



Press Release

OTI Reports First Quarter 2011 Financial Results

- Revenues of \$12 Million
- Gross Margin of 53%
- Strong Balance Sheet with \$37.2 Million in Cash, Cash Equivalents and Short Term Investments

ISELIN, N.J., – May 24, 2011 – On Track Innovations Ltd. (OTI) (Nasdaq GM: OTIV), a global leader in contactless microprocessor-based smart card solutions for homeland security, payments, petroleum payments and other applications, today announced results of operations, revenues and gross margins slightly better than originally expected by the company for the first quarter ended March 31, 2011. The following are various financial figures that compare first quarter of 2011 to 2010.

- Total revenues of \$12 million, a 17% decrease compared to \$14.4 million last year.
- Revenues from Licensing and Transaction Fees of \$1.2 million, a 32% increase compared to \$874 thousand last year.
- Gross margin was 53% for the first quarter of 2011.
- Non-GAAP operating expenses of \$6.8 million, a 4% decrease compared to \$7.1 million last year. GAAP operating expenses of \$7.4 million, a 9% decrease compared to \$8.2 million last year.
- Non-GAAP operating loss of \$445,000, compared to non-GAAP operating profit of \$1.2 million last year. GAAP operating loss was \$1.1 million, compared to GAAP operating profit of \$75,000 last year.
- Strong balance sheet with cash, cash equivalents and short-term investments of \$37.2 million as of March 31, 2011.

Oded Bashan, Chairman and CEO of OTI, said: “We have opened 2011 with slightly higher revenues than expected by the company. The company is financially stronger, which will help us cope better with the growing pipeline of opportunities. We are introducing new products to existing growing markets such as the COPNI, we are establishing strategic channel partnerships to bring the various products to market. We maintain the previously provided guidance of annual operating profitability for 2011 on a non-GAAP basis with revenues expected to be back-loaded and grow from 2010 revenues to \$55-\$60 million.”

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.

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 May 24, 2011, at 9:00 AM ET to discuss operating results and future outlook. To participate, call: **1-888-407-2553** (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
For those unable to participate, the teleconference will be available for replay until midnight May 31st, by calling U.S **1-888-295-2634** on the web at:
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, 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. 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 say that we maintain the previously provided guidance of annual operating profitability on a non-GAAP basis with revenues expected to be back-loaded and grow to \$55-\$60 million for the year or when we discuss our unique position and our ability to cope better with the growing pipeline of opportunities,. 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, 2010 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)

| | March 31 2011 | December 31 2010 |
|---|--------------------------|-----------------------------|
| | <u>(Unaudited)</u> | <u>(Audited)</u> |
| Liabilities and Equity | | |
| Current Liabilities | | |
| Short-term bank credit and current maturities | | |
| of long-term bank loans | \$ 5,493 | \$ 6,881 |
| Trade payables | 8,713 | 6,874 |
| Other current liabilities | 11,033 | 8,954 |
| Total current liabilities | <u>25,239</u> | <u>22,709</u> |
| Long-Term Liabilities | | |
| Long-term loans, net of current maturities | 4,841 | 5,189 |
| Accrued severance pay | 3,927 | 3,727 |
| Deferred tax liability | 74 | 84 |
| Total long-term liabilities | <u>8,842</u> | <u>9,000</u> |
| Total Liabilities | <u>34,081</u> | <u>31,709</u> |
| Liabilities related to discontinued operation | 567 | 689 |
| Commitments and Contingencies | | |
| Equity | | |
| Shareholders' Equity | | |
| Ordinary shares of NIS 0.1 par value: Authorized – 50,000,000 shares as of March 31, 2011 and December 31, 2010; issued: 31,705,166 and 25,384,010 shares as of March 31, 2011 and December 31, 2010, respectively; outstanding: 31,142,691 and 24,821,535 shares as of March 31, 2011 and December 31, 2010, respectively | 792 | 610 |
| Additional paid-in capital | 208,479 | 190,933 |
| Treasury shares at cost –562,475 shares as of March 31, 2011 and December 31, 2010. | (1,136) | (1,136) |
| Accumulated other comprehensive income | 856 | 645 |
| Accumulated deficit | <u>(165,924)</u> | <u>(164,812)</u> |
| Shareholder's equity | <u>43,067</u> | <u>26,240</u> |
| Non-controlling interest | <u>(159)</u> | <u>(124)</u> |
| Total Equity | <u>42,908</u> | <u>26,116</u> |
| Total Liabilities and Equity | <u>\$ 77,556</u> | <u>\$ 58,514</u> |

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

| | Three months ended March 31 | |
|---|------------------------------------|--------------------|
| | 2011 | 2010 |
| | (Unaudited) | (Unaudited) |
| Revenues | | |
| Sales | \$ 10,870 | \$ 13,540 |
| Licensing and transaction fees | 1,153 | 874 |
| | <u>12,023</u> | <u>14,414</u> |
| Cost of revenues | | |
| Cost of sales | 5,708 | 6,158 |
| Total cost of revenues | <u>5,708</u> | <u>6,158</u> |
| | <u>6,315</u> | <u>8,256</u> |
| Gross profit | | |
| Operating expenses | | |
| Research and development | 2,197 | 2,048 |
| Selling and marketing | 2,841 | 3,733 |
| General and administrative | 2,255 | 2,256 |
| Amortization of intangible assets | 151 | 144 |
| | <u>7,444</u> | <u>8,181</u> |
| | <u>(1,129)</u> | <u>75</u> |
| Operating profit (loss) | | |
| Financial income (expense), net | 49 | (545) |
| | <u>(1,080)</u> | <u>(470)</u> |
| Loss before taxes on income | | |
| Taxes on income | (65) | (82) |
| | <u>(1,145)</u> | <u>(552)</u> |
| Net loss from continuing operations | | |
| Net profit from discontinued operations | <u>-</u> | <u>59</u> |
| | <u>(1,145)</u> | <u>(493)</u> |
| Net loss | | |
| Net loss attributable to noncontrolling interest | 33 | 9 |
| Net loss attributable to shareholders | <u>\$ (1,112)</u> | <u>\$ (484)</u> |
| Basic and diluted net profit (loss) attributable to shareholders per ordinary share | | |
| From continuing operations | \$ (0.04) | \$ (0.02) |
| From discontinued operations | \$ - | \$ 0.00 |
| | <u>\$ (0.04)</u> | <u>\$ (0.02)</u> |
| Weighted average number of ordinary shares used in computing basic net profit (loss) per ordinary share | <u>29,494,848</u> | <u>24,155,916</u> |
| Weighted average number of ordinary shares used in computing diluted net profit (loss) per ordinary share | <u>29,494,848</u> | <u>26,865,470</u> |

