12

11

10

9

8

7

6

5

4

3

2

1

ON TRACK INNOVATIONS LTD.

Science - Non Fiction

2001

Second Quarter Report 2001

Table of Contents

Second Quarter Report 2001

2001 Second Quarter Overview

Our Company

Incorporated in 1990, OTI designs, develops and markets contactless microprocessor-based smart card products. Our award-winning technology is the foundation for our complete line of smart cards and smart card solutions. Attracting the best talent remains a top priority with 258 worldwide employees contributing to OTI's dynamic working environment.

Our global network is directed from our headquarters in Israel, also home to our R&D and engineering facilities. OTI America manages our sales and marketing efforts that are executed through our subsidiaries in America, Africa and Europe; and our joint venture in Asia. In the last nine months, we have built a global presence that enables efficient and effective responses to local market needs. We have accomplished this through a series of subsidiaries, acquisitions, and joint ventures. We intend to continue our global expansion with additional strategic alliances and acquisitions according to our strategy.

Some of the major developments during the first six months include:

Business

- Xerox Connect and OTI are providing payment and information solutions for the U.S. campus market. The relationship provides end-to-end solutions for universities and corporate campuses.
- OTI and P-Card System will jointly launch the first Europe-wide currency-independent contact/contactless smart card solution to issuers throughout Europe.
- EasyPark Ltd. signed an agreement with Ahuzat Hahof which manages the parking solution on behalf of the City of Tel Aviv "the largest metropolis in Israel" to expand the EasyPark program in Tel Aviv to include parking payment for parking lots and to implement a complementary system utilizing a SmartID Sticker to manage vehicle registration and parking permits.
- OTI America announced the expansion of the truck stop industry's first multi-application smart card in all Rip Griffin Travel Centers across the southern United States, as a result of the success of the Terrell, Texas showcase implementation, in operation since August 2000.
- The Michael Jackson Fan Card was launched, the first card in a series of cards based on OTI, P-Card and Mega-Access's smart card solution for identification, payment and loyalty, with a first shipment of 250,000 cards.

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- Hindustan Petroleum Corporation Ltd. (HPCL) is launching a multi-application contactless smart card program throughout India offering a payment and loyalty solution for use at HPCL's retail petroleum stations.
- City of Tel Aviv will equip two additional country clubs with OTI's contactless smart card campus solution.
- MediKredit Integrated Healthcare Solutions (Pty) Ltd and OTI Africa began a pilot project for the introduction of OTI's Medical Management Application.
- e-Smart System will commence a field test for OTI's smart card and readers for use in an automated fare collection service in CKI's toll bridge in Panyu, Guandong province of China.

Technology

- OTI launched its Saturn Reader, the first fully integrated smart card reader to accept both ISO 7816 contact cards and ISO 14443 Type A, B, and D contactless cards.
- OTI will provide the first contactless smart card supporting public-key infrastructure (PKI) encryption, used for digital certificates in such secure environments as Internet transactions and in government agencies.

Our Technology

Our technological advantage stems from IP covering the entire value chain; ranging from component level to overall solution. Because our cards contain a powerful microprocessor, they can store and process both information and multiple applications, where more basic platforms cannot. Our cards are referred to as contactless because they do not require physical contact with a card reader, as power and data are transferred to the card through a magnetic field generated by the card reader. Our products combine the benefits of both microprocessors and contactless cards, and we are one of the first companies to deploy contactless microprocessor-based smart card products for commercial use.

Substantially all of our contactless microprocessor products are based on a common platform, which we refer to as EYECON®. Established on our patents and technologies, our EYECON platform consists of smart cards, readers, application development software, and a communication technology that ensures secure, reliable transmission of data to and from the card. The elements of the EYECON platform can be customized to support a large number of applications in a multitude of markets. Some of the markets for which we have developed customized EYECON solutions include petroleum, parking, financial, mass transit, border crossing, and medical services.

Our technology provides the following product benefits:

- The information stored on our card and transferred between the card and the reader is secure;
- Our products support multiple, independent applications on the same card;
- Our products enable the transition from other card technologies to our contactless microprocessor-based technology;
- Our products provide reliable transfer of information to and from the card;
- Our cards are durable, easy to use, and take a variety of forms such as key chains, tags, stickers, and wristwatches; and
- Our products are easy to install and maintain.

