (1,136)                   |
| Proceeds from receipt on account of shares and exercise of options and warrants, net                          | 521                           | 80                        |
| Net cash provided by continuing financing activities  | <u>2,525</u>                  | <u>2,252</u>              |
| <b>Cash flows from discontinued operations</b>  |                               |                           |
| Net cash used in discontinued operating activities  | (5,544)                       | (3,305)                   |
| Net cash provided by discontinued investing activities  | 7,060                         | 2,300                     |
| <b>Total net cash provided by (used in) discontinued activities</b>   | <u>1,516</u>                  | <u>(1,005)</u>            |
| Effect of exchange rate changes on cash   | <u>115</u>                    | <u>(81)</u>               |
| <b>Decrease in cash and cash equivalents</b>  | <u>(312)</u>                  | <u>(11,475)</u>           |
| <b>Cash and cash equivalents at the beginning of the year</b>   | <u>27,196</u>                 | <u>26,884</u>             |
| <b>Cash and cash equivalents at the end of the year</b>   | <u>\$ 26,884</u>              | <u>\$ 15,409</u>          |

