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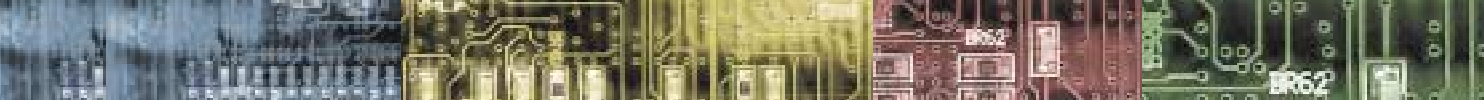
ON TRACK INNOVATIONS LTD.

Science - Non Fiction

Third Quarter Report 2001



Third Quarter

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Third Quarter Report 2001

2001

2001 Third 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 257 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. Our sales and marketing efforts are executed through our subsidiaries in America, Africa and Europe; and our joint venture in Asia, providing 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.

As the result of the overall worldwide economic situation the company will continue it's cost saving activities and will reconsider future activities in order to become, at least, operational profitable, in the second half of 2002.

Some of the major developments during the third quarter include:

- OTI Africa has entered into a distribution agreement with BureauFax Technologies (BFT), a leading payment systems integrator in Nigeria and a key player in launching smart cards in that country. BFT will focus on OTI's contactless microprocessor-based smart card solutions for secure payment and loyalty, gasoline management systems, and applications for the health care industry.
- OTI Africa has received orders from BP Zambia and BP Tanzania to install 26 FuelMaster stations servicing commercial customers to their networks. Thousands of additional vehicles are expected to be installed as a result. Additionally, both companies will install systems on-site for a number of prominent fleet customers, enabling them to use FuelMaster for refueling both at home and on the road.
- EasyPark Ltd. signed an agreement with "Ahuzot 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 and SmartStop are expanding 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.

- Gasoline Management System (GMS) will be launched in Bolivia with Isrex through Autotrack Bolivia, which will act as the systems integrator for the system. A first order has been delivered to equip five private gasoline stations and 400 vehicles.
- OTI Africa, together with BP Africa, has signed commitments with four prominent commercial fleet companies to join the FuelMaster network in South Africa, which have each enrolled over 600 company vehicles, for a total of approximately 2,750 vehicles added to the system. In particular, a pilot involving 1,000 vehicles of a major utility in South Africa, if successful, has the potential to expand to an additional 18,000 vehicles.
- EasyPark has been selected as a finalist for the SESAME 2001 award for Best Application - Transportation at the CARTES 2001 Trade Show.
- The Basel Project, the biometrics-based contactless smart card border-crossing system in Israel, has moved into the implementation design stage. As a result of the project's success it is likely that the Israeli Ministry of Defense (MOD) and the Israeli National Police will approve the microprocessor-based contactless smart card platform developed by OTI as the platform for a national ID card program.

Our Technology

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. Through our InterCard subsidiary, we also provide products based on other card technologies.

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;
- Our products are easy to install and maintain.

Our Products

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

Customized Products

- **OTI FAST.** Our OTIFAST 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.

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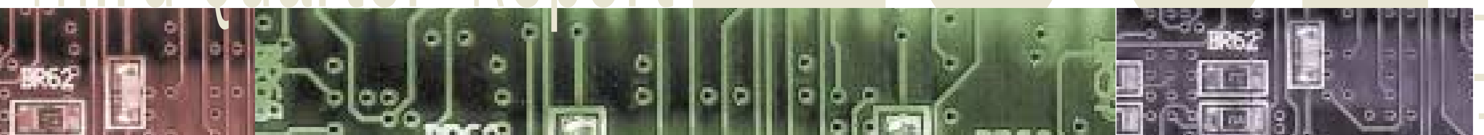
Complete Systems

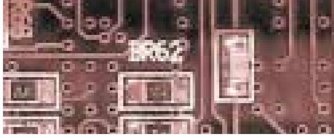
Complete Systems

- **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.