Our Products

We divide our products into two primary groups:

- Customized products. We provide customized products based on our EYECON platform including smart cards, readers, and related equipment; supporting applications in particular markets.
- Complete systems. We provide complete systems based on our EYECON platform including customized products, application software, and specifically designed hardware.

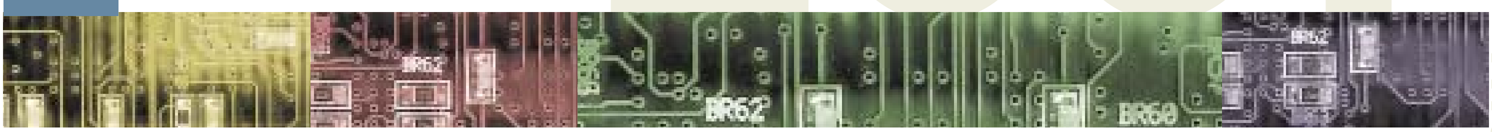
We continue to market all our products directly through our local subsidiaries as well as through our strategic alliances.

Customized Products

- **OTI FAST.** Our OTI FAST product enables drivers to pay for gasoline at the pump, pay for other services and products at the gas station, and earn loyalty points for these purchases. This product is ideally positioned for the retail petroleum market.
- **Truck-stop card.** Our truck-stop card provides truck drivers with the convenience of multi-application contactless smart cards at travel centers. Drivers use the cards for making purchases with an e-purse, making local and long-distance calls, accessing the Internet, and participating in loyalty programs throughout the system.
- **Mass transit ticketing.** Our re-loadable mass transit solution serves as the perfect ticketing method for bus and train systems, where transactions require the speed and accuracy of these high-volume scenarios.
- **Medical card.** Our medical services card is designed to secure, process, and manage health-related information. The product provides doctors and hospital administrators with information regarding the patient's identity, medical history, and insurance information.
- **Smart ID.** Our Smart ID program combines the capability to support biometric identification with the portability of smart cards. The result is irrefutable identification while crossing borders, whether local or international.

Complete Systems

- **Gasoline management system (GMS).** Our GMS system monitors and expedites the fueling and payment process for both fleets and private motorists. The system permits the fueling of designated vehicles only – eliminating fraud. The system also brings convenience to fleet managers by providing comprehensive billing, while reporting fuel consumption and mileage.
- **Campus systems.** Our campus system provides such campus applications as access control, e-purse, cafeteria access, copy machine payments, and many others. Campus card users enjoy the benefits of one card with many applications across the campus – whether a corporate campus or university. Our campus solution now includes the market strength of our recent InterCard acquisition.
- **EasyPark system.** Our electronic parking payment system, EasyPark, enables drivers to be charged for the exact period of time they are parked and simplifies the monitoring and collection of parking fees. Our specially-adapted smart card functions as an in-vehicle parking meter and eliminates the driver's search for coins when finding a parking space.

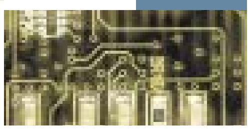


Second Quarter Report 2001
Condensed Interim Consolidated Balance Sheets

In Thousands Of US Dollars

Assets	June 30, 2001 (Unaudited)	December 31, 2000 (Audited)
Current assets		
Cash and cash equivalents	$ 12,483	$ 15,598
Short-term investments	1,920	1,885
Trade accounts receivables, net	3,244	4,458
Inventories	5,406	5,325
Prepaid expenses and other current assets	3,177	2,305
Total current assets	26,230	29,571
Investment in an affiliated company	1,937	2,396
Property, plant and equipment, net	5,760	4,877
Intangible assets, net	6,217	3,396
Severance pay deposits	472	407
Total assets	$ 40,616	$ 40,647

Liabilities and shareholders' equity		
Current liabilities		
Short-term debt and current portion of long-term debt	$ 2,899	$ 4,093
Trade accounts payables	3,719	3,329
Other current liabilities	3,022	2,765
Total current liabilities	9,640	10,187
Long-term liabilities		
Long term debt, less current portion	4,731	2,463
Deferred revenues	1,551	2,067
Severance pay	1,105	1,209
Total long-term liabilities	7,387	5,739
Shareholders' equity		
Share capital	47	45
Additional paid-in capital	45,621	42,322
Deferred compensation	(700)	(860)
Accumulated deficit	(21,477)	(16,795)
Other comprehensive income-currency translation adjustments	98	9
Total shareholder's equity	$ 23,589	$ 24,721
Total liabilities and shareholders' equity	40,616	40,647



