ON TRACK INNOVATIONS LTD
Form 10-K
March 25, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2018**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from [ ] to [ ]

Commission file number **000-49877**

ON TRACK INNOVATIONS LTD.
(Name of registrant as specified in its charter)

Israel	**N/A**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Z.H.R. Industrial Zone

P.O. Box 32, Rosh Pina, Israel	**1210001**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number **+ 972-4-6868000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares, par value NIS 0.10 per share	**Nasdaq Capital Market**

Securities registered pursuant to Section 12(g) of the Act:

None.
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or emerging growth company. See definition of "accelerated filer," "large accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $53,689,616.

The number of shares of the registrant's Ordinary Shares outstanding on March 4, 2019, was 41,294,377.

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In this annual report, unless otherwise specified, all dollar amounts are expressed in United States dollars. In Note 2A to our consolidated financial statements, we explain the method of exchange rate calculations which we use.

As used in this annual report, the terms “we”, “us”, “our”, “the Company”, and “OTI” mean On Track Innovations Ltd. and our subsidiaries and affiliates, unless otherwise indicated.

This Annual Report on Form 10-K includes the registered and unregistered trademarks of the Company and other persons, which are the property of their respective owners.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this Annual Report on Form 10-K, or Annual Report, that are not historical facts are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as “believes,” “intends,” “plans” “expects,” “may,” “will,” “should,” “estimate,” “likely,” “f “anticipates” or the negative thereof or other variations thereon or comparable terminology, and similar expressions are intended to identify forward-looking statements. We remind readers that forward-looking statements are merely predictions and therefore are inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any actual future results, performance, levels of activity, or our achievements, or industry results, expressed or implied by such forward-looking statements. Such forward-looking statements may appear in Item 1 – “Business” and Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” as well as elsewhere in this Annual Report and include, among other statements, statements regarding the following:

- our expectations regarding the growth of the near-field communication, or NFC, market;

- the expected development and potential benefits of our existing or future products or our intellectual property, or IP;

- increased generation of revenues from licensing, transaction fees and/or other arrangements;

- future sources of revenue, ongoing relationships with current and future business partners, distributors suppliers, customers, end-user customers and resellers;

- our intention to generate additional recurring revenues, license and transaction fees;

- future costs and expenses and adequacy of capital resources;

- our intention to continue to expand our market presence via strategic partnerships around the globe;

- our expectations that revenues from our business will grow in the next years, and the expected reasons for that growth;

- our expectations regarding our short-term and long-term capital requirements;

our intention to continue to invest in research and development;

our outlook for the coming months and

information with respect to any other plans and strategies for our business.

The factors discussed herein, including those risk factors described in Item 1A-“Risk Factors”, and those expressed from time to time in our press releases or filings with the Securities and Exchange Commission, or the SEC, could cause actual results and developments to be materially different from those expressed in or implied by such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak and are made only as of the date of this filing.

Our business and operations are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this Annual Report. Except as required by law, we undertake no obligation to release publicly the result of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I

Item 1. Business.

General Overview

We are a fintech pioneer and a leading developer of cutting-edge secure cashless payment solutions providing global enterprises with innovative technology for almost three decades. We operate in two main segments: (1) Retail and Mass Transit Ticketing; and (2) Petroleum. In addition to our two reportable segments, certain products for the medical industry and other secure smart card solutions were classified under “Other” in segment analysis in previous reports. However, on December 3, 2018, we together with our wholly owned subsidiary, OTI Petrosmart (PTY) Limited, entered into an agreement with Smart Applications International Ltd., or SMART, to sell all of the assets related to our MediSmart division (for certain products for the medical industry) to SMART for $2.75 million in cash, or the MediSmart Transaction. The MediSmart Transaction closed on December 31, 2018 and therefore in this Annual Report we provide information only with respect to our two current segments, Retail and Mass Transit Ticketing; and Petroleum.

Our vision is to strengthen our global presence with innovative solutions and provide our customers with the best possible support in superior service and reliable advanced products.

Our IP portfolio includes registered patents and patent applications worldwide. Since our incorporation in 1990, we have built an international reputation for reliability and innovation, deploying many solutions for unattended retail, mass transit, banking, medical smart card, Internet of Payment Things, or IoPT, and the petroleum management industries. As described above, upon the closing of the MediSmart Transaction, we sold our intellectual property related to our medical smart card business.

We operate a global network of regional offices, distributors and partners to support various solutions deployed across the globe.

We focus on our core business of providing innovative cashless payment solutions based, among other things, on our innovative contactless NFC technology.

We were incorporated under the laws of the State of Israel on February 15, 1990, under the name of De-Bug Innovations Ltd., with unlimited duration. Our name was changed to On Track Innovations Ltd. on July 8, 1991. We are registered with the Israeli Registrar of Companies, under registration number 52-004286-2 and our Ordinary Shares are traded in the Nasdaq Capital Market, or Nasdaq, under the symbol OTIV.

Our Markets

We provide cashless payment solutions for three major vertical markets:

1. Retail and Mass Transit Ticketing

a. Self-Service (Unattended) Retail, Internet of Payment Things (IoPT) and Wearables

Self-Service (Unattended) Retail - NFC and contactless technologies are embraced globally to create cashless retail environments known as self-service or unattended - a type of retail business where customers help themselves with respect to the products or services they wish to purchase, using different payment methods such as NFC, contactless, chip cards and magnetic strip (magstripe) to accept the payment. Examples of business models that permit their customers an aspect of self-service include vending, laundromats, kiosks, gaming, banking, mass transit, electric vehicle charging points and self-service (self-checkout).

As one of the pioneers of cashless payment technology, we have been working closely with companies in diverse industries and markets to design industry-tailored solutions that enable our customers to achieve their goals more efficiently.

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Internet of Payment Things (IoPT) and Wearables – Wearable fintech technologies have become a modern trend. Today, it is common to find wearable technologies such as wristbands, watches or jewelry that are not only fashion garments but can also be linked to a smartphone and can measure a person's heartbeat and footsteps.

We believe that the next development of wearables will also allow cashless payment. Our expertise in minimizing the foot print of NFC payment devices allows us to offer manufacturers a way to easily turn their existing product into a pay enabled cashless device. We call this unique capability "PayEnable" and we intend to market products that include our technology with the "PayEnabled by OTI" mark.

Our goal is that pay-enabling a product will be cost-effective and will require no expertise or special tooling from the merchant or the consumer. PayEnabled devices will support contactless payment similar to pre-paid, debit and credit cards. Additionally, PayEnabled products will also be able to support mass transit ticketing, e-coupons, loyalty programs and healthcare applications, and could also be used for proximity marketing (in-store promotions) and product authenticating (brand anti-counterfeiting).

We manage our cashless payment solutions for the retail market worldwide from our headquarters in Israel.

b. Mass Transit Ticketing

Mass Transit Ticketing – The constantly growing need for mass transit ticketing systems and services, together with the migration to contactless smart cards for mass transit payments, has led to the development of a ticket sales unattended and attended mass transit ticketing system by our wholly-owned Polish subsidiary ASEC S.A. (which does business under the name OTI Europa), or ASEC, initially for the market in Poland.

The system is comprised of attended and unattended point-of-sales, or POS, including ticket vending machines and terminals, and is fully managed by a back-office solution. ASEC provides system design, installation, management and on-going system maintenance services on a full end-to-end turn-key service basis.

Our solutions for the mass transit ticketing market in Europe are managed by ASEC.

2. Petroleum

EasyFuel Plus® is OTI’s scalable automated fuel management and payment solution aimed at ensuring that the right amount of the right type of fuel is dispensed into the right vehicle. Wireless, cashless, cardless and paperless, EasyFuel Plus® is based on OTI’s state of the art contactless smart card technology platform, providing customers with maximum flexibility and security.

Escalating fuel costs demand that customers introduce more stringent controls when refueling at both onroad and home base locations. EasyFuel Plus® addresses the needs of the Business to Business sector of the market by enabling customers to control and manage the refueling process against a customizable set of business rules, whilst automatically capturing transaction information, including odometer and/or engine operating hours.

The EasyFuel Plus® solution can also be leveraged to address the needs of private motorists by automating the refueling process and serving as a platform to engender customer loyalty.

In order to expedite and maintain the most up-to-date integration to EasyFuel Plus®, we utilize our VIS software application, which is hosted on our VIS Site Controller (a combined hardware and software controller). The VIS application controls all aspects of the Automatic Vehicle Identification, or AVI, hardware and software, along with implementing support for the pump controller’s third-party interface specification. Referred to as the “Universal Integration Approach”, this is a differentiating feature of OTI PetroSmart’s offering.

As a service provider to leading oil companies in respect of their respective AVI program, OTI PetroSmart has developed a back-office suite over the years to automate a wide range of processes and to provide tools for management of installation, maintenance, and reporting of the AVI system.

OTI PetroSmart, a wholly owned subsidiary of OTI, has operated as OTI’s Global Value Added Reseller, or VAR, for the petroleum product line since 2013.

Our Products

Below are the details of our portfolio for each of the above-mentioned vertical markets.

<u>OTI Readers – UNO + TRI</u>O

We supply NFC and contactless payment reader products and solutions. Our products and solutions are approved by Underwriters Laboratories, Inc., or UL, and the U.S. Federal Communications Commission, or FCC, and certified by MasterCard TQM (Terminal Quality Management). Our reliability and performance are based on more than a quarter of a century of experience with NFC and contactless solutions.

Our readers are certified by the leading card associations, including, amongst others, EMVCo, Visa, MasterCard, Amex, Discover and Interac, and are compatible as well for use with various NFC mobile payments solutions such as Apple Pay™, Google Pay™ (previously known as Android Pay), Samsung Pay™, MIFARE™, FeliCa™ and others. EMVCo modular meets the requirements of different applications and platforms and saves certification implementation and reduces the cost and time of any EMVCo project.

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Below you can find a description of our principal OTI Readers:

OTI UNO Series **– UNO-6, UNO-8, UNO-Plus**

OTI UNO is a single interface and contactless reader packed in an ultra-compact form-factor. *Uno* is the ideal solution for meeting the complete range of NFC cashless payment industry requirements. The reader, which supports the major card associations' applications as well as wallets such as Apple Pay™, Google Pay™, Samsung Pay™ and was designed specifically for attended and unattended retail environments. *Uno*'s unique form-factor and features enable easy integration and installation in unattended self-service payment stations, including Automatic Teller Machines, or ATMs, Automatic Vending Machines, or AVMs, electric vehicle charging stations ticket vending machines, toll roads, gaming machines, kiosks, access control, mass transit gates and more.

The OTI UNO range is currently available in 3 models:

UNO-6 – EMV

UNO-8– EMV modular + FeliCa + P2P

UNO-Plus– EMV modular + FeliCa + P2P + Display

OTI Trio

OTI TRIO is an NFC and contactless reader built specifically for the unattended machine market, such as vending machines, and provides quick and easy support for cashless payments.

OTI TRIO offers convenient three-in-one cashless payment card options: magnetic stripe (swipe), contact (chip) and contactless (tap), in one small and stylish package. With modular design for easy installation and multiple connection options, the *OTI TRIO* is ideal for vending, pay-at-the-pump, and unattended payment services.

The ***OTI TRIO*** is optimized to read data from a variety of sources, including NFC enabled phones, all types of credit cards, contactless key fobs and smart stickers that comply with ISO/IEC 14443 type A, B and MIFARE™.

The reader's LCD display, LEDs and buzzer provide users with on-the-spot transaction confirmation and clear interactive feedback.

The **OTI TRIO** is also available in partial configurations including:

Tap + Swipe (Contactless + Magstripe)

Tap only (Contactless)

OTI Interno

The ***OTI Interno*** global original equipment manufacturer, or OEM, reader module with integrated antenna is a compact and cost-effective contactless card reader board, designed for easy integration into mass transit validators and terminals.