Third Quarter Report 2001
Condensed Interim Consolidated Balance Sheets

In Thousands Of US Dollars

Assets	September 30, 2001 (Unaudited)	December 31, 2000 (Audited)
Current assets		
Cash and cash equivalents	$ 9,427	$ 15,598
Short-term investments	1,921	1,885
Trade accounts receivables, net	3,001	4,458
Inventories	5,815	5,325
Prepaid expenses and other current assets	2,841	2,305
Total current assets	**23,005**	**29,571**
Investment in an affiliated company	**1,404**	**2,396**
Property, plant and equipment, net	**6,330**	**4,877**
Intangible assets, net	**5,939**	**3,396**
Severance pay deposits	**520**	**407**
Total assets	**$ 37,198**	**$ 40,647**
Liabilities and shareholders' equity		
Current liabilities		
Short-term debt and current portion of long-term debt	$ 3,660	$ 4,093
Trade accounts payables	4,015	3,329
Other current liabilities	2,570	2,765
Total current liabilities	**10,245**	**10,187**
Long-term liabilities		
Long term debt, less current portion	4,918	2,463
Deferred revenues	1,293	2,067
Severance pay	928	1,209
Total long-term liabilities	**7,139**	**5,739**
Shareholders' equity		
Share capital	47	45
Additional paid-in capital	45,621	42,322
Deferred compensation	(622)	(860)
Accumulated deficit	(25,299)	(16,795)
Other comprehensive income – currency translation adjustments	67	9
Total shareholder's equity	**19,814**	**24,721**
Total liabilities and shareholders' equity	**$ 37,198**	**$ 40,647**

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

Guy Shafran
Chief Financial Officer

Third Quarter Report 2001
Condensed Interim Consolidated Statements of Operations

Condensed

In Thousands Of US Dollars, except of share data

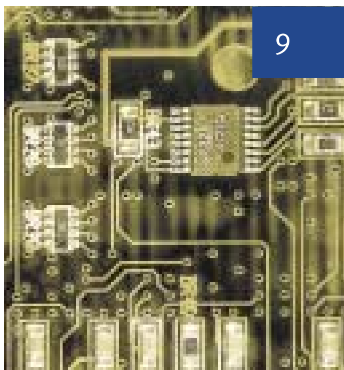
	Nine months ended September 30, 2001	2000(*)
	(Unaudited)	
Revenues		
Products	$ 12,820	$ 9,102
Non-recurring engineering	500	590
Licensing and transaction fees	1,144	804
Customer service and technical support	538	164
Total revenues	**$ 15,002**	**$ 10,660**
Cost of revenues		
Products	7,607	5,046
Non-recurring engineering	20	89
Licensing and transaction fees	-	-
Customer service and technical support	208	156
Total cost of revenues	**7,835**	**5,291**
Gross profit	**7,167**	**5,369**
Operating expenses		
Research and development	5,450	2,972
Less - participation by the office of the chief scientist	373	692
Research and development, net	5077	2280
Selling and marketing expenses	5,479	5,050
General and administrative expenses	3,168	2,416
Amortization of intangible assets	834	310
Other expenses	-	630
Total operating expenses	**14,558**	**10,686**
Operating loss	**(7,391)**	**(5,317)**
Interest income, net	244	538
Other income (expenses), net	186	-
Loss before income taxes	**(6,961)**	**(4,779)**
Income taxes	(19)	(57)
Result before minority interest	**(6,980)**	**(4,836)**
Minority interest	(22)	118
Equity in losses of an affiliated company	(1,502)	(605)
Net loss	**$ (8,504)**	**$ (5,323)**
Net loss per share - basic and diluted	$ (0.54)	$ (0.47)
Weighted average number of shares - basic and diluted	15,762,802	11,242,362

(*) Restated - see Note 3

Condensed Interim Consolidated Statements of Operations

Three months ended September 30, 2001	2000(*)	Year ended December 31, 2000
(Unaudited)		(Audited)
$ 4,941	$ 4,798	$ 13,389
-	501	590
454	270	1,095
280	74	428
$ 5,675	**$ 5,643**	**$ 15,502**
3,364	2,585	7,031
-	62	89
-	-	-
111	140	332
3,475	**2,787**	**7,452**
2,200	**2,856**	**8,050**
1,629	1,098	4,913
231	53	1,031
1398	1045	3,882
1,433	1,827	7,437
1,086	820	3,755
278	150	465
-	-	599
4,195	**3,842**	**16,138**
(1,995)	**(986)**	**(8,088)**
59	294	809
(320)	-	-
(2,256)	**(692)**	**(7,279)**
(7)	(36)	58
(2,263)	**(728)**	**(7,221)**
(14)	(17)	250
(544)	(329)	(754)
$ (2,821)	**$ (1,074)**	**$ (7,725)**
$ (0.18)	$ (0.10)	$ (0.52)
15,762,802	11,242,362	14,804,942