Oded Bashan
Chairman of the board of directors
and Chief Executive Officer

Guy Shafran
Chief Financial Officer

Second Quarter Report 2001
Condensed Interim Consolidated Statements of Operations

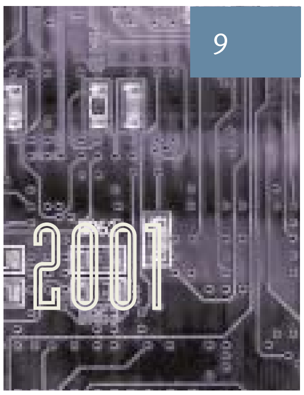
In Thousands Of US Dollars, except of share data

	Six months ended June 30, 2001	2000(*)
	(Unaudited)	
Revenues		
Products	$ 7,879	$ 4,304
Non-recurring engineering	500	89
Licensing and transaction fees	690	534
Customer service and technical support	258	90
Total revenues	**$ 9,327**	**$ 5,017**
Cost of revenues		
Products	4,243	2,461
Non-recurring engineering	20	27
Licensing and transaction fees	-	-
Customer service and technical support	97	16
Total cost of revenues	**4,360**	**2,504**
Gross profit	**4,967**	**2,513**
Operating expenses		
Research and development	3,821	1,874
Less - participation by the office of the chief scientist	1,143	639
Research and development, net	2,678	1,235
Selling and marketing expenses	4,046	3,223
General and administrative expenses	2,082	1,596
Amortization of intangible assets	556	160
Other expenses	-	630
Total operating expenses	**9,362**	**6,844**
Operating loss	**(4,395)**	**(4,331)**
Interest income, net	185	244
Other income	506	-
Loss before income taxes	**(3,704)**	**(4,087)**
Income taxes	$ (12)	(21)
Result before minority interest	**(3,716)**	**(4,108)**
Minority interest	(8)	135
Equity in losses of an affiliated company	$ (958)	$ (276)
Net loss	**$ (4,682)**	**$ (4,249)**
Net loss per share - basic and diluted	(0.29)	(0.29)
Weighted average number of shares - basic and diluted	15,983,453	14,687,138

(*) Restated - see Note 3

Condensed Interim Consolidated Statements of Operations

Three months ended June 30, 2001	2000(*)	Year ended December 31, 2000
(Unaudited)		(Audited)
$ 4,160	$ 3,588	$ 13,389
500	89	590
388	267	1,095
209	48	428
$ 5,257	**$ 3,992**	**$ 15,502**
2,146	1,885	7,031
20	10	89
-	-	-
64	9	332
2,230	**1,904**	**7,452**
3,027	**2,088**	**8,050**
1,886	898	4,913
646	454	1,031
1,240	444	3,882
1,740	1,831	7,437
993	956	3,755
278	120	465
-	200	599
4,251	**3,551**	**16,138**
(1,224)	**(1,463)**	**(8,088)**
55	281	809
6	-	-
(1,163)	**(1,182)**	**(7,279)**
13	(75)	58
(1,150)	**(1,257)**	**(7,221)**
3	91	250
$ (316)	$ (90)	$ (754)
$ (1,463)	**$ (1,256)**	**$ (7,725)**
(0.09)	(0.09)	(0.52)
15,983,453	14,687,138	14,804,942



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Condensed Interim Consolidated Statements Of Shareholders' Equity