Designed for seamless and simple OEM integration, the ***OTI Interno*** includes a full-featured development environment, preloaded on-board payment applications (MasterCard, PayPass, Visa, PayWave, etc.) and smart or transparent mode options. Delivering price-performance, the ***OTI Interno*** supports contactless payments and loyalty programs.

Payment Gateways and Machine-to-Machine (M2M) Controllers

Controllers and gateways are hardware devices that manage or direct the flow of data between two machines and are used to "control" a peripheral device (*e.g.*, a vending machine). OTI has a range of controllers and gateways that provide secured and certified access to payment service providers which enable cashless payment acceptance, connectivity and cloud-based management for machines.

OTI TeleBox– M2M Telemetry Controller

The ***OTI TeleBox*** is a machine-to-machine, or M2M, controller designed to enable communication between machines, particularly vending machines, kiosks and meters via various optional communication methods, allowing operators to easily remotely manage and be notified about a specific machine or the entire fleet.

The ***OTI TeleBox*** serves three main functionalities:

M2M connectivity using cellular modem, Ethernet or WiFi;
Host for connected devices such as card readers, PIN pad, camera, barcode reader, etc.; and
A communication channel to the vending machine controller using the major protocols that are in use by the unattended vending, kiosk and pulse machine industries.

The ***OTI TeleBox*** supports a wide range of configurations while supporting optional hardware like backup batteries, external memory extension using SD card, mini USB connection, onboard memory and more.

OTI GoBox – Gateway, Payment and Multimedia Services Enabler for Machines

OTI GoBox is a highly modular, powerful and scalable M2M cashless payment and telemetry gateway, featuring advanced connectivity, processing power and multimedia functionality.

OTI GoBox is designed for unattended retail machine operators who require a modular and powerful M2M gateway with enough processing power to stream Full-HD media and run either Linux or Android. *GoBox* is one of the most versatile and easy-to-integrate M2M gateway units available today.

OTI GoBox can collect and transmit inputs from different components of the machine such as sensors, all types of serial payment acceptance devices like readers, security devices such as PIN pads, inventory events, security and anti-vandalism events, operation transaction events, and data collection devices like QR-Code scanners and more.

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Payment and Management Solutions for Vending, Kiosk and Coin-op Pulse Machines

otiMetry – Vending Telemetry Solution

otiMetry is a modular and cost-effective telemetry solution for smart vending which also enables cashless payments. It is a complete system designed for the unattended vending machine market.

otiMetry incorporates telemetry, sales, operations, and marketing into an affordable all-inclusive solution that makes any vending business a smart and interactive one, with real-time online management capabilities and alerts.

OTI's ***otiMetry*** solution is a modular telemetry system which includes:

Cashless Reader Hardware – *OTI UNO* or *OTI Trio* readers
M2M Controller/Gateway – enables connectivity and M2M communications (TeleBox/GoBox)
TMS (Terminal Management System) – a pre-integrated cloud service that is responsible for remote terminal management
Telemetry – Cloud-based software which provides all the data insights required to turn a vending operation into a smart vending business

otiMetry supports the entire business lifecycle management and includes:
Cashless payment
Online terminal and vending machine remote management
Telemetry information such as cash, stock levels, alerts, route planning, and business optimization.

otiMetry offers a modular and scalable approach supporting an easy method for adding and removing modules. Another unique feature is that the system is based on an open platform allowing integrators to add their own modules into the system.

otiKiosk – Unattended Self-Checkout Kiosk Payment Solution

otiKiosk is a cashless payment acceptance and remote management solution for kiosks and self-service environments. ***otiKiosk*** provides kiosk operators with an easy and affordable way to integrate a pre-certified EMV payment acceptance solution into their system, which includes remote management of the kiosk's hardware and software.

otiKiosk combines the following components into an integrated solution:

Cashless Reader Hardware – ***OTI UNO*** or ***OTI Trio*** readers
otiKiosk **Client** – Windows-based application integrating between kiosk software, gateway, and the cashless reader to support the payment process and the payment functionality for the kiosk system integrator
otiKiosk **TMS** (Terminal Management System) – a pre-integrated cloud service that is responsible for remote terminal management

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otiPulse – Cashless Payment Solution for Coin-Operated Pulse Machine

otiPulse is a modular and cost-effective cashless payment solution for pulse operated machines, such as:

- Laundromats
- Game & Prize Machines
- Air and Vacuum machines
- Lockers and restrooms
- Car wash
- Amusement rides
- Massage chairs

otiPulse is a complete system for the unattended pulse machine market. *otiPulse* adds cashless payment to coin-operated machines. It turns coin-only machines into smart connected machines capable of accepting cashless payments.

otiPulse system components include:

- **Cashless Reader Hardware** – ***OTI UNO*** or ***OTI Trio*** readers
- **Controller** – enables connectivity and communications (**TeleBox**)
- **Control Cable** – compatible with pulse machine operational activities
- **TMS** (Terminal Management System) – a pre-integrated cloud service that is responsible for remote terminal management

otiPulse connectivity supports the entire business lifecycle management and provides real-time online management capabilities and alerts including:

- Logging and reports for both cash and cashless sales
- Payment terminal online management (*e.g.*, price updates)
- Elimination of unnecessary visits and service time
- Optimization of field staff productivity
- Decreasing machine downtime (*i.e.*, power status alerts)
- Remote configuration of system parameters (price, pulse duration, etc.)

Mass Transit Ticketing Market

Our wholly-owned subsidiary, ASEC, is a leading provider of contactless ticket selling systems for public transport in Poland. ASEC's system for public transportation (metro, tramways, buses, trains) is installed in the city of Warsaw and an additional major city, as well as in one of the largest passenger railways in Poland – the Mazovia Railway. ASEC is a leading provider of electronic ticketing card systems in Poland and card management systems for ticketing applications. ASEC is also a provider in Poland of services enabling loading of contactless prepaid cellular telephone cards based on Global System for Mobile Communications, or GSM, installed on ticket vending machines.

ASEC's Ticket Vending Machines, or TVM, are highly specialized devices, the main functions of which are encoding and loading electronic card tickets for the public transport and selling paper tickets. The system's software is provided by *ASEC* and may be adjusted to the customer's requirements. The big advantage of our software solution is that the single TVM sells tickets for a few different public transportation companies - the unique solution allows someone to buy, at the single TVM, tickets for buses and for trains as well.

TVM Functionalities:

Loading of electronic contactless cards for public transport with seasonal tickets, zone tickets, etc. (local city transport, buses, metro, railway, etc.)
Selling of paper tickets with QR code and magstripe
Loading of pre-paid cellular phone cards
Advertising on TVMs' screens and machines' casing
Other possible functionalities include issuing city resident cards, tourist cards, and social benefit cards

ASEC also resells tickets through a sales network of point of sale, or POS, terminals located at kiosks and other retail outlets. The distributor receives a commission on the sale of each ticket.

The Company delivers, sets, installs, activates and retains ownership of the devices and of the system.

POS Functionalities:

Loading of electronic contactless cards for public transport (season tickets, zone tickets, one-time tickets, etc.)
Servicing city resident cards, tourist cards, social benefit cards and other

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Petroleum Management Market

EasyFuel Plus®

Our petroleum payment solutions enable large and small customers to effortlessly control and manage refueling operations – including automatic payments for less gas station downtime, complete remote transaction and fuel usage reporting, and tracking of the odometer and/or engine operating hours.

Easily deployed and seamlessly integrated with existing refueling station infrastructure, our *EasyFuel Plus®* solution is a wireless, cashless, cardless and paperless refueling tracking and payment solution, providing customers with maximum flexibility and security.

EasyFuel Plus® is a modular and scalable fuel management solution, that is perfect for:

Commercial and Homebase Sites
Retail Petroleum
Industrial and Mining Sites
Construction Sites
Mobile Refueling Operations
Corporate Fleet Fuel Management

MediSmart®

Our *MediSmart®* solution is an information management and claims submission system for the medical sector. MediSmart cards validate the identity of a patient by using biometric technology, offering faster treatment of patients, access to medical information and reduction in medical errors, adverse events and reduction of fraudulent transactions.

On December 3, 2018, we together with our wholly owned subsidiary, OTI Petrosmart (PTY) Limited, entered into an agreement with SMART to sell all of the assets related to our MediSmart division (for certain products for the medical industry) to SMART for $2.75 million in cash. This transaction closed on December 31, 2018 and as part of the sold assets we sold our *MediSmart®* solution.

Industry Background

Under certain regulations and credit card anti-fraud legislations, the use of contactless payment technologies has become an essential requirement for both consumers and retailers. Various market sectors have begun to massively adopt contactless payments and are constantly looking for ways to make the adoption process as convenient as possible for both merchants and customers. Millions of contactless debit and credit cards are issued annually by leading financial institutions to various consumers, and merchants are looking to install contactless payment readers that can be easily integrated into their existing unattended point of sale locations.

The world's leading smartphone manufacturers are either including or are expected to include NFC support in their upcoming handset upgrades, which will enhance the technology adoption lifecycle. Whether it is a standard contactless travel card, or EMV contactless card, or an NFC mobile phone, the main motive is to provide quick and efficient payment solutions. Leading smartphone manufacturers have also introduced and are actively pushing the use of their own contactless payment solutions such as Apple Pay™, Android Pay™ and Samsung Pay™, all of which require a contactless reader to be available at the merchant countertop.

Strategy

Our goal is to maintain our status as a leading developer of NFC and cashless payment technologies and our reputation as a manufacturer of top-quality products carrying the highest certification standards.

Key elements of our strategy for achieving this goal include:

Expanding our global market presence. We market our products through a global network of subsidiaries in the United States, Europe, Africa and our headquarters in Israel. We are using these entities to strengthen our presence in existing markets, penetrate new markets, provide local customer service and technical support, and adapt our products to our local customers' specific needs. We continue to expand our market presence via strategic distributors around the globe.

Increasing our focus on generating high-margin, recurring revenues. We currently derive most of our revenues from one-time payments for our products and technologies. We intend to generate additional recurring revenues by receiving service fees for ongoing customer services and transaction fees from our customers.

Enhancing our technological position. We intend to continue to invest in research and development in order to develop new technologies, extend the functionality of our products and services, and offer innovative products and services to our customers.

Customer Service and Technical Support

We provide our customers with training, installation support, ongoing customer service and technical support through our global network of subsidiaries, distributors and local services providers, including employees located in our corporate headquarters in Rosh Pina, Israel, as well as employees located in our subsidiaries in Europe, South Africa and the United States. Our customer service teams in Rosh Pina provide central services to our global network. Our subsidiaries, distributors and local providers, in turn, provide customer service and technical support by telephone and email.

Sales and Marketing

In addition to selling our products through our distributors, we sell and market our products directly and through our global network of subsidiaries. We have also engaged consultants to market and sell our products in the Asia-Pacific region. We market and sell our products in the Americas through our U.S.-based subsidiary, OTI America. In Africa, our subsidiary in South Africa, OTI PetroSmart, and in Europe, ASEC, our Polish subsidiary. In Israel and in regions where we do not have local subsidiaries or representatives, we market and sell through our main headquarters in Rosh Pina, Israel. Our marketing and sales staff implement marketing campaigns to promote our products and services to enhance our global brand recognition. Our current marketing efforts include participation in trade shows, conferences, press releases, four multilingual brand websites, social media, client/ distributor meetings and advertising in local and global industry publications. We also conduct technical seminars to inform sales staff, customers, distributors, business partners and other industry contributors of our unique products and innovative technologies.

Some customers also act as distributors for our products and have been granted exclusive distributors rights within a country or region. We generally guarantee exclusivity only against certain minimum volume commitments or other commercial conditions determined on a per case basis.