2001



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
Balance as of January 1, 2001	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	-	-	-	238	-	-	238
Currency translation adjustment	-	-	-	-	-	58	58
Net loss	-	-	-	-	(8,504)	-	(8,504)
Balance as of September 30, 2001 (unaudited)	15,762,802	47	45,621	(622)	(25,299)	67	19,814

	Nine months ended September 30, 2001	Nine months ended September 30, 2000(*)	Year ended December 31, 2000
Comprehensive income:	(Unaudited)	(Unaudited)	(Audited)
Net loss	$ (8,504)	$ (5,323)	$ (7,725)
Currency translation adjustment	67	(5)	9
	$ (8,437)	$ (5,328)	$ (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

	Nine months ended September 30, 2001	Nine months ended September 30, 2000(*)	Year ended December 31, 2000
	(Unaudited)	(Unaudited)	(Audited)
Cash flows from operating activities			
Net loss	$ (8,504)	$ (5,323)	$ (7,725)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of deferred compensation	238	337	416
Gain on sale of fixed assets	(6)	-	-
Gain on sale of investment in subsidiary	(500)	-	-
Amortization of intangible assets	834	310	465
Assets write-down	320	-	-
Depreciation	596	278	593
Provision for severance pay	(389)	41	61
Minority interest	22	(118)	(218)
Equity in losses by an affiliated company and others	1,502	605	754
Translation adjustments and others	(57)	(3)	12
Changes in assets and liabilities:			
Decrease (increase) in trade accounts receivables	1,245	(1,535)	(770)
Increase in other receivables and Prepaid expenses	(556)	(797)	(1,073)
Increase in inventories	(709)	(1,698)	(1,507)
Increase in trade accounts payables	765	944	81
Decrease in other current liabilities	(155)	(1,168)	(787)
Increase (decrease) in deferred revenues	(774)	2,326	2,067
Net cash used in operating activities	**(6,128)**	**(5,801)**	**(7,631)**
Cash flows from investing activities			
Decrease (increase) in short-term investments, net	(36)	4,983	10,376
Investment in subsidiaries and affiliates	(76)	(3,221)	(3,399)
Proceed from sale of fixed assets	14	-	-
Purchase of plant and equipment	(2,075)	(1,164)	(2,627)
Net cash generated from (used in) investing activities	**(2,173)**	**598**	**4,350**
Cash flows from financing activities			
Issuance of shares and exercise of options	-	145	145
Increase (decrease) in short-term credit	(307)	841	1,551
Long-term loans received	3,782	1,500	2,528
Repayment of long-term debt	(1,345)	(642)	(1,660)
Net cash generated from financing activities	**2,130**	**1,844**	**2,564**
Decrease in cash and cash equivalents	$ (6,171)	$ (3,359)	$ (717)
Cash and cash equivalents at beginning of period	15,598	16,315	16,315
Cash and cash equivalents at end of period	$ 9,427	$ 12,956	$ 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

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 nine months and three months ended September 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 nine months and three months ended September 30, 2000 are as follows.

	Nine months ended September 30, 2000 (Unaudited)	Three months ended September 30, 2000 (Unaudited)
Net loss - as previously reported	$ (4,160)	$ (1,303)
Effect of purchase accounting	-	100
Effect of SAB 101 adoption	(1,163)	129
Net loss - as currently reported	$ (5,323)	$ (1,074)

Note 4 - Acquisition Of The Intercard Group

On February 5, 2001, the minority shareholders of the InterCard Group ("Sellers") 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 Sellers over seven monthly installments. 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 being amortized over seven years on a straight-line basis.

As of the balance sheet date, all 785,000 shares were released to the Sellers in respect of the first six installments. Subsequent to the balance sheet date, the Company restructured its seventh and final installments to the Sellers in the amount of approximately $793. Approximately $195 was paid to the Sellers in cash, and approximately $595 was granted to the Company as a loan, to be repaid over 3 years and bearing interest at 6% per annum. As security for payment of the loan, the Company has pledged 18% of its shares in the InterCard group to the Sellers. These shares will be gradually released as the loan is paid. The pledge will terminate upon complete payment of the loan.