ON TRACK INNOVATIONS LTD.

UNAUDITED 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)

| | Three months ended December 31 | |
|---|---------------------------------------|--------------------|
| | 2011 | 2010 |
| | (Unaudited) | (Unaudited) |
| OPERATING EXPENSES | | |
| GAAP operating expenses | \$ 7,444 | \$ 8,181 |
| Less: | | |
| Stock based compensation expenses | (531) | (976) |
| Amortization of intangible assets | (151) | (144) |
| | <u>6,762</u> | <u>7,061</u> |
| Non GAAP Operating expenses | \$ 6,762 | \$ 7,061 |
| OPERATING PROFIT (LOSS) | | |
| GAAP Operating profit (loss) | \$ (1,129) | \$ 75 |
| Plus: | | |
| Stock based compensation expenses | 533 | 982 |
| Amortization of intangible assets | 151 | 144 |
| | <u>(445)</u> | <u>1,201</u> |
| Non GAAP Operating profit (loss) | \$ (445) | \$ 1,201 |
| NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS | | |
| GAAP Net loss attributable to shareholders | \$ (1,112) | \$ (484) |
| Plus: | | |
| Stock based compensation expenses | 533 | 982 |
| Amortization of intangible assets | 151 | 144 |
| Net profit from discontinued operations | - | (59) |
| | <u>(428)</u> | <u>583</u> |
| Non GAAP net profit (loss) attributable to shareholders | \$ (428) | \$ 583 |
| BASIC NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS PER ORDINARY SHARE | | |
| GAAP Basic net loss attributable to shareholders per ordinary share | \$ (0.04) | \$ (0.02) |
| Plus: | | |
| Stock based compensation expenses | 0.02 | 0.04 |
| Amortization of intangible assets | 0.01 | 0.00 |
| Net profit from discontinued operations | - | 0.00 |
| | <u>(0.01)</u> | <u>0.02</u> |
| Non GAAP Basic net profit (loss) attributable to shareholders per ordinary share | \$ (0.01) | \$ 0.02 |

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

| | Three months ended March 31 | |
|--|------------------------------------|--------------------|
| | 2011 | 2010 |
| | (Unaudited) | (Unaudited) |
| Cash flows from operating activities | | |
| Net loss from continuing operations | \$ (1,145) | \$ (552) |
| Adjustments required to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Stock-based compensation related to options and shares issued to employees and others | 533 | 982 |
| Gain on sale of property and equipment | (4) | (6) |
| Amortization of intangible assets | 151 | 144 |
| Depreciation | 429 | 370 |
| Accrued severance pay, net | 171 | 78 |
| Accrued interest and linkage differences on long-term loans | 47 | 14 |
| Decrease in deferred tax liability | (10) | (9) |
| linkage differences on receivable from sale of operation | (151) | - |
| Decrease (increase) in trade receivables, net | (3,896) | 2,217 |
| Increase in other receivables and prepaid expenses | (614) | (68) |
| Increase in inventories | (351) | (2,804) |
| Increase (decrease) in trade payables | 1,569 | (1,543) |
| Increase in other current liabilities | 2,010 | 10,664 |
| Net cash provided by (used in) continuing operating activities | <u>(1,261)</u> | <u>9,487</u> |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (582) | (179) |
| Purchase of available-for-sale securities | (2,449) | (2,830) |
| Acquisition of business operation | (400) | - |
| Proceeds from maturity and sale of available-for-sale securities | 178 | 984 |
| Other, net | 7 | 6 |
| Net cash used in continuing investing activities | <u>(3,246)</u> | <u>(2,019)</u> |
| Cash flows from financing activities | | |
| Decrease in short-term bank credit, net | (1,852) | (972) |
| Proceeds from long-term bank loans | 151 | 419 |
| Repayment of long-term bank loans | (336) | (110) |
| Proceeds from issuance of shares, net of issuance expenses | 16,644 | - |
| Proceeds from exercise of options and warrants, net | 189 | 18 |
| Net cash provided by (used in) continuing financing activities | <u>14,796</u> | <u>(645)</u> |
| Cash flows from discontinued operations | | |
| Net cash used in discontinued operating activities | (122) | (306) |
| Net cash provided by discontinued investing activities | 623 | - |
| Total net cash provided by (used in) discontinued activities | <u>501</u> | <u>(306)</u> |
| Effect of exchange rate changes on cash | <u>87</u> | <u>(15)</u> |
| Increase in cash and cash equivalents | 10,877 | 6,502 |
| Cash and cash equivalents at the beginning of the period | <u>15,409</u> | <u>26,884</u> |
| Cash and cash equivalents at the end of the period | <u>\$ 26,286</u> | <u>\$ 33,386</u> |