Customers

Our customer base is concentrated among a limited number of large customers. Our revenues may continue to depend on a limited number of major customers. The customers we consider to be our major customers and the percentage of our revenue represented by each major customer vary from period to period. In 2018, 2017 and 2016, our customer related to mass transit in Poland provided 15%, 16% and 17%, respectively, of our total revenues for such periods. In addition, another customer in North America accounted for 9%, 12% and 9% of our total revenues for 2018, 2017 and 2016, respectively. In addition, another customer in Japan accounted for 11% and 11% of our total revenues for 2018 and 2017, respectively. If we were to lose any one of our major customers, or if any of our customers were to have difficulty meeting their financial obligations to us for any reason, our financial condition and results of operations would be adversely affected**.**

Manufacturing

We outsource all our manufacturing and product assemblies to third-party vendors. Whenever possible, our policy is to use more than one supplier and manufacturing subcontractor for each part of our production process in order to limit dependence on any one manufacturer or supplier.

We are ISO 9001:2015 certified. We require that our suppliers and subcontractors be ISO 9001 certified. ISO 9001 is an international standard which specifies requirements for a quality management system and provides guidance and tools for companies to ensure that their products and services consistently meet customer and regulatory requirements. This standard is updated from time to time pursuant to the international authorization requirements.

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Government Regulation

Most of our products are subject to local electromagnetic compliance, or EMC/Radio regulations such as radiation, conducted emission and immunity, and safety regulations such as fire and electrical hazards, governed by low voltage standards for our regular readers and hazardous areas standards for our petroleum products, relevant in the countries in which they are used. In the United States, EMC/Radio testing and certification for such products are governed by Federal Communications Commission, or FCC, Part 15 while safety testing and certification fall under the standards set by Underwriters Laboratories, LLC, a public safety and testing certification organization, or UL. In the rest of the world, where FCC and UL rules do not apply, we follow various international and local standards for EMC/Radio and safety. The compliance with these standards is assured by testing and certifying our products at various accredited labs and/or notified bodies located both in Israel and other countries (e.g., United States, Germany, South Africa, India, China, Brazil and more). Our products are in compliance with the foregoing regulations.

Research and Development

We believe that our future success depends on, among other things, our ability to maintain our technological leadership, enhance our existing products and develop new products technologies and solutions. Accordingly, we intend to continue devoting substantial resources to research and development.

Our research and development activities focus mainly on two major areas:

- developing new innovative technologies related to the cashless payment solutions market; and
- enhancing the functionality of our components and expanding the range of our products to serve new markets.

Our main research and development facilities are located at our headquarters in Rosh Pina, Israel. We believe that our success is based on our experienced team of senior engineers and technicians who have extensive experience in their respective fields. Our research and development facilities are ISO 9001:2008 certified.

Proprietary Technologies and Intellectual Property

Our success and ability to compete depend in large part upon protecting our proprietary technology and IP. We rely on a combination of patent, trademark, copyright and trade secret law, as well as know-how, confidentiality agreements and other contractual relationships with our employees, affiliates, agents, consultants, distributors and others.

Our IP portfolio includes issued patents with respect to our contactless technology, as well as trademarks and designs. While we have continued to seek new patents and to support pending applications, we have, as part of our efficiency program, reduced our investment in non-core patents and registrations. The expiration dates for our granted patents range between 2027 to 2033.

We cannot be certain that patents will be issued with respect to any of our pending or future patent applications. In addition, we do not know whether any issued patents will be enforceable against alleged infringers or will be upheld if their validity is challenged. We generally enter into non-disclosure agreements with our customers, partners, employees, consultants, suppliers, subcontractors, and generally control access to the distribution of our products, documentation and other proprietary information.

Competition

Our competition is with technology vendors that provide cashless payments solutions products and technologies:

In the Retail Market, our competition includes unattended payment solution and technology providers such as ID Tech, Nayax, Ingenico, Televend and Verifone.

In the Petroleum Market, we compete with fueling and fleet management end-to-end solution vendors such as Orpak and Hectronic. As this domain has high entrance barriers, competition in this field is limited.

Employees

Following is the number of our employees during each of the past three years:

Total Number of employees as of December 31,		
2018	**2017**	**2016**
126	120	120

We operate in accordance with the applicable law and the provisions of the general extension orders applying to labor and employment relations in Israel. These provisions principally concern the length of the working day, minimum wages for employees, contributions to pension funds or managers' insurance, contribution to work disability insurance, convalescence, travel expenses, holidays and other conditions of employment. We provide our employees with benefits and working conditions above the required minimum and which we believe are competitive with benefits and working conditions provided by similar companies in our industry in Israel. Our employees are not represented by a labor union. We have written employment agreements with substantially all of our employees. Competition for qualified personnel in our industry is intense, and it may be difficult to attract or maintain qualified personnel to our offices. We dedicate significant resources to employee retention and have never experienced work stoppages, and we believe that our relations with our employees are good. Our subsidiaries located outside Israel operate in accordance with the local applicable labor laws and have written employment agreements with substantially all their employees.

Organizational Structure

We have three wholly-owned subsidiaries: **ASEC** (a Polish corporation d/b/a OTI Europa), **OTI America** (a Delaware corporation), and **OTI PetroSmart** (a South African corporation).

ASEC S.A. (Spolka Akcyjna), our wholly-owned Polish subsidiary, is headquartered in Krakow, Poland. ASEC provides marketing, distribution, and customer support for our products in Europe. We have the right to appoint all of the members of its board of directors.

OTI America Inc., our wholly-owned U.S. subsidiary, is headquartered in Austin, Texas and is incorporated in Delaware. OTI America provides marketing and customer support for our products in the Americas. We have the right to appoint all of the members of its board of directors.

OTI PetroSmart (Pty) Ltd. (formerly named OTI Africa (PTY) Ltd.), our wholly-owned South African subsidiary, is headquartered and incorporated in Cape Town, with a branch office in Johannesburg. OTI PetroSmart is OTI's global VAR for the petroleum product line, responsible for all business development; sales and marketing activities and all technical and support services, such as system integration, installation, commissioning and tech support and help desk services either directly or in collaboration with in-country partners, distributors and sub-contractors. We have the right to appoint all of the members of its board of directors.

Documents on Display

The SEC maintains an internet website that contains reports and other information regarding issuers that file electronically with the SEC. Our filings with the SEC are also available to the public through the SEC's website at www.sec.gov.

We maintain a corporate website www.otiglobal.com. Information contained on, or that can be accessed through, our website and the other websites referenced above do not constitute a part of this annual report on Form 10-K. We have included these website addresses in this annual report on Form 10-K solely as inactive textual references.

Item 1A. Risk Factors.

The following risk factors, among others, could in the future affect our actual results of operations and could cause our actual results to differ materially from those expressed in forward-looking statements made by us in this Annual

Report, press releases, SEC filings or elsewhere. Before you decide to buy, hold, or sell our Ordinary Shares, you should carefully consider the risks described below, in addition to the other information contained elsewhere in this Annual Report. The following risk factors are not the only risk factors facing our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. Our business, financial condition and results of operations could be seriously harmed if any of the events underlying any of these risks or uncertainties actually occurs. In that event, the market price for our Ordinary Shares could decline, and you may lose all or part of your investment.

Risks Related to Our Business

We have a history of losses, and we may continue to incur full-year losses in 2019 and in subsequent years.

We have incurred losses in each year since we commenced operations in 1990. We reported net losses attributable to shareholders of $860,000 in 2016, $598,000 in 2017 and $263,000 in 2018. We may continue to incur full-year losses in 2019 and afterwards, as we invest in the expansion of our global sales and marketing network, reduce our product prices in return for future transaction fees based on the volume of transactions in systems that contain our products, invest in fixed assets that may generate revenues more slowly than expected, and enhance our research and development capabilities to develop existing and new products.

We depend on a small number of large customers and the loss of one or more of them would lower our revenues.

Our customer base is concentrated among a limited number of large customers. Our revenues may continue to depend on a limited number of major customers. The customers we consider to be our major customers and the percentage of our revenue represented by each major customer vary from period to period. In 2018, 2017 and 2016, our customer related to mass transit in Poland provided 15%, 16% and 17%, respectively, of our total revenues for such periods. In addition, another customer in North America accounted for 9%, 12% and 9% of our total revenues for 2018, 2017 and 2016, respectively. In addition, another customer in Japan accounted for 11% of our total revenues for 2018 and 2017. If we were to lose any one of our major customers, or if any of our customers were to have difficulty meeting their financial obligations to us for any reason, our financial condition and results of operations would be adversely affected.

If the markets for our products do not grow, sales of our products may not grow and may even decline.

The success of our products depends on the continuing adoption of cashless payment solutions within a broad spectrum of industries including unattended retail, mass transit, and fueling. Such continuing adoption of cashless payment solutions and technologies also depends on the enactment and implementation of regulations and industry standards regarding secure cashless payment. Should such industries fail to adopt cashless payment technologies or solutions or experience any economic downturn, or should regulations fail to support such solutions, the markets for our products may not grow or actually meet our current predictions.

Additionally, potential customers in developed countries, such as the United States and others, may already have installed systems that are based on technologies different from ours and therefore may be less willing to incur the capital expenditures required to install or upgrade to our products. As a result, we cannot assure that there will be sufficient market opportunities for our products. New technologies for payments different than ours might also be adopted by the markets and could override the need for our payment solutions.

We face intense competition. If we are unable to compete successfully, our business prospects will be impaired.

We face intense competition from developers of contact and contactless payments products that use similar and other technologies than ours. We compete on the basis of a range of competitive factors including price, compatibility with the products of other manufacturers, and the ability to support new industry standards and introduce new reliable technologies. Many of our competitors have greater market recognition, larger customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than we possess. As a result, they may be able to introduce new products, respond to customer requirements and adapt to evolving industry standards more quickly than we can.

From time to time, we or one or more of our present or future competitors may announce new or enhanced products or technologies that have the potential to replace or shorten the life cycles of our existing products. The announcement of new or enhanced products may cause customers to delay or alter their purchasing decisions in anticipation of such products, and new products developed by our competitors may render our products obsolete or achieve greater market acceptance than our products.

If we cannot compete successfully with our existing and future competitors, we could experience lower sales, price reductions, loss of revenues, reduced gross margins and reduced market share.

If we fail to develop new products or adapt our existing products for use in new markets, our revenue growth may be impeded and we may incur significant losses.

Although we are devoting significant resources to develop new products and adapting our existing products for use in new markets, such as cashless payment solutions, mass transit ticketing solutions and petroleum solutions, if we fail to develop our new products or adapt our existing products for existing or new markets, we may not recoup the expenses incurred in our efforts to do so, our revenue growth may be impeded and we may incur significant losses.

Our revenue growth may be impaired if we are unable to maintain our current, and establish new, strategic relationships.

The markets for our products are usually highly specialized and sometimes require us to enter into strategic relationships in order to facilitate or accelerate our penetration into existing or new markets. We consider a relationship to be strategic when we integrate our technology into some of the product offerings of a business partner or engage a distributor that has a significant position in a specified market. Failure of our strategic partners to perform in a satisfactory manner or to meet their undertakings in the penetration of new markets, or the termination of any of our strategic relationships or our failure to develop additional relationships in the future may limit our ability to expand the markets in which our products are deployed or to sell particular products.

We may desire to exit certain product lines or businesses or to restructure our operations, but may not be successful in doing so.