Note 5 - 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 as of 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.

Managemant Discussion And

Nine months ended Septembere 30, 2001 Compared to Nine months ended Septembere 30, 2000

Nine months ended September 30, 2001
Compared to Nine months ended September 30, 2000

The first nine months of 2001 resulted with a significant decrease in operating expenses in the last four consecutive quarters, which shows the managements continued efforts in cost reduction which is vital due to the global financial situation.
The company is expecting an increase in annual revenues by approximately 40% over the last year's revenues of $15 million and to achieve profitability, at least in the operational activities, in the second half of 2002.

Total Revenues

Revenue increased 41% to $ 15.002 million for the nine months ended September 30, 2001 from $ 10.660 million for the same period in 2000.

Revenues from Products. Revenues from products increased 41% to $12.82 million for the nine months ended September 30, 2001 from $9.102 million for the same period in 2000.

Revenues from non-recurring engineering. Revenues from non-recurring engineering decreased 15% to $500,000 for the nine months ended September 30, 2001 from $590,000 for the same period in 2000.

Revenues from licensing and transaction fees. Revenues from licensing and transaction fees increased 42% to $1.144 million for the nine months ended September 30, 2001 from $804,000 for the same period in 2000.

Revenues from customer services and technical support. Revenues from customer services and technical support increased 228% to $538,000 for the nine months ended September 30, 2001 from $164,000 for the same period in 2000.

Total Cost of revenues

The cost of revenues increased 48% to $7.835 million for the nine months ended September 30, 2001 from $ 5.291 million for the same period in 2000.

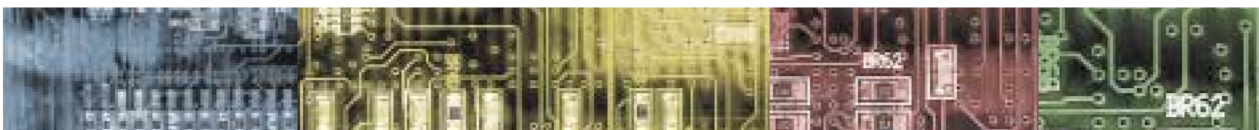
Cost of products.

Cost of products revenues increased 51% to $7.607 million for the nine months ended September 30, 2001 from $5.046 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 78% to $20,000 for the nine months ended September 30, 2001 from $89,000 for the same period in 2000.

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

Cost of customer services and technical support. Cost of customer services and technical support increased 33% to $208,000 for the nine months ended September 30, 2001 from $156,000 for the same period in 2000.



Total gross profit

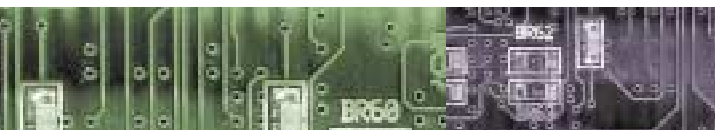
Gross profit increased 33% to $7.167 million for the nine months ended September 30, 2001 from $ 5.369 million for the same period in 2000.
The gross margin decreased to 48% for the nine months ended September 30, 2001 from 50% for the same period in 2000. For our products our gross margin decreased to 41% for the nine months ended September 30, 2001 from 45% for the same period in 2000. The decrease in our overall gross margin was primarily due to the change in our revenue mix compared with the same period in 2000, which contains a relatively higher percentage of OEM products and a lower percentage of systems products.

Operating expenses

Operating expenses were decreased significantly by 23% for the last four consecutive quarters to a level of $ 4.195 million for the third quarter of 2001 from a level of $5.452 million in the fourth quarter of 2000. These results reflects the company's continued effort in cost reduction. Considering the fact that unexpected events have occurred in the nine months ended September 30, 2001, in which: changes that have occurred in the Office of the Chief Scientist caused a reduction of the participation of the Office of the Chief Scientist[2] and the company recorded a one time write-off of an account receivable in amount of $501,000, the actual reduction compared to the same period in 2000 was much bigger.