In Thousands Of US Dollars

Condensed Interim Consolidated Statements Of Shareholders' Equity

	Number of shares	Share capital	Additional paid-in capital	Deferred compensation	Accumulated deficit	Other comprehensive income -currency translation adjustments	Total shareholders' equity
Balance as of January 1, 2000	14,458,953	44	37,645	(306)	(9,070)	-	28,313
Issuance of shares in consideration for equity interest in subsidiaries, net of issuance costs of $60	398,715	1	3,562	-	-	-	3,563
Exercise of options	120,134	-	145	-	-	-	145
Deferred compensation	-	-	960	(960)	-	-	-
Amortization of deferred compensation	-	-	10	406	-	-	416
Currency translation adjustment	-	-	-	-	-	9	9
Net loss	-	-	-	-	(7,725)	-	(7,725)
Balance as of December 31, 2000 (audited)	14,977,802	45	42,322	(860)	(16,795)	9	24,721
Issuance of shares in consideration for equity interest in subsidiaries, net of issuance costs of $84	785,000	2	3,299	-	-	-	3,301
Amortization of deferred compensation	-	-	-	160	-	-	160
Currency translation adjustment	-	-	-	-	-	89	89
Net loss	-	-	-	-	(4,682)	-	(4,682)
Balance as of June 30, 2001 (unaudited)	15,762,802	47	45,621	(700)	(21,477)	98	23,589

	Six months ended June 30, 2001	Six months ended June 30, 2000(*)	Year ended December 31, 2000
Comprehensive income:	**(Unaudited)**		**(Audited)**
Net loss	$ (4,682)	$ (4,249)	$ (7,725)
Currency translation adjustment	89	56	9
	$ (4,593)	$ (4,193)	$ (7,716)

(*) Restated - see Note 3

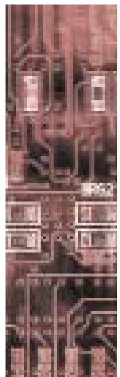
Condensed Interim Consolidated Statements Of Cash Flows

Condensed Interim Consolidated Statements Of Cash Flows

In Thousands Of US Dollars

Cash flows from operating activities	Six months ended June 30, 2001 (Unaudited)	Six months ended June 30, 2000(*) (Unaudited)	Year ended December 31, 2000 (Audited)
Net loss	$ (4,682)	$ (4,249)	$ (7,725)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of deferred compensation	160	220	416
Gain on sale of fixed assets	(6)	-	-
Gain on sale of investment in subsidiary	(500)	-	-
Amortization of intangible assets	556	160	465
Depreciation	426	148	593
Provision for severance pay	(157)	(6)	61
Minority interest	8	(135)	(218)
Equity in losses by an affiliated company and others	958	276	754
Translation adjustments and others	(27)	47	12
Changes in assets and liabilities			
Decrease (increase) in trade accounts receivables	1,061	337	(770)
Increase in other receivables and Prepaid expenses	(916)	(585)	(1,073)
Increase in inventories	(268)	(1,477)	(1,507)
Increase in trade accounts payables	572	309	81
Decrease in other current liabilities	348	(130)	(787)
Increase (decrease) in deferred revenues	(516)	2,584	2,067
Net cash used in operating activities	(2,983)	(2,501)	(7,631)
Cash flows from investing activities			
Decrease (increase) in short-term investments, net	(35)	5,213	10,376
Investment in subsidiaries and affiliates	(76)	(3,161)	(3,399)
Proceed from sale of fixed assets	14	-	-
Purchase of plant and equipment	(1,317)	(632)	(2,627)
Net cash generated from (used in) investing activities	(1,414)	1,420	4,350
Cash flows from financing activities			
Issuance of shares and exercise of options	-	145	145
Increase (decrease) in short-term credit	(1,064)	413	1,551
Long-term loans received	2,982	-	2,528
Repayment of long-term loans	(636)	(348)	(1,660)
Net cash generated from financing activities	1,282	210	2,564
Decrease in cash and cash equivalents	$ (3,115)	$ (871)	$ (717)
Cash and cash equivalents at beginning of period	15,598	16,315	16,315
Cash and cash equivalents at end of period	$ 12,483	$ 15,444	$ 15,598
Non-cash transactions			
Issuance of shares in consideration for equity interest in Subsidiaries	3,385	3,623	3,563

(*) Restated - see Note 3



Condensed Interim Consolidated Statements Of Cash Flows (Cont.)

In Thousands Of US Dollars

Acquisition of subsidiaries		Year ended December 31, 2000 (Audited)
Assets and liabilities of subsidiaries upon acquisition:	$	(123)
Working capital (excluding cash and cash equivalents)		(896)
Fixed assets		(3,861)
Intangibles		1,083
Long-term liabilities		(16)
Minority interests in investee companies upon acquisition		3,623
Fair value of Company shares issued	$	(190)

Notes To The Condensed Interim Consolidated Financial Statements

Note 1 - General

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the six months and three months ended June 30, 2001, are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. Although the Company believes that the disclosure presented herein is adequate to make the information presented not misleading, it is suggested that these condensed interim consolidated financial statements be read in conjunction with the audited financial statements and footnotes as of and for the year ended December 31, 2000.