Our Board has been identifying and assessing possible alternative strategies to maximize value for our shareholders. Such process may result in a decision to divest certain product lines and businesses or restructure our current corporate structure or current operations, including, without limitation, through the contribution of assets to joint ventures or sale of some assets to third parties. However, our ability to successfully exit product lines and businesses, or to close or consolidate operations, or to sell some of our assets successfully, depends on a number of factors, many of which are outside of our control. For example, if we are seeking a buyer for a particular business line, none may be available, or we may not be successful in negotiating satisfactory terms with prospective buyers or a buyer may not meet its obligations under the applicable purchase agreement. If we are unable to exit a product line or business in a properly or timely manner, or to restructure our current corporate structure or our operations in a manner we deem to be advantageous, or to enforce that a buyer meets its contractual obligations, this could have a material adverse effect on our business, financial condition and results of operations. Even if a divestment is successful, among others, we may face indemnity and other liability claims by the acquirer or other parties.

We may pursue acquisitions of other companies or new or complementary products, technologies and businesses, which could harm our operating results, may disrupt our business and could result in unanticipated accounting charges.

We may pursue acquisitions of other companies or new or complementary products, technologies and businesses in the future. Acquisitions create risks for our business that could cause our results to differ materially and adversely from our expected or projected results. Such risks include the effects of possible disruption to the continued expansion of our product lines, potential changes in our customer base and changes to the total available market for our existing products, reduced demand for our products, the impact of any such acquisition on our financial results, negative customer reaction to any such acquisition and our ability to successfully integrate an acquired company's operations with our operations. Acquisitions create additional risks for our business that could cause our results to differ materially and adversely from our expected or projected results. Such risks include: difficulties in integrating the operations, systems, technologies, products and personnel of the acquired companies, particularly companies with large and widespread operations and/or complex products; the diversion of management's attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from acquisitions; possible disruption to the continued expansion of our product lines; potential changes in our customer base and changes to the total available market for our products; reduced demand for our existing products; the use of a substantial portion of our cash resources and incurrence of significant amounts of debt; significant increases to our interest expense, leverage and debt service requirements as a result of incurring debt; the impact of any such acquisition on our financial results; internal controls may become more complex and may require significantly more resources to ensure they remain effective; negative customer reaction to any such acquisition; assuming the liabilities of the acquired company; and dilution to our shareholders if we make these acquisitions in exchange for our shares.

The terms of certain of our agreements may restrict our ability to take actions that we believe to be desirable.

Certain agreements that we have entered into with our distributors provide exclusivity for different time periods, ranging from several months to several years, or with respect to specific regions and/or products. For example, in certain markets, we sell our products through distributors who, in certain cases, have exclusive distribution rights in that market or certain territories if specified minimum volume commitments are met. The foregoing could have a material adverse effect on our business, operating results and financial condition if these partners do not perform in a satisfactory manner.

Our products may have long development and sales cycles and we may expend significant resources in relation to a specific project without realizing any revenues.

The development and sales cycles for our products vary from project to project. Typically, the projects in which we are involved are complex and require that we customize our products to our customers' needs and specifications. We then conduct evaluation, testing, implementation and acceptance procedures and sometimes we are required to perform a long certification process for our products. Only after successful completion of these procedures and certifications will customers place orders for our products in commercial quantities. In addition, our sales contracts sometimes do not include minimum purchase commitments. We therefore cannot always ensure that product development will result in commercial sales. Our average development cycle is typically between six and 18 months from initial contact with a potential customer until we deliver commercial quantities to the customer and recognize significant revenues. As a result, we may expend financial, management and other resources to develop customer relationships before we recognize revenues, if any.

Fluctuations in our quarterly financial performance may create volatility in the market price of our shares and may make it difficult to predict our future performance.

Our quarterly revenues and operating results have varied substantially in the past and may continue to vary in the future. These fluctuations may be driven by various factors which are beyond our control, are difficult to predict and may not meet the expectations of analysts and investors. As a result, the market price of our Ordinary Shares may drop. In addition, our revenues and operating results in any quarter may not be indicative of our future performance, and it may be difficult to evaluate our prospects.

Delays or discontinuance of the supply of components or manufacturing and assembly of our products may hamper our ability to produce our products on a timely basis and cause short-term adverse effects.

Some of the components we use in our products are supplied by third-party suppliers and manufacturers. Some of these suppliers are single source manufacturers. Termination of manufacturing of a certain product, provision of services or support (commonly referred to as "end of life"), allocations due to high demand, or delays or shortages could interrupt and delay the supply of our products to our customers and may result in cancellation of orders for our products. Similarly, we do not always have long-term supply contracts under which our suppliers are committed to supply us with components at fixed or defined prices. Suppliers sometimes may increase component prices significantly without advance warning or could discontinue the manufacturing or supply of components used in our products. In addition, third party suppliers may face other challenges in fulfilling their contractual obligations with us which are beyond our control. Although we make efforts to identify and retain second source manufacturers and vendors, we may not always be able to develop alternative sources of supply and services. Even if we are able to identify such alternative sources, we may need to modify our products to render them compatible with other components. This may cause delays in product shipments, increase manufacturing costs and increase product prices.

Some of our suppliers and vendors are located in different countries and, therefore, we may experience logistical difficulties in our supply chain, including long lead times for receipt of products or components and shipping delays. In addition, our subcontractors may, on occasion, feel the impact of potential economic or political instability in their regions, which could affect their ability to supply us with components for our products in a timely manner.

If we fail to hire, train and retain qualified research and development personnel, our ability to enhance our existing products, develop new products and compete successfully may be materially and adversely affected.

Our success depends, in part, on our ability to hire and train qualified research and development personnel. Individuals who have expertise in research and development in our industry are scarce. Competition for such personnel is intense, particularly in Israel. Consequently, hiring, training and retaining such personnel is time-consuming and expensive. In addition, it may be difficult to attract qualified personnel to Rosh Pina, which is located in the northern part of Israel. If we fail to hire, train and retain employees with skills in research and development, we may not be able to enhance our existing products or develop new products.

If we are unable to protect or assert our intellectual property rights, our business and results of operations may be harmed.

Our success and ability to compete depend considerably on using our IP and proprietary rights to protect our technology and products. We rely on a combination of patent, trademark, design, copyright, and trade secret laws, confidentiality agreements and other contractual relationships with our employees, customers, affiliates, distributors, suppliers and others. While substantially all of our employees are subject to non-compete agreements, these agreements may be difficult to enforce as a result of Israeli law limiting the scope of employee non-competition undertakings. We further note that the Israeli Supreme Court noted (in an obiter dictum) in 2012, without making any decisive ruling, that an employee who contributes to an invention during his employment could be allowed to seek compensation for it from their employer, even if the employee’s contract of employment specifically states otherwise and the employee has transferred all intellectual property rights to the employer. The Israeli Supreme Court considered the possibility that a contract that revokes the employee’s right for royalties and compensation may not necessarily foreclose the right of the employee to claim a right for royalties. As a result, even if the Company believes that none of its employees has any rights in any of the Company’s intellectual property, or to receive royalties, it is unclear if, and to what extent, our employees may be able to claim compensation with respect to our future revenue. As a result, we may receive less revenue from future products if such claims are successful, or incur additional royalty expenses, which in turn could impact our future profitability.

Our patent portfolio includes registered patents and pending patents applications worldwide encompassing, among others, product applications, system and product architecture and product concepts. We cannot be certain that patents will be issued with respect to any of our pending or future patent applications or that the scope of our existing patents, or any future patents that are issued to us, will provide us with adequate protection for our technology and products. Others may challenge our patents or patent applications as well as our registered trademarks and other intellectual property rights. We do not know whether any of them will be upheld as valid or will be enforceable against alleged infringers. Thus, we do not know whether they will enable us to prevent or hinder the development of competing products or technologies. Moreover, patents provide legal protection only in the countries where they are registered, and the extent of the protection granted by patents varies from country to country.

The measures we have taken to protect our technology and products may not be sufficient to prevent their misappropriation by third parties or their independent development by others of similar technologies or products. If our patents and other intellectual property rights do not adequately protect our technology, competitors may be able to offer products similar to our products more easily. Our competitors may also develop competing technology by designing around our patents and thereafter manufacturing and selling products that compete directly with ours, which would harm our business, financial position and results of operations.

In order to protect our technology and products and enforce our patents and other proprietary rights, we may need to initiate, prosecute or defend litigation and other proceedings before courts and patent and trademark offices in multiple countries. Significant resources may be required to support such litigation.

Security breaches and system failures could expose us to liability, harm our business or result in the loss of customers.

We retain sensitive data, including intellectual property, books of record and personally identifiable information, on our networks. It is critical to our business strategy that our infrastructure and other infrastructure we use to host our solutions remain secure, do not suffer system failures and are perceived by customers and partners to be secure and reliable. Despite our security measures, our infrastructure and the third-party infrastructure we use to host our solutions may be vulnerable to attacks by hackers or other disruptive problems. Any security breach or system failure may compromise information stored on our networks. Such an occurrence could negatively affect our reputation as a trusted provider of the affected solutions.

If we fail to adhere to regulations and security standards imposed by credit card networks, or if our products are not certified or otherwise fail to comply with such regulations and security standards (such as payment card industry standards, etc.) or if our customers fail to take proper protective measures and hold OTI liable for the consequences, our results of operations could be adversely affected.

Some of our products are designed to collect, store, and route certain personal identifiable information from our clients and/or from end-users, as well as processing such clients' and/or end-users payments using payment information. In addition, we may store such information on our servers.

We are required by some of our customers to meet industry standards imposed by payment systems standards-setting organizations such as EMV, credit card associations such as Visa, MasterCard, Discover and other credit card associations and standard-setting organizations such as the Payment Card Industry Security Standards Council, and other local organizations. Furthermore, some of our offerings are subject to the Payment Card Industry Data Security Standards, which are a set of multifaceted security standards that are designed to protect credit card and personal information as mandated by payment card industry entities. Even though we attempt to protect our company through our contracts with our customers, we have limited oversight or control over the actions and practices of our clients and other third-party service providers.

New standards are continually being adopted or proposed as a result of worldwide anti-fraud initiatives, encryption of cardholder or personal information, the increasing need for system compatibility and technology developments such as wireless, optical fiber infrastructure, telecommunication, virtual private network, or VPN, VPN infrastructure, satellite-based communication and another wireline IP communication. We cannot ensure that we will be able to design our solutions to comply with future standards or regulations on a timely basis, if at all. Compliance with these standards could increase the cost of developing or producing our products, while non-compliance may harm our reputation or result in customer and client claims. New products designed to meet any new standards need to be introduced to the market and ordinarily need to be certified by the credit card associations and our customers before being purchased. The certification process is costly and time-consuming and increases the amount of time and resources it takes to sell our products, as well as the product development cycle time and cost. Selling products that are non-compliant may result in fines against us or our customers, which we may be liable to pay. After selling and/or installation of a system or a product, the customer is responsible for any operational aspect of such system or product ensuring them from unexpected crashes.

In addition, even if our products are designed to be compliant, compliance with certain security standards is determined on the basis of the network environment in which our customers and service providers install our products. Therefore, such compliance depends upon additional factors such as the proper installation of the components of the environment (including our systems, compliance of software and system components provided by other vendors), implementation of compliant security processes and business practices and adherence to such processes and practices.

Our business and financial condition could be adversely affected if we do not comply with new or existing industry standards and regulations or obtain or retain necessary regulatory approval or certifications in a timely fashion, or if compliance results in increasing the cost of our products.

Our products may infringe on the IP rights of others.

It is not always possible to know with certainty whether or not the manufacture and sale of our products or the licenses we are granted from third parties infringe patents or other IP rights owned by third parties. Third parties may, from time to time, claim that our products infringe on their patent or other IP rights. In addition, if third parties claim that our customers are violating their IP rights, our customers may seek indemnification from us or may terminate their relationships with us.