Research and development. Research and development expenses decreased to $1.629 million for the third quarter ended September 30, 2001 from $1.935 million for the first quarter ended March 31, 2001. Research and development expenses increased 83% to $5.45 million for the nine months ended September 30, 2001 from $2.972 million for the same period in 2000. Research and development expenses, net of payments received from the Office of the Chief Scientist, increased 123% to $5.077 million for the nine months ended September 30, 2001 from $2.280 million for the same period in 2000.
This increase was primarily due to an increase of $1.028 million related to the hiring of additional research and development staff, an increase of $866,000 in subcontracting expenses and an increase of $334,000 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 36% for the nine months ended September 30, 2001 from 28% for the same period in 2000.
In addition, research and development expenses, net increased as a result of a change in policy with the Office of Chief Scientist ("OCS") which decreased the OCS's participation in research and development expenses by approximately $1.0 million[2], this has affected our cash and operational profit in this amount.

Marketing and selling. Marketing and selling expenses decreased to $1.433 million for the third quarter ended September 30, 2001 from $2.306 million for the quarter ended March 31, 2001. Marketing and selling expenses increased 9% to $5.479 million for the first nine months ended September 30, 2001 from $5.050 million for the same period in 2000. The increase in



marketing and selling expenses primarily due to an increase of $501,000 in our provision for doubtful accounts in respect of one customer who is experiencing financial difficulties. Marketing and selling expenses, stated as a percentage of revenues, decreased to 37% for the nine months ended September 30, 2001 from 47% for the same period in 2000.

General and administrative. General and administrative expenses decreased to $1.086 million for the third quarter ended September 30, 2001 from $1.089 million for the first quarter ended March 31, 2001. General and administrative expenses increased 31% to $3.168 million for the nine months ended September 30, 2001 from $2.416 million for the same period in 2000. This increase was primarily due to the $401,000 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 21% for the nine months ended September 30, 2001 from 23% for the same period in 2000.

Amortization of intangible assets. Amortization of intangibles assets increased 169% to $834,000 for the nine months ended September 30, 2001 from $310,000 for the same period in 2000 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.

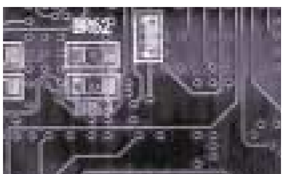
Other expenses. Other expenses were zero for the nine months ended September 30, 2001 from an expenses of $630,000 for the same period in 2000. We incurred $630,000 million during the nine months ended September 30, 2000 due to legal and related expenses in connection with an arbitration proceeding with one of our distributors. We received a favorable award in this arbitration proceeding.

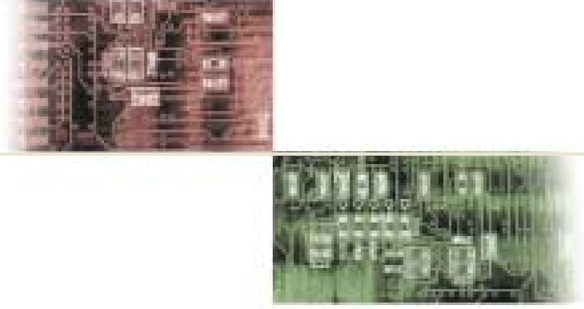
Operating Loss

The operating loss increased in the nine month ended September 2001 by 39 % to $7.391 million from $ 5.317 million in the same period in 2000, as the result of the company's strategy to increase R&D expenses and continuing in the establishment of a marketing net as part of the use of proceeds from the 1999 German listing.
Operating loss was considerably increased due to the reduction of the participation by the Office of the Chief Scientist in an amount of a $1.0 million[2] and a write-off of a bed debt of $501,000.

Interest income, net.

Interest income, net decreased 55% to $244,000 for the nine months ended September 30, 2001 from $538,000 for the same period in 2000. Interest income is due to interest earned on the proceeds from our 1999 initial public offering. Interest rates have been largely reduced worldwide in the last year.





Other income, net

Other income, net, were $186,000 for the nine months ended September 30, 2001 from an expenses of zero for the same period in 2000. We gain a profit of $500,000 million during the nine months ended September 30, 2001 due to e-Smart exercising the option to purchase City-Smart activity. We recorded a non-cash provision of $320,000 for the nine months ended September 30, 2001 in respect of the dissolution of our subsidiary InterCard Inc, which will enable us to further reduce our operating expenses without effecting our course of business.