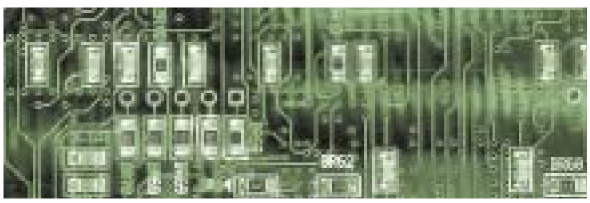
Note 2 - Significant Accounting Policies

The significant accounting policies followed the preparation of these financial statements are identical to those followed in the preparation of the latest annual and interim financial statements.

Note 3 - Prior Period Restatement

In previously issued unaudited condensed interim consolidated financial statements, the acquisition of SoftChip Technologies (2000) Ltd. and SoftChip Israel Ltd. was accounted for under the pooling of interests method of accounting. These unaudited condensed interim consolidated financial statements have been restated to account for the acquisition as a purchase.

During the fourth quarter of 2000, the Company adopted the guidance of SAB101.



The effect of the above-mentioned restatements on the results for the six months and three months ended June 30, 2000 are as follows:

	Six months ended June 30, 2000 (Unaudited)	Three months ended June 30, 2000 (Unaudited)
Net loss - as previously reported	$ (2,857)	$ (1,325)
Effect of purchase accounting	(100)	(60)
Effect of SAB 101 adoption	(1,292)	129
Net loss - as currently reported	$ (4,249)	$ (1,256)

Note 4 - Acquisition Of The Intercard Group

On February 5, 2001, the minority shareholders of the InterCard Group exercised their put option to sell their remaining 49% interest in the InterCard Group to the Company for Company's shares. The Company has allotted 785,000 new shares to be held by a trustee and distributed to the former InterCard Group shareholders over seven months. The acquisition was accounted for by the Company as a purchase, and the Company has allocated the purchase price, in excess amount attributed to tangible assets acquired, of approximately $3,380 to intangibles being customer base which are currently being amortized over seven years on a straight-line basis.

Note 5 - Other Income

During the first quarter of 2001, e-Smart Systems Inc. ("e-Smart"), in which the Company has a 50% equity interest, exercised its option to transfer the operations of City Smart Ltd. from the Company to e-Smart, in consideration for $500.

Note 6 - New Accounting Standard

In June 2001, the Financial Accounting Standards Board authorized the issuance of Statement of Financial Accounting Standards ("SFAS") SFAS No. 142, Goodwill and Other Intangible Assets.

Under this standard, goodwill will no longer be amortized on a straight line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise.

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 although goodwill on business combinations consummated after July 1, 2001 will not be amortized. On adoption the company may need to record a cumulative effect adjustment to reflect the impairment of previously recognized intangible assets. In addition, goodwill on prior business combinations will cease to be amortized. Had the company adopted SFAS No. 142 at January 1, 2000 the company would not have recorded a goodwill amortization charge of $465. The Company has not determined the impact that this Statement will have on intangible assets or whether a cumulative effect adjustment will be required upon adoption.

Six months ended June 30, 2001
Compared to six months ended June 30, 2000

The first six months of 2001 resulted in a significant decrease in operating expenses with results that satisfy Management's expectations for the first half of the year. This trend supports the Management's anticipation to be profitable in the fourth quarter of 2001.

Total Revenues

Revenue increased 86% to $ 9.33 million for the six months ended June 30, 2001 from $ 5.02 million for the same period in 2000.

Revenues from Products. Revenues from products increased 83% to $7.88 million for the six months ended June 30, 2001 from $4.30 million for the same period in 2000.

Revenues from nonrecurring engineering. Revenues from nonrecurring engineering increased 462% to $500,000 for the six months ended June 30, 2001 from $89,000 for the same period in 2000.

Revenues from licensing and transaction fees. Revenues from licensing and transaction fees increased 29% to $690,000 for the six months ended June 30, 2001 from $534,000 for the same period in 2000.