IP rights litigation is complex and costly, and we cannot be sure of the outcome of any litigation. Even if we prevail, the cost of litigation could harm our results of operations. In addition, litigation is time-consuming and could divert our management's attention and resources away from our business. If we do not prevail in such litigation, in addition to any damages we might have to pay, we might be required to discontinue the use of certain processes, cease the manufacture, use and sale of infringing products and solutions, and expend significant resources to develop non-infringing technology or obtain licenses on unfavorable terms. In addition, some licenses are non-exclusive and, therefore, our competitors may have access to the same technology licensed to us.

Changes in international markets and difficulties with international operations could harm our business.

We derive revenues from different geographical areas. Our ability to maintain our position in existing markets and/or to penetrate new, regional and local markets is dependent, in part, on the stability of regional and local economies. Our regional sales may continue to fluctuate widely and may be adversely impacted by future political or economic instability in these or other foreign countries or regions.

In addition, there are inherent risks in these international operations which include, among others:

- changes in regulatory requirements and communications standards;
- changes in external political policies, such as embargos based on manufacturing origin;
- political and economic instability;
- required licenses, tariffs and other trade barriers;
- difficulties in enforcing IP rights across, or having to litigate disputes in, various jurisdictions;
- difficulties in staffing and managing international operations;
- potentially adverse tax consequences;
- the burden of complying with a wide variety of complex laws and treaties in various jurisdictions; and

business interruptions resulting from geopolitical actions, including war and terrorism, or natural disasters including earthquakes, typhoons, floods, and fires.

If we are unable to manage the risks associated with our focus on international sales, our business may be harmed.

Currency fluctuations could adversely affect our results of operations.

We generate a significant portion of our revenues in U.S. Dollars, but we incur some of our expenses in other currencies. Our principal non-U.S. Dollar expenses are for Israeli employees' salaries, which are in New Israeli Shekels, or NIS. Our subsidiary in Poland, ASEC, incurs expenses in Polish Zloty and our subsidiary in South Africa, OTI PetroSmart, incurs expenses in South African Rand. To the extent that we and our subsidiaries conduct our business in different currencies, our revenues and expenses and, as a result, our assets and liabilities, are not necessarily accounted for in the same currency. We are therefore exposed to foreign currency exchange rate fluctuations. These fluctuations may negatively affect our results of operations. Our operations could also be adversely affected if we are unable to limit our exposure to currency fluctuations in the future.

To mitigate the risk of financial exposure to fluctuations in the exchange rate of the U.S. Dollar against the NIS or other currencies, we may enter into currency hedging transactions. However, these measures may not adequately protect us from material adverse effects resulting from currency fluctuations. In addition, if we wish to maintain the U.S. Dollar-denominated value of sales made in other currencies, any devaluation of the other currencies relative to the U.S. Dollar would require us to increase our other currency denominated selling prices which could negatively affect our sales.

Our international sales and operations are subject to complex laws relating to foreign corrupt practices and bribery, among many other subjects. A violation of, or change in, these laws could adversely affect our business, financial condition or results of operations.

Our operations in countries outside the U.S. are subject, among others, to the Foreign Corrupt Practices Act of 1977 as amended from time to time, or FCPA, which prohibits U.S. companies or foreign companies which their shares are traded on a U.S. stock exchange, or their agents and employees from providing anything of value to a foreign public official as defined in the FCPA for the purposes of influencing any act or decision of these individuals in their official capacity to help obtain or retain business, direct business to any person or corporate entity, or obtain any unfair advantage. We have internal control policies and procedures with respect to the FCPA. However, we cannot assure that our policies and procedures will always protect us from reckless or criminal acts that may be committed by our employees or agents. Violations of the FCPA may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could have a material adverse effect on our business, consolidated results of operations and consolidated financial condition. In addition, investigations by governmental authorities as well as legal, social, economic, and political issues in countries where we operate could have a material adverse effect on our business and consolidated results of operations. We are also subject to the risks that our employees or agents outside of the U.S. may fail to comply with other applicable laws. The costs of complying with these and similar laws may be significant and may require significant management time and focus. Any violation of these or similar laws, intentional or unintentional, could have a material adverse effect on our business, financial condition or results of operations.

We are using third parties' goods and services from time to time. Although we make efforts to ensure the service quality, we cannot control the actions of such third parties, and therefore we may be subject to claims and risks.

We depend on third-party service providers, suppliers, and licensors to supply some of the services, hardware, software and operational support necessary to provide some of our services. If these vendors experience operating or financial difficulties or are otherwise unable to provide the equipment or services we need fully or in a timely manner, at our specifications and at reasonable prices, our ability to provide some services might be materially adversely affected, or the need to procure or develop alternative sources of the affected materials or services might delay our ability to serve our customers. These events could materially and adversely affect our ability to retain and attract customers, and have a material negative impact on our operations, business, financial results and financial condition.

We may have to adapt our products in order to integrate them into our customers' systems if new government regulations or industry standards are adopted or current regulations or standards are changed.

Some of our products and/or future products under development are or may be subject to government or international regulation in the countries in which they are used. Some of our systems are also required to meet safety regulation standards. In addition, governmental or international certification for the systems into which our products are integrated may be required. If there is a change in government regulations or industry standards, we may have to make significant modifications to our products and, as a result, could incur significant costs and may be unable to deploy our products in a timely manner.

In addition, prior to purchasing our products, some customers may require us to receive or obtain a third-party certification, or occasionally certify our products by ourselves, that our products can be integrated successfully into their systems or comply with applicable regulations. In some cases, in order for our products, or for the system into which they are integrated, to be certified, we may have to make significant product modifications. Furthermore, receipt of third-party certifications may not occur in a timely manner or at all. Failure to receive third-party certifications could render us unable to deploy our products in a timely manner or at all, which may adversely affect our operations, business, financial results and financial condition.

Defects in our products could harm our reputation, result in loss of customers and revenues or subject us to product liability claims.

Our products are highly technical and deployed as part of large and complex projects. As a result of the nature of our products, they can only be fully tested when fully deployed. Any defects in our products could result in harm to our reputation; loss of, or delay in, revenues; loss of customers and market share; failure to attract new customers or achieve market acceptance for our products; unexpected expenses to remedy such defects; and/or exposure to potential product liability claims.

While we currently maintain product liability insurance, we cannot be certain that this insurance will be sufficient to cover any successful product liability claim. Any product liability claim could result in changes to our insurance policies, including premium increases or the imposition of a large deductible or co-insurance requirements. Any product liability claim in excess of our insurance coverage would have to be paid out of our cash reserves. Furthermore, the assertion of product liability claims, regardless of the merits underlying the claim, could result in substantial costs to us, divert management's attention away from our operations and damage our reputation.

We have certain operations in countries that may be adversely affected by political or economic instability.

We are a global company with worldwide operations. In addition to being headquartered in Northern Israel, we derive a certain portion of our sales and future growth from regions such as Latin America, Eastern Europe and Africa, which may be more susceptible to political or economic instability.

Certain portions of our operations are conducted outside the markets in which our products are sold, and accordingly, we often import a substantial number of products into such markets. We may, therefore, be denied access to our customers or suppliers or denied the ability to ship products from any of our sites as a result of a closing of the borders of the countries in which we sell our products, or in which our operations are located, due to economic, legislative or political conditions. This could have a material negative impact on our operations, business, financial results and financial condition.

The general economic outlook may adversely affect our business.

Our operations and performance depend on worldwide economic conditions and their impact on levels of business and public spending. Fluctuations or downturns in global or regional economies may adversely affect the budgeting and purchasing behavior of our customers and our potential customers, including shifting customers, purchasing patterns to lower-cost options, which could adversely affect our product sales.

In addition, uncertainties in financial and credit markets may adversely affect the ability of our customers, suppliers, distributors and resellers to obtain financing for significant purchases and operations and to fulfill their contractual obligations with us. As a result, we could encounter, among other adverse effects, a decrease in or cancellation of orders for our products, and an increase in additional reserves for uncollectible accounts receivable being required.

We derive a portion of our revenues from sales to resellers that are not the end-users of our products. We are dependent, to a certain extent, on the ability of these resellers to maintain their existing business and secure new business.

Some of our revenues are derived from sales to customers and distributors that incorporate our products into systems which they supply and install for use by their end-use customers. While we view such resellers as our final customers, our revenues may decline if the efforts of these resellers fail in their efforts to sell their products or to resell our products. Further, the faulty or negligent implementation and installation of our products by our customers or their end-use customers may harm our reputation and dilute our brand name. We are one step removed from the end-users of our products, and therefore it may be more difficult for us to rectify damage to our reputation caused by resellers that have direct contact with end-users. In addition, termination of agreements with resellers or revocation of exclusive distribution rights within certain countries might be difficult. If we are unable to maintain our current relationships with resellers or develop relationships with new resellers, we may not be able to sell our products, and our results of operations could be impaired.

While we also sell directly to end-users, our future success will depend upon the timing and size of future purchases by resellers and the success of their products and services for which they use our products.

We are exposed to credit risk with some of our customers and to credit exposures and currency controls, which could result in material losses.

A significant portion of our net revenues is on an open credit basis that we provide to our customers. While we assess collectability for revenue recognition purposes on a regular basis, credit risks may be higher and collections may be more difficult to enforce, and future losses due to inability to collect some or a major part of future revenues, if incurred, could harm our business and have a material adverse effect on our operating results and financial condition. Additionally, to the extent that any uncertainty in the global economy makes it more difficult for some customers to obtain financing, our customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, cash flows, operating results, and financial condition.

We may face SEC enforcement risks with respect to conflict minerals obligations.

The SEC has adopted disclosure requirements under section 102 of the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding the source of certain minerals for which such conflict minerals are necessary to the functionality or production of a product manufactured, or contracted to be manufactured which are mined from the Democratic Republic of Congo, and adjoining countries, including Sudan, Uganda, Burundi, United Republic of Tanzania, Zambia, Angola, and the Central African Republic. Under these rules we file a conflict minerals report as an exhibit to a Form SD report with the SEC. The conflict minerals report is required to set out the due diligence efforts and procedures exercised on the source and chain of custody of such conflict minerals, in accordance with internationally recognized due diligence framework, and a description of the Company's products containing such conflict minerals. Although we expect that we will be able to continue to comply with the requirements of the applicable rules, we have incurred, and expect to continue to incur costs to conduct a country of origin inquiries and to exercise such due diligence. In addition, in preparing to do so, the Company is dependent upon the implementation of new systems and processes and information supplied by certain suppliers of products that contain, or potentially contain conflict minerals. To the extent that the information that it receives from its suppliers is inaccurate or inadequate or its processes in obtaining that information do not fulfill the SEC's requirements, the Company could face SEC enforcement risks.

Risks Related to Our Ordinary Shares

Our share price has fluctuated in the past and may continue to fluctuate in the future.

The market price of our Ordinary Shares has fluctuated significantly and may continue to do so. The market price of our Ordinary Shares may be significantly affected by factors such as the announcements of new products or product enhancements by us or our competitors, technological innovations by us or our competitors or periodic variations in our results of operations. In addition, any statements or changes in estimates by analysts covering our shares or relating to the industries in which we operate could result in an immediate effect that may be adverse to the market price of our shares.

Trading in shares of companies listed on Nasdaq in general, and trading in shares of technology companies in particular, has been subject to extreme price and volume fluctuations that have been unrelated or disproportionate to operating performance. These factors may depress the market price of our Ordinary Shares, regardless of our actual operating performance.

Securities litigation has also often been brought against companies following periods of volatility in the market price of its securities. In the future, we may be the target of similar litigation that could result in substantial costs and diversion of our management’s attention and resources.

We may not be able to meet Nasdaq continued listing standards, which require a minimum closing bid price of $1.00 per share, which could result in our delisting and negatively impact the price of our Ordinary Shares and our ability to access the capital markets.