Net Loss

During the first nine months of 2001, the company's net loss increased by 60% to $8.504 million from $5.323 million for the same period in 2000. The increase is primarily the result of an increase in operating expenses.

Over a $1.8 million of losses were as a result of three irregular business occurrences: $1.0 million of reduced participation of the Office of the Chief Scientist(2), $501,000 write-off of account receivable and $320,000 a write-off of historic investment of our subsidiary.

Cash Flow

For the cash flow from operating activities for the nine months ended September 30, 2001, we used $6.128 million of cash in operating activities primarily due to our net loss of $8.504 million, from a $774,000 decrease in deferred revenues and a $709,000 increase in inventories, partially offset by a $1.502 million of equity in losses by affiliated companies. In the same period in 2000, we used $5.801 million in operating activities primarily due to our net loss of $5.323 million and $1.698 million increase in inventories, partially offset by $2.326 million from an increase in deferred revenues. For the nine months ended September 30, 2001, net cash used in investing activities was $2.173 million primarily due to $2.075 million in plant and equipment purchases. For the same period in 2000, net cash provided by investing activities was $598,000 primarily due to a $4.983 million decrease in short-term investments, partially offset by $3.221 million of investments in subsidiaries and affiliated companies which is mainly our cash contribution to our new 50% joint venture with a subsidiary of Cheung Kong Infrastructure and $1.164 million in equipment purchases. For the nine months ended September 30, 2001, net cash provided by financing activities was $2.130 million due to a $3.782 million long term loans received, partially offset by $1.345 million repayment of long-term loans and a decrease of $307,000 in short-term credit. For the same period in 2000, net cash provided by financing activities totaled $1.844 million primarily due to a $1.5 million long-term loans received and an increase of $841,000 in short-term credit, partially offset by $642,000 due to repayment of long-term loans.

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

R&D	$2,781
Marketing	9,980
Establishment of JV and acquisition expenses (Not including share swap)	5,158
Manufacturing	2,997
Total	**$20,916**

Number of employees

As of September 30, 2001 the company had 257 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	**September 30, 2001**	**September 30, 2000**
On Track Innovations Ltd	70	69
Easy Park	13	11
SoftChip	14	13
OTI America Inc	13	13
OTI Africa	15	15
e-Smart	23	21
InterCard companies	109	113
Total	257	255

Number of shares held by Directors[1]

Name	Number of shares
Oded Bashan	953,680
Ronnie Gilboa	1,030,600

Investments

For the nine months ended September 30, 2001, we invested $2.075 million in fixed assets mainly in a manufacturing facility in Rosh-Pina. We expect to complete the facility during the fourth quarter in 2001.

2001

[1]The disclosure is restricted only to the company's board of directors members in accordance to the Neuer Markt Rules and Regulations.

Research and development activities

Recent developments:

1. On line electronic purse clearing system.
2. Banknotes Add value station.
3. Contactless only ISO thickness card.
4. Chip on air module.
5. Operating System mask that realizes ISO14443B most updated specs.
6. Upgrade of RSA OS to work Contactless (prototype).

Significance events subsequent to September 30, 2001

Termination of agreement by a customer

The company has been informed by a customer that it is terminating its agreement regarding the supply of smart cards. Contractual arrangements with this customer are significant in size for OTI, so the termination of said agreement will have considerable negative repercussions on the company's financial results for the year.

The company is in the opinion that it has fulfilled its contractual obligations towards the customer under said agreement. Furthermore, the company sees no legal basis for termination of said agreement by the customer. The company management is accordingly considering what measures can be undertaken against said termination of agreement and the extent to which any such measures may be expected to yield its financial results.

Office of the Chief Scientist(2)

Due to the changes that have occurred in the office of the chief scientist, the company recorded a loss in a sum of $1.0 million that affected her cash and operational profit in that amount and thus the company re-estimated and restated the results which she initially estimated based on her long past experience with the office of the chief scientist accordingly the first quarter in 2001 was changed in the amount of $497,000 and the second quarter of 2001 was changed in the amount of $504,000.

This third 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 third quarter report. 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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