Revenues from customer services and technical support. Revenues from customer services and technical support increased 187% to $258,000 for the six months ended June 30, 2001 from $90,000 for the same period in 2000.

Total Cost of revenues

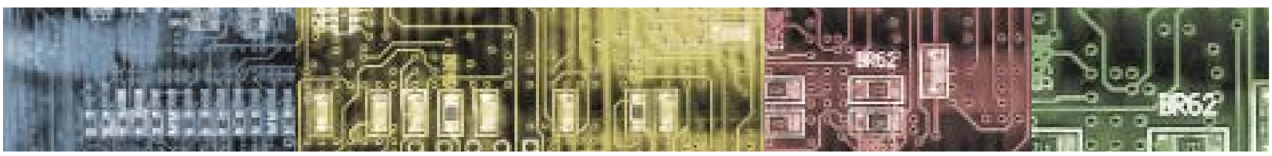
The cost of revenues increased 74% to $4.36 million for the six months ended June 30, 2001 from $ 2.50 million for the same period in 2000.

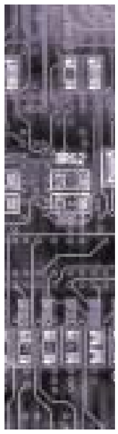
Cost of products.

Cost of products revenues increased 72% to $4.24 million for the six months ended June 30, 2001 from $2.46 million for the same period in 2000 due to the increase in product sales.

Cost of non-recurring engineering. Cost of non-recurring engineering revenues decreased 26% to $20,000 for the six months ended June 30, 2001 from $27,000 for the same period in 2000.

Cost of licensing and transaction fees. Cost of licensing and transaction revenues was zero for the six months ended June 30, 2001 and for the same period in 2000.





Cost of customer services and technical support. Cost of customer services and technical support increased 506% to $97,000 for the six months ended June 30, 2001 from $16,000 for the same period in 2000.

Total gross profit

Gross profit increased 98% to $4.97 million for the six months ended June 30, 2001 from $ 2.51 million for the same period in 2000.

The gross margin increased to 53% for the six months ended June 30, 2001 from 50% for the same period in 2000. The gross margin for our products increased to 46% for the six months ended June 30, 2001 from 43% for the same period in 2000. Our overall gross margin increased from 50% to 53% for the six months ended June 30, 2001, primarily as a result of decreased cost of revenues of products and higher percentage of revenues from non-recurring engineering which are characterized by a low cost of revenues.

Operating expenses

Operating expenses were decreased significantly by 22% for the last three consecutive quarters to a level of $ 4.25 million for the second quarter of 2001 from a level of $5.45 million in the fourth quarter of 2000. These results demonstrate the company's clear trend towards becoming profitable.

Research and development. Research and development expenses decreased to $1.89 million for the second quarter ended June 30, 2001 from $1.94 million for the first quarter ended March 31, 2001. Research and development expenses increased 104% to $3.82 million for the six months ended June 30, 2001 from $1.88 million for the same period in 2000. Research and development expenses, net of payments received from the Office of the Chief Scientist, increased 117% to $2.68 million for the six months ended June 30, 2001 from $1.24 million for the same period in 2000.

This increase was primarily due to an increase of $809,000 related to the hiring of additional research and development staff, an increase of $627,000 in subcontracting expenses and an increase of $345,000 in materials expenses. The hiring of additional staff and increased subcontracting expenses were incurred in part in connection with the development of the company's future line of products and in connection with the adaptation of our products to proposed standards of the International Standards Organization for contactless smart cards. Research and development expenses, stated as a percentage of revenues, increased to 41% for the six months ended June 30, 2001 from 37% for the same period in 2000.

Marketing and selling. Marketing and selling expenses decreased to $1.74 million for the second quarter ended June 30, 2001 from $2.31 million for the first quarter ended March 31, 2001. Marketing and selling expenses increased to $4.05 million for the first six months ended June 30, 2001 from $3.22 million for the same period in 2000. Marketing and selling expenses increased primarily due to $281,000 related to increase of marketing and advertising and to the hiring of additional sales and marketing staff that was needed in order to execute our globalization strategy. The increase in marketing and selling expenses was also due to an increase of $501,000 which was done in the first three months of 2001 in order to take caution activities by a write off of an account receivable in an amount of $501,000. Marketing and selling expenses, stated as a percentage of revenues, decreased to 43% for the six months ended June 30, 2001 from 64% for the same period in 2000.