Our Ordinary Shares are listed on the Nasdaq Capital Market. Nasdaq provides various continued listing requirements that a company must meet in order for its stock to continue trading on the Nasdaq Capital Market. Among these requirements is the requirement that the Company's stock trades at a minimum bid price of $1.00 per share. On October 24, 2018, we received a written notice from Nasdaq indicating that we were not in compliance with Nasdaq listing requirements, as our closing bid price for our Ordinary Shares was below $1.00 per share for the previous 30 consecutive trading days. Pursuant to Nasdaq Listing Rule 5810(c)(3)(A), the Company has been granted a 180-calendar day compliance period, or until April 22, 2019, to regain compliance with the minimum bid price requirement. During the compliance period, our Ordinary Shares will continue to be listed and traded on the Nasdaq Stock Market. To regain compliance, the closing bid price of our Ordinary Shares must meet or exceed $1.00 per share for at least 10 consecutive business days during the 180-calendar day compliance period. If we are not in compliance by April 22, 2019, we may be afforded a second 180-calendar day compliance period. To qualify for this additional time, we will be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for Nasdaq with the exception of the minimum bid price requirement. If we do not regain compliance within the allotted compliance period(s), including any extensions that may be granted by Nasdaq, Nasdaq will provide notice that our Ordinary Shares will be subject to delisting. Any such delisting could adversely affect our ability to obtain financing for the continuation of our operations and could result in the loss of confidence by investors, customers and employees.

We may need additional funds in the future and our share price could be adversely affected by future sales of our Ordinary Shares.

As of December 31, 2018, we had 41,294,377 outstanding Ordinary Shares, 1,178,699 Ordinary Shares that were repurchased by us and are held as dormant shares, 40,000 warrants to purchase additional Ordinary Shares at a weighted average exercise price of $0.95 per share and 1,461,000 options to purchase additional Ordinary Shares at a weighted average exercise price of $1.24 per share. On October 20, 2017, we filed a shelf registration statement on Form S-3 with the SEC, or Shelf Registration, which was declared effective on November 15, 2017, under which we may, from time to time, sell up to an aggregate of $50 million of our securities, subject to limitations, based on the value of our shares held by non-affiliates. We have implemented certain cost reduction initiatives and have reached certain arrangements and agreements that we expect will provide additional cash resources and are constantly looking for ways to increase our cash resources to fund our operating expenses and capital requirements. However, there is no assurance we will not need additional funds in the future to meet our operating expenses and capital requirements, and we may use the Shelf Registration in the future to raise funds by additional public offerings or issue additional Ordinary Shares. The market price of our Ordinary Shares could drop as a result of sales of substantial amounts of our Ordinary Shares in the public market or the perception that such sales may occur, including sales or perceived sales by our directors, officers or principal shareholders. These factors could also make it more difficult to raise additional funds through future offerings of our Ordinary Shares or other securities. Also, if we are unable to obtain additional funds on terms favorable to us, or at all, we may be required to cease or reduce our operating activities.

Our shareholders could experience dilution of their ownership interest by reason of our issuing more shares.

Under Israeli law, shareholders in public companies do not have preemptive rights. This means that our shareholders do not have the legal right to purchase shares in a new issue before they are offered to third parties. In addition, our Board may approve in the future the use of the Shelf Registration and the issuance of shares in many instances without shareholder approval. As a result, our shareholders could experience dilution of their ownership interest by reason of our raising additional funds through the issuance of Ordinary Shares. In addition, we may choose to acquire companies or businesses in exchange for our shares, resulting in further dilution.

The number of our authorized and unissued share capital may not be sufficient to allow us to raise additional capital or to otherwise issue equity securities that our Board may deem are in our best interest.

As of December 31, 2018, we have only 5,408,424 authorized but unissued and unreserved Ordinary Shares. The current number of these unissued and unreserved shares may not be sufficient to allow us to conduct future offerings of our equity securities to raise capital, to grant options or to conduct other strategic transactions with our Ordinary Shares. Under Israeli corporate law, any increase in our authorized share capital requires the approval of our shareholders. Obtaining shareholder approval may delay or otherwise interfere with conducting transactions of the type mentioned above. Furthermore, there is no assurance that our shareholders will approve a proposal to increase our share capital.

We do not anticipate paying cash dividends in the foreseeable future.

We have never declared or paid cash dividends on our Ordinary Shares, and we do not anticipate paying cash dividends in the foreseeable future. Any return to investors is expected to come, if at all, only from potential increases in the price of our Ordinary Shares. The payment of any dividends by the Company is solely at the discretion of our Board and based on the conditions set forth in the Israeli Companies Law, or the Companies Law.

We may fail to maintain effective internal control in accordance with Section 404 of the Sarbanes-Oxley Act of 2002.

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of the Sarbanes-Oxley Act, and in particular with Section 404, have resulted in increased general and administrative expenses and a diversion of management time and attention, and we expect these efforts to require the continued commitment of resources. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting. Although our management has determined that we had effective internal control over financial reporting as of December 31, 2018, we may identify material weaknesses or significant deficiencies in our future internal control over financial reporting. In addition, as a smaller reporting company, our internal control over financial reporting is not required to be audited by our independent registered public accounting firm. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities and could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our Ordinary Shares.

Risks Related to Conducting Business in Israel

Security, political and economic instability in the Middle East may harm our business.

We are incorporated under the laws of the State of Israel, and our principal offices and research and development facilities are located in Northern Israel. Accordingly, security, political and economic conditions in the Middle East in general, and in Israel in particular, may directly affect our business.

Over the past several decades, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. From time to time since late 2000, there has also been a high level of violence between Israel and the Palestinians. Any armed conflicts or political instability in the region, including acts of terrorism or any other hostilities involving or threatening Israel, would likely negatively affect business conditions and could make it more difficult for us to conduct our operations in Israel, which could increase our costs and adversely affect our financial results.

Furthermore, some countries, as well as certain companies and organizations, participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. Restrictive laws, policies or practices directed towards Israel or Israeli businesses could have an adverse impact on the expansion of our business. In addition, we could be adversely affected by the interruption or curtailment of trade between Israel and its trading partners, a significant increase in the rate of inflation, or a significant downturn in the economic or financial condition of Israel.

Our operations could be disrupted as a result of the obligation of key personnel to perform Israeli military service.

Our employees are required to perform annual military reserve duty in Israel and may be called to active duty at any time under emergency circumstances. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or other key employees due to military service. Any disruption to our operations would harm our business.

The Israeli government programs in which we currently participate, and the Israeli tax benefits we are currently entitled to, require us to meet several conditions, and they may be terminated or reduced in the future. This could increase our costs and/or our taxes.

We are entitled to certain tax benefits under Israeli government programs, largely as a result of the "Approved Enterprise" status granted to some of our capital investment programs by the Israeli Ministry of Finance, and due to eligibility of tax benefits under the "Preferred Enterprise" routes. These benefits include tax exemption or reduced tax rates. Without such benefits, our taxable income would be taxed at the regular corporate tax rate (23% in 2018). To maintain our eligibility for these tax benefits, we must continue to meet conditions, including making specified investments in property, plant, and equipment and maintaining a certain minimum level of export sales. We cannot assure that we will continue to be eligible for these tax benefits at the same rate or at all. The termination or reduction of these programs and tax benefits could increase our taxes, once we become profitable, and could have a material adverse effect on our business.

Because we received grants from the Israeli Innovation Authority, we are subject to ongoing restrictions relating to our business.

In the past, we have received royalty-bearing grants from the Israeli Innovation Authority (formerly the Office of the Chief Scientist of the Israeli Ministry of Economy), or the IIA, for research and development of certain of our products. We are obligated to pay royalties with respect to the grants that we received. In addition, the terms of the IIA grants limit our ability to manufacture products or transfer technologies outside of Israel if such products or technologies were developed using know-how developed with or based upon IIA grants. Pursuant to the Israeli Encouragement of Research and Development in the Industry Law, we and any non-Israeli who becomes a holder of 5% or more of our share capital are generally required to notify the IIA and such non-Israeli shareholder is required to undertake to observe the law governing the grant programs of the IIA, the principal restrictions of which are the transferability limits described above.

The terms of grants we received from the Israeli government for certain of our research and development activities may require us, in addition to the payment of royalties, to satisfy specified conditions in order to manufacture products or transfer technologies outside of Israel. We may also be required to pay penalties in addition to repayment of the grants.

Our research and development efforts, during the period between 1999 and 2006, were financed in part through royalty-bearing grants that we received from the IIA. As of December 31, 2018, we received a total of approximately $7 million from the IIA. The total amount of grants received as of December 31, 2018, net of royalties paid, was approximately $3.8 million (including accrued interest). With respect to such grants, we are committed to pay the IIA royalties at a rate of 3%-3.5% from our sales, up to the total amount of grants received, linked to the dollar and bearing interest at an annual rate of LIBOR applicable to dollar deposits. Even following full repayment of the IIA grants, we are required to comply with the requirements of the Israeli Encouragement of Industrial Research and Development Law, 5744-1984, and related regulations, or the Research Law. When a company develops know-how, technology or products using IIA grants, the terms of these grants and the Research Law restrict the transfer of such know-how, and the transfer of manufacturing or manufacturing rights of such products, technologies or know-how outside of Israel, without the prior approval of the IIA. Therefore, if aspects of our technologies are deemed to have been developed with IIA funding, the discretionary approval of an IIA committee would be required for any transfer to third parties outside of Israel of IIA-supported know-how or manufacturing or manufacturing rights related to those aspects of such technologies, and may result in payment of increased royalties (both increased royalty rates and increased royalties ceilings) and/or payment of additional amounts to the IIA. We may not receive such approvals. Furthermore, the IIA may impose certain conditions on any arrangement under which it permits us to transfer technology or development out of Israel (including for the purpose of manufacturing). Licensing IIA-supported technologies may, under certain circumstances, be considered a transfer of know-how and therefore may require approval as aforementioned.

The transfer of IIA-supported technology, manufacturing or manufacturing rights or know-how outside of Israel may involve the payment of additional amounts depending upon the value of the transferred technology or know-how, the amount of IIA support, the time of completion of the IIA-supported research project and other factors up to a maximum of six times the amount of the grants received. These restrictions and requirements for payment may impair our ability to sell our technology assets outside of Israel or to outsource or transfer development or manufacturing activities with respect to any product or technology outside of Israel.

Furthermore, the consideration available to our shareholders in a transaction involving the transfer outside of Israel of technology or know-how developed with IIA funding (such as a merger or similar transaction) may be reduced by any amounts that we are required to pay to the IIA.

Our obligations and limitations pursuant to the Research Law are not limited in time and may not be terminated by us at will.

It may be difficult to enforce a U.S. judgment against us, our officers and directors or to assert U.S. securities law claims in Israel.

We are incorporated in Israel. Some of our executive officers are not residents of the United States, and a substantial portion of our assets is located outside of the United States. Therefore, it may be difficult for an investor, or any other person or entity, to enforce a U.S. court judgment based upon the civil liability provisions of the U.S. federal securities laws in an Israeli court against us or any of these persons or to affect service of process upon these persons in the United States. Additionally, it may be difficult for an investor, or any other person or entity, to enforce civil liabilities under U.S. federal securities laws in original actions instituted in Israel.

Provisions of Israeli law may delay, prevent or make undesirable an acquisition of all or a significant portion of our shares or assets.

The Companies Law regulates acquisitions of shares through tender offers, requires special approvals for transactions involving shareholders holding 25% or more of a company’s capital, and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. These provisions may limit the price that investors may be willing to pay in the future for our Ordinary Shares. Furthermore, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders.

Item 1B. Unresolved Staff Comments.

Not Applicable.

Item 2. Properties.

We lease an aggregate of 1,620 square meters of office space in Rosh Pina, Israel pursuant to a lease that expired on July 31, 2018, and was extended until July 31, 2019.