General and administrative. General and administrative expenses decreased to $993,000 for the second quarter ended June 30, 2001 from $1.09 million for the first quarter ended March 31, 2001. General and administrative expenses increased 30% to $2.08 million for the six months ended June 30, 2001 from $1.60 million for the same period in 2000. This increase was primarily due to the $528,000 related to the hiring of additional general and administrative staff that was needed in order to accomplish our globalization strategy. General and administrative expenses as a percentage of revenues decreased to 22% for the six months ended June 30, 2001 from 32% for the same period in 2000.

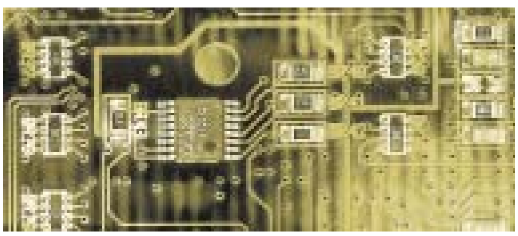
Amortization of intangible assets. Amortization of intangibles assets increased 248% to $556,000 for the six months ended June 30, 2001 from $160,000 due to the amortization of intangible assets in connection with our acquisitions of SoftChip and the InterCard group. Intangible assets are currently being amortized over five years for SoftChip and seven years for the InterCard group.

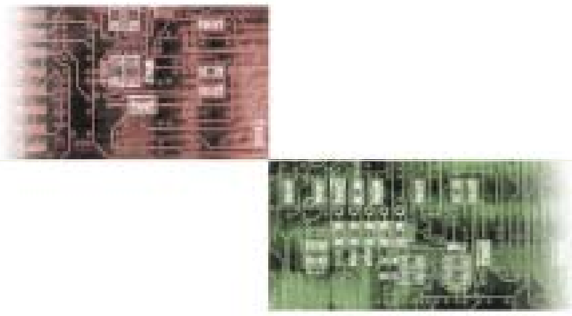
Operating Loss

The operating loss increased in the six month ended June 2001 by 1 % to $4.40 million from $ 4.33 million in the same period in 2000, as the result of the company meeting her strategy to increase the R&D and continuing in the establishing a marketing net as part of the use of proceeds from the 1999 German listing.

Financing income and expenses.

Financing income, net. The net financing income decreased 24% to $185,000 for the six months ended June 30, 2001 from $244,000 for the same period in 2000. The net financing income is due to interest earned on the proceeds from our 1999 initial public offering.





Other income (expenses)

Other income (expenses) decreased 180% to an income of $506,000 for the six months ended June 30, 2001 from an expenses of $630,000 for the same period in 2000. In 2001 we recorded a gain of $500,000 during the six months ended June 30, 2001 due to e-Smart exercising the option to purchase City-Smart's activity. We incurred $630,000 during the six months ended June 30, 2000 due to legal and related expenses in connection with an arbitration proceeding with one of our distributors. We received a favorable award in this arbitration proceeding.

Net Loss

During the first six months of 2001, the company's net loss increased by 10% to $4.68 million from $4.25 million for the same period in 2000. The increase is primarily the result of a higher level of operating expenses during the first six months of 2001 which was needed in order to achieve the company's strategy, compared to the same period of 2000.

Cash Flow

For the cash flow from operating activities for the six months ended June 30, 2001, we used $2.98 million of cash in operating activities primarily due to our net loss of $4.68 million, from a $916,000 increase in other receivables and prepaid expenses and a $516,000 decrease in deferred revenues, partially offset by a $1.06 million decrease in trade receivables. In the same period in 2000, we used $2.50 million in operating activities primarily due to our net loss of $4.25 million and $1.48 million increase in inventories, partially offset by $2.58 million from an increase in deferred revenues. For the six months ended June 30, 2001, net cash used in investing activities was $1.41 million primarily due to $1.32 million in plant and equipment purchases. For the same period in 2000, net cash provided by investing activities was $1.42 million primarily due to a $5.21 million decrease in short-term investments, partially offset by $3.16 million in investments in subsidiaries and affiliated which is mainly our cash contribution to our new 50% joint venture with a subsidiary of Cheung Kong Infrastructure and $632,000 in equipment purchases. For the six months ended June 30, 2001, net cash provided by financing activities was $1.28 million due to a $2.98 million long term loans received, partially offset by $1.06 million due to decrease in short term credit and from $636,000 repayment of long-term loans. For the same period in 2000, net cash provided by financing activities totaled $210,000 primarily due to a $413,000 increase in short term activities partially offset by $348,000 for repayment of long-term loans.

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Use of proceeds from IPO – August 31, 1999 – June 30, 2001

R&D	$2,497
Marketing	5,608
Establishment of JV and acquisition expenses	5,118
(Not including share swap)	
Manufacturing	2,355
Total	$15,578

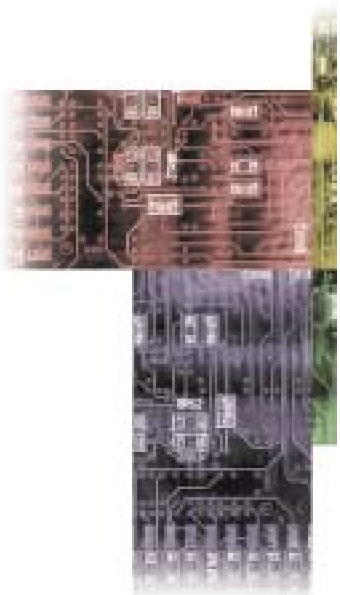
Number of employees

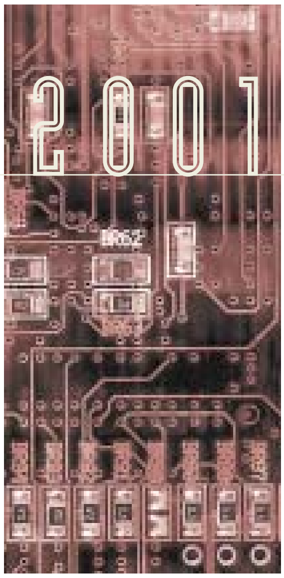
As of June 30, 2001 the company had 258 employees, for the same period in 2000 we had 255 employees. These numbers include employees of our subsidiaries and 50% joint venture, e-Smart. The breakdown of our employees by subsidiaries is as follows:

	OTI Group	
Subsidiary	**June 30, 2001**	**June 30, 2000**
On Track Innovations Ltd	65	69
Easy Park	11	11
SoftChip	13	13
OTI America Inc	12	12
OTI Africa	15	15
e-Smart	24	21
InterCard companies	118	113
Total	258	255

Subscription rights of Directors and Management

Name	**Numbers of options**
Oded Bashan	500,000
Ronnie Gilboa	-
Guy Shafran	70,000
Moshe Aduk	-
Nehemya Itay	-
Reuven Sela	45,000
Gal Shimoni	42,790
Ohad Bashan	120,000
Shulamith Shiffer	12,000
Felix Goedhart	12,000
Raanan Elran	12,000
Total	813,790

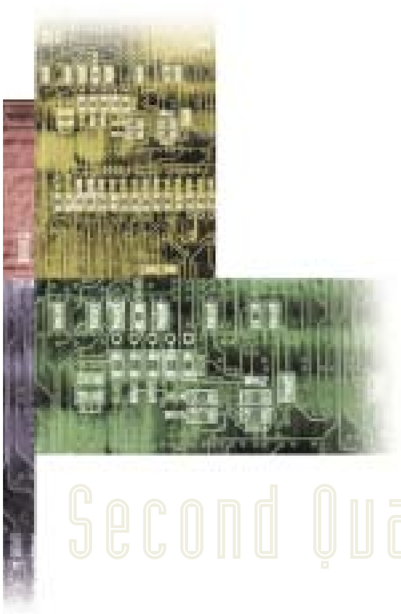




Numbers of shares held by Directors and Management

Name	Numbers of shares
Oded Bashan	953,680
Ronnie Gilboa	1,060,600
Guy Shafran	-
Moshe Aduk	672,480
Nehemya Itay	647,555
Reuven Sela	-
Gal Shimoni	-
Ohad Bashan	357,208
Shulamith Shiffer	-
Felix Goedhart	-
Raanan Elran	-
Astra	819,624
Total	4,511,147

This second quarter report contains forward-looking statements, which reflect management's best judgment based on factors currently known. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those in the statements included in this press release. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. OTI disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



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