In January 2019, we signed two new lease agreements for two new locations, one in Yokne'am (for approximately 550 square meter) and one in Rosh Pina (for approximately 260 square meters).

The term of the Yokne'am lease, to which our headquarter will relocate, shall commence on June 1, 2019 and will end on May 31, 2024 with an option of a 5-year extension which shall begin on June 1, 2024 and end on May 31, 2029.

The term of the Rosh Pina lease, to which our research and development functions will relocate, will commence on May 1, 2019 and will end on April 30, 2023 with three one-year options of extension.

The relocation is in line with our decision to relocate to a more central location in Israel because our current northern location and its distance from the center make it challenging for us to do business and in particular to hire qualified personnel. The relocation is expected to take place by the end of June 2019.

OTI America leases an aggregate of 1,405 square feet of office space in Austin, Texas pursuant to a lease that expires on May 31, 2020.

OTI PetroSmart owns an aggregate of approximately 800 square meters of office space and 386 square meters of store and parking area in Cape Town, South Africa and leases 214 square meters of office space in Johannesburg, South Africa, pursuant to a lease agreement that extends until April 30, 2021.

ASEC leases 532 square meters of office space and 27 square meters of warehouse space in Krakow, Poland, pursuant to a lease terminable on six months' prior notice that expires on March 31, 2023 and 28 square meters of office space in Lublin, Poland for an indefinite period, terminable on three months' prior notice. ASEC also leases office and warehouse space in three separate locations in Warsaw, Poland: (i) 143 square meters of office space pursuant to a lease that expires on April 29, 2019; (ii) 60 square meters of office space pursuant to a lease that expires on April 30, 2019; and (iii) 86 square meters as office space pursuant to a lease that expire on May 2, 2019 and 87 square meters of warehouse space pursuant to leases that expire on April 15, 2019 as to the warehouse space.

We believe that the current space we have is adequate to meet our current and near future needs.

Item 3. Legal Proceedings.

From time to time, we become involved in various routine legal proceedings incidental to the ordinary course of our business. Other than the payment of NIS 5,080 (approximately $1,370) made to Merwell, Inc. on January 8, 2019, as specified below, we do not believe that the outcomes of these legal proceedings have had in the recent past or will have (with respect to any pending proceedings), significant effects on our financial position or profitability.

On September 2, 2012, we filed an insurance lawsuit in the Israeli Central District Court against Harel Insurance Company Ltd., or Harel, for damages incurred by us due to flooding in our subcontractor's (Smartrac) manufacturing site in Thailand in 2011, in the amount of approximately $11 million. This caused disruptions to our supply chain and specifically affected our ability to deliver products to our customers. On August 23, 2017, the District Court in Israel issued judgment in our favor in the amount of approximately $2.3 million (including $0.7 million specifically set for legal fees, etc.) for insurance coverage for damages incurred in connection with flooding in Thailand. Harel submitted its appeal of the judgment to the Israeli Supreme Court as well as a request for stay of judgment. On October 30, 2017, the Court denied the requested stay. Following the denial of Harel's request, a payment of approximately $1.6 million was received. Based on the advice of counsel, the Company currently believes that there are sufficient grounds on which to uphold the District Court's ruling and, as such, Harel's appeal will be denied. The appeal hearing was scheduled for May 29, 2019.

On October 3, 2013, a financial claim was filed against us and our then-subsidiary, Parx France (referred to in this paragraph, collectively, as the Defendants), in the Commercial Court of Paris, France. The sum of the claim was €1.5

million and was based on the allegation that the plaintiff sustained certain losses in connection with Defendants not granting the plaintiff exclusive marketing rights to distribute and operate the Defendants' PIAF Parking System in Paris and the Ile of France. We filed an initial memorandum of defense rejecting all the plaintiff's allegations and claims. On October 25, 2017, the Paris Commercial Court issued its ruling in this matter dismissing all claims against us but ordered Parx France to pay the plaintiff €50,000 (plus interest) in damages plus another approximately €5,000 in other fees and penalties. In order to end the legal uncertainty, we offered to pay the amounts mentioned above to the plaintiff in consideration for not filing future appeals. The plaintiff rejected this offer and filed an appeal. Our answer to the appeal is due by November 7, 2019, and the appeal hearing is scheduled for December 5, 2019.

In June 2013, prior to our divestiture of our SmartID division, Merwell Inc., or Merwell, filed a claim against us before an agreed-upon arbitrator alleging breach of contract in connection with certain commissions claimed to be owed to Merwell with respect to the division's activities in Tanzania. These activities, along with all other activities of the SmartID division were later assigned to and assumed by SuperCom Ltd., or SuperCom, in its purchase of the division. SuperCom undertook to indemnify us and hold us harmless against any liabilities we may incur in connection with Merwell's consulting agreement and the arbitration. An arbitration decision was issued on February 21, 2016, awarding Merwell $854,912 for outstanding commissions. The arbitration decision had been appealed by SuperCom but the appeal was denied. In order to collect the award, Merwell filed a motion against the Company and on January 7, 2019 the Nazareth District Court issued a judgment requiring the Company to pay Merwell an amount of NIS 5,080 (approximately $1,370). As mentioned above, based on the agreement with SuperCom (which was granted an effect of a court judgment), we deem SuperCom to be liable for all the costs and liabilities arising out of this claim.

Subsequent to the balance sheet date, and since SuperCom failed to pay us the amounts due, we initiated an arbitration process to collect from SuperCom, the amount paid to Merwell. As of December 31, 2018, we recorded a provision for the full amount paid.

In December 2013, we completed the sale of certain assets, subsidiaries and intellectual property, or IP, relating to its Smart ID division, for a total purchase price of $10,000,000 in cash and an additional $12,500,000 subject to performance-based milestones, or the SmartID Division Divesture. On April 20, 2016, the purchaser of the Smart ID division, SuperCom, and we entered into a settlement agreement resolving certain litigation between SuperCom and us pursuant to which SuperCom paid us $2,050,000 and will agree to pay us up to $1,500,000 in accordance with and subject to a certain earn-out mechanism. In November 2017, we commenced an arbitration procedure with SuperCom, in which we claim that additional earn-out payments have not been paid to us. SuperCom has also raised claims against us during the arbitration procedure. An arbitration decision was issued on December 24, 2018 in our favor and denied SuperCom's claims. The Arbitrator ordered SuperCom to disclose the financial information regarding the earn-out payments that we are entitled to receive, and to pay us accordingly, or otherwise pay us the maximum earn-out amount, which equals to $1,500,000, minus the earn-out amounts that were already paid by SuperCom to us. On February 7, 2019, SuperCom filed an application to the District Court in Tel Aviv to cancel the said arbitration decision and we submitted a response to the application on March 20, 2019.

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our Ordinary Shares are traded on the Nasdaq Capital Market under the symbol “OTIV”.

Record Holders

Based on a review of the information provided to us by our transfer agent, as of March 4, 2019, there were 18 holders of record of our Ordinary Shares. This number may not be representative of the actual number of beneficial holders of our shares since many of our Ordinary Shares are held of record by brokers or other nominees.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

This discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto contained in “Item 8. Financial Statements and Supplementary Data” of this Annual Report.

Overview

We are a fintech pioneer and leading developer of cutting-edge secure cashless payment solutions providing global enterprises with innovative technology for almost three decades. We operate in two main segments: (1) Retail and Mass Transit Ticketing; and (2) Petroleum. As a result of the closing of the MediSmart Transaction, we no longer report our “Other” segment.

Our field-proven suite of cashless payment solutions is based on an extensive IP portfolio including registered patents and patent applications worldwide. Since our incorporation in 1990, we have built an international reputation for reliability and innovation, deploying a large number of solutions for the unattended retail, mass transit, banking, medical and petroleum industries.

We operate a global network of regional offices and distributors to support various solutions deployed across the globe.

Results of Operations

Discontinued operations. In December 2018, the Company completed the sale of its MediSmart activities (most of which is attributed to our former “Other” segment) to SMART. In September 2016, we completed the sale of certain assets and IP related to our parking business. In December 2013, we completed the sale of certain assets, certain subsidiaries and IP directly related to our SmartID division. The results from such operations and the cash flows for the reporting periods are presented in the statements of operations and in the statements of cash flow, respectively, as discontinued operations separately from continuing operations. All the data in this Annual Report that are derived from our financial statements, unless otherwise specified, exclude the results of those discontinued operations.

Year ended December 31, 2018, compared to years ended December 31, 2017 and 2016

Sources of Revenue

We have historically derived a substantial majority of our revenues from the sale of our products, including both complete systems and original equipment manufacturer components. In addition, we generate revenues from licensing and transaction fees, and also, less significantly, from engineering services, customer services, and technical support. During the past three years, the revenues that we have derived from sales and from licensing and transaction fees have been as follows (in thousands):

	Year ended December 31,		
	2018	2017	2016
Sales	$16,725	$16,252	$13,357
Licensing and transaction fees	$5,153	$4,621	$5,395
Total revenues	$21,878	$20,873	$18,752

Sales. Sales increased by $473,000, or 3%, in 2018 compared to 2017 and increased by $2.9 million, or 22%, in 2017 compared to 2016. The increase in 2018 compared to 2017 is mainly attributed to an increase in Retail and Mass Transit Ticketing segment sales in Europe, partially offset by a decrease in sales of readers to the U.S. market. The increase in 2017 compared to 2016 is mainly attributed to an increase in Retail and Mass Transit Ticketing segment sales in Japan, to an increase in Petroleum segment sales in India and to an increase in sales of readers and otiMetry solution in Europe, partially offset by a decrease in sales of readers to the U.S. market.

Licensing and transaction fees. Licensing and transaction fees include single and periodic payments for distribution rights for our products as well as licensing our intellectual property rights to third parties. Transaction fees are paid by customers based on the volume of transactions processed by systems that contain our products. The increase of $532,000 in 2018, or 12%, compared to 2017 is mainly attributed to an increase in licensing and transaction fees related to our otiMetry solution in Europe and Japan. The decrease of $774,000 in 2017, or 14%, compared to 2016 is mainly due to a decrease in licensing of our intellectual property rights to third parties in the U.S. market (licensing including legal actions to enforce patent rights), partially offset by an increase in licensing fees of our otiMetry solution in Europe.

We have historically derived revenues from different geographical areas. The following table sets forth our revenues, by dollar amount (in thousands) and as a percentage of annual revenues in different geographical areas, during the past three years:

Year ended December 31,	Americas		Europe		Africa		APAC	
2018	$7,914	36%	$8,395	39%	$2,447	11%	$3,122	14%
2017	$7,167	34%	$7,295	35%	$2,814	14%	$3,597	17%
2016	$9,984	53%	$5,890	32%	$2,310	12%	$568	3 %

Our revenues from sales in Americas increased by $747,000, or 10%, in 2018 compared to 2017, mainly due to an increase in sales of Petroleum products partially offset by a decrease in sales of readers to the U.S. market. Our revenues from sales in Americas decreased by $2.8 million, or 28%, in 2017 compared to 2016, mainly due to a decrease in sales of readers to the U.S. market, and by a decrease in licensing of our intellectual property rights to third parties in the U.S. market.

Our revenues from sales in Europe increased by $1.1 million, or 15%, in 2018 compared to 2017, mainly due to an increase of sales of readers in the Russian market. Our revenues from sales in Europe increased by $1.4 million, or 24%, in 2017 compared to 2016, mainly due to an increase in sales in our Retail and Mass Transit Ticketing segment and to an increase in readers and otiMetry solution in the European market.

Our revenues from sales in Africa decreased by $367,000, or 13%, in 2018 compared to 2017, mainly due to a decrease in sales of Petroleum products in Africa. Our revenues from sales in Africa increased by $505,000, or 22%, in 2017 compared to 2016, mainly due to an increase in sales of Petroleum products and affected by fluctuation in currency exchange rate for the South African Rand versus the U.S. Dollar.

Our revenues from sales in APAC decreased by $475,000, or 13%, in 2018 compared to 2017 mainly due to a decrease in our Petroleum products in India. Our revenues from sales in APAC increased by $3 million, or 533%, in 2017 compared to 2016 mainly due to an increase in our Uno Plus and GoBox products in Japan and an increase in our Petroleum products in India.

Our revenues derived from territories outside the United States, which are primarily received in currencies other than the U.S. Dollar, have a varying impact upon our total revenues, as a result of fluctuations in such currencies' exchange rates versus the U.S. Dollar.

The following table sets forth our revenues, by dollar amount (in thousands) and as a percentage of annual revenues by segments, during the past three years:

Year ended December 31,	Retail and Mass Transit Ticketing		Petroleum	
2018	$16,627	76 %	$5,251	24 %
2017	$15,755	75 %	$5,118	25 %
2016	$14,630	78 %	$4,122	22 %

Revenues in 2018 from Retail and Mass Transit Ticketing segment increased by $872,000, or 6%, compared to 2017 mainly due to an increase of sales of readers in Europe. Revenues in 2017 from Retail and Mass Transit Ticketing segment increased by $1.1 million, or 8%, compared to 2016 mainly due to an increase in sales in the Japanese market and an increase in readers and otiMetry solution sales in Europe, partially offset by a decrease in sales of readers to the U.S. market and a decrease in licensing of our intellectual property rights to third parties in the U.S. market.

Revenues in 2018 from the Petroleum segment increased by $133,000, or 3%, compared to 2017, mainly due to an increase in sales of Petroleum products in the United States, partially offset by a decrease in sales of Petroleum products in Africa and India. Revenues in 2017 from the Petroleum segment increased by $1.0 million, or 24%, compared to 2016, mainly due to an increase in sales of Petroleum products in India, and an increase in sales of

Petroleum products in Africa.

Cost of Revenues and Gross Margin

Our cost of revenues, presented by gross profit and gross margin percentage, for each of the past three years has been as follows (dollar amounts in thousands):

	Year ended December 31,		
Cost of revenues	2018	2017	2016
Cost of sales	$10,710	$10,456	$9,276
Cost of licensing	$-	$-	$250
Total cost of revenues	$10,710	$10, 456	$9,526
Gross profit	$11,168	$10,417	$9,226
Gross margin percentage	51 %	50 %	49 %

Cost of sales. Cost of sales consists primarily of materials, as well as salaries, fees to subcontractors and related costs of our technical staff that assemble our products. The cost of sales in 2018 compared to 2017 remained consistent. The increase of $930,000, or 10%, in 2017 compared to 2016, resulted primarily from an increase in revenues mainly attributed to an increase in Retail and Mass Transit Ticketing segment sales in Japan and an increase in our Petroleum segment sales in India.

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Cost of licensing. Cost of licensing consists of fees in connection with licensing of our intellectual property rights to third parties in the United States only. We did not have cost of licensing in 2018 and 2017 that are attributed to our revenues in 2018 or 2017. The fees in 2016 were due to licensing of our intellectual property rights to third parties in the U.S. market.

Gross margin. The increase in 2018 compared to 2017 of 1% and the increase in 2017 compared to 2016 of 1% are mainly attributed to a change in our revenue mix.

Operating expenses

Our operating expenses for each of the past three years have been as follows (in thousands):

	Year ended December 31,		
Operating expenses	2018	2017	2016
Research and development	$3,175	$3,263	$2,768
Selling and marketing	$5,940	$5,633	$5,516
General and administrative	$3,971	$3,620	$3,482
Patent litigation and maintenance	$10	$31	$48
Other expenses, net	$33	$52	$191
Total operating expenses	$13,129	$12,599	$12,005

Research and development. Our research and development expenses consist primarily of the salaries and related expenses of our research and development staff, as well as subcontracting expenses and depreciation of long-lived assets. Our research and development expenses in 2018 compared to 2017 remained consistent. The increase of $495,000, or 18%, in 2017 compared to 2016 is primarily attributed to an increase in employment expenses, an increase in the number of research and development employees and an increase in subcontractor expenses.

Selling and marketing. Our selling and marketing expenses consist primarily of salaries and substantially all of the expenses of our sales and marketing subsidiaries and offices in the United States, South Africa, and Europe, as well as expenses related to advertising, professional expenses and participation in exhibitions and tradeshows. The increase of $307,000, or 5%, in 2018 compared to 2017 is primarily attributed to an increase in the number of selling and marketing employees. The increase of $117,000, or 2%, in 2017 compared to 2016 is primarily attributed to an increase in the number of selling and marketing employees and to an increase in marketing and advertising expenses.

General and administrative. Our general and administrative expenses consist primarily of salaries and related expenses of our executive management and financial and administrative staff. These expenses also include costs of our professional advisors (such as legal and accounting), office expenses and insurance. The increase of $351,000 or 10% in 2018 compared to 2017 is primarily attributed to income that we derived in 2017 from our lawsuit against Harel for damages incurred by us due to flooding in a subcontractor's manufacturing site, and to an increase in general and administrative employment expenses. The increase of $138,000 or 4% in 2017 compared to 2016 is primarily attributed to an increase in employment expenses, partially offset by income from our lawsuit against Harel for damages incurred by us due to flooding in a subcontractor's manufacturing site.

Patent litigation and maintenance expenses. Our patent litigation and maintenance expenses consist primarily of professional advisors related to our patents and other IP, such as lawyers or other consultants. Our patent litigation and maintenance expenses in 2018, 2017 and 2016 remained consistent.

Other expenses (income), net. In 2018, our other expenses, net, consisted mainly of expenses related to consulting fees, partially offset by gain on sale of property and equipment. In 2017, our other expenses, net, consisted mainly of expenses related to the sale of fixed assets. In 2016, our other expenses, net, consisted of compensation expenses related to the termination of employment of our former Chief Financial Officer, Mr. Shay Tomer, and our former General Counsel and Company Secretary, Mr. Arie Rubinstein, according to their employment terms, following their resignation from the Company on January 31, 2016 and on March 30, 2016, respectively. Our other expenses (income), net in 2016 also consisted of net loss of $83,000 from the sale of our headquarters building in Rosh Pina, Israel on September 4, 2016, to a third party.

Financing expenses, net

Our financing expenses, net, for each of the past three years, have been as follows (in thousands):

	Year ended December 31,		
	2018	2017	2016
Financing expenses, net	$228	$341	$396

Financing expenses, net consist primarily of financing expense related to interest payable on bank loans, bank commissions and foreign exchange differentials partially offset by financing income related to interest earned on investments in short-term deposits. The decrease in financing expenses, net in 2018 compared to 2017 of $113,000, or 33%, is mainly due to exchange rate differentials and to a decrease in interest expenses due to reduction of our short-term and long-term bank loans. The decrease in financing expenses, net in 2017 compared to 2016 of $55,000, or 14%, is mainly due to a decrease in interest expenses on short-term and long-term loans that resulted from early repayments, partially offset by an increase in the exchange rate differentials of the U.S. Dollar against other currencies.

Net loss from continuing operations

Our net loss from continuing operations for each of the past three years has been as follows (in thousands):

	Year ended December 31,		
	2018	2017	2016
Net loss from continuing operations	$(1,888)	$(2,385)	$(3,044)

The decrease of net loss from continuing operations of $497,000, or 21%, in 2018 compared to 2017 is primarily due to an increase in our sales and an increase in our gross profit and a decrease in financial expenses, net, partially offset by an increase in our operating expenses, as described above. The decrease of net loss from continuing operations of $659,000, or 22%, in 2017 compared to 2016 is primarily due to an increase in our sales and an increase in our gross profit, partially offset by an increase in our operating expenses, as described above.

Net income from discontinued operations

In December 2018, we completed the MediSmart Transaction for a total price of $2,750,000. The results of MediSmart are classified as discontinued operations and have been presented as such for all reporting periods. Our net income from discontinued operations for each of the past three years has been as follows (in thousands):

	Year ended December 31,		
	2018	2017	2016
Net income from discontinued operations	$1,625	$1,787	$2,184

The decrease of net income from discontinued operations of $162,000, or 9%, in 2018 compared to 2017 is mainly attributed to $1.6 million net, recovered by us in 2017 pursuant to the August 23, 2017 judgment of the Israeli Central District Court in a lawsuit against Harel for damages incurred by us due to flooding in a subcontractor’s manufacturing site and to income from the MediSmart Transaction in 2018 in the amount of $2.75 million, partially offset by the expenses relating to Merwell in the amount of $1.4 million according to the Nazareth District Court judgment. The decrease in net income from discontinued operations of $397,000 in 2017 compared to 2016 is mainly attributed to a $2.1 million settlement fee paid to us in May 2016, in connection with a litigation with SuperCom Ltd. relating to the sale of our SmartID division, partially offset by $1.6 million, net recovered by us pursuant to the August 23, 2017 judgment of the Israeli Central District Court in a lawsuit against Harel for damages incurred by us due to flooding in a subcontractor’s manufacturing site.

Our net loss for each of the past three years has been as follows (in thousands):

	Year ended December 31,		
	2018	2017	2016
Net loss	$(263)	$(598)	$(860)

The decrease in net loss of $335,000, in 2018 compared to 2017, is primarily due to an increase in our sales and an increase in our gross profit and a decrease in financial expenses, net, partially offset by an increase in our operating expenses and a decrease in net profit from discontinued operations as described above. The decrease in net loss of $262,000, or 30%, in 2017 compared to 2016, is primarily due to an increase in our gross profit, partially offset by increase in our operating expenses and a decrease in net profit from discontinued operations, as described above.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States. Accordingly, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based on the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and results of operations. To fully understand and evaluate our reported financial results, we believe it is important to understand our revenue recognition policy, our policy with respect to discontinued operations and our policy with respect to contingent consideration.

Revenue recognition. We generate revenues from our product sales manufactured based on our technology. In addition, we generate revenues from the technology we developed through transaction fee arrangements, licensing agreements and patent litigation settlements, as part of our patent activity. Revenues are also generated from non-recurring engineering, customer services and technical support.

We adopted Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customer*, effective January 1, 2018 on a modified retrospective basis. Such adoption did not cause a cumulative adjustment to retained earnings or a material impact on our revenue recognition policies or on our consolidated financial statements. See also Notes 2J, 2W(2) and 9 to the consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data” of this Annual Report. Based on this ASU, we recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer.

License and transaction fees are recognized as earned based on actual usage. Usage is determined by receiving confirmation from the users. Patent litigation revenues are recognized upon final settlement of the litigation.

Revenues relating to customer services and technical support are recognized as the services are rendered ratably over the term of the related contract.

Licensing and transaction fees are recognized based on the volume of transactions or monthly licensing fees from systems that contain our products and usually bear no cost.

Our cost of warranty that the product will perform according to certain specifications and that we will repair or replace the product if it ceases to work properly, is insignificant and is treated according to accounting guidance for contingencies.

Discontinued operations. Upon divestiture of a business, the Company classifies such business as a discontinued operation, if the divested business represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results.

For disposals other than by sale such as abandonment, the results of operations of business would not be recorded as a discontinued operation until the period in which the business is actually abandoned.

We have concluded that the divestiture of the SmartID division, the divestiture of the parking business and the MediSmart activity qualify as discontinued operations and therefore have been presented as such.

The results of businesses that have qualified as discontinued operations have been presented as such for all reporting periods. Results of discontinued operations include all revenues and expenses directly derived from such businesses; general corporate overhead is not allocated to discontinued operations.

Any loss or gain that arose from the divestiture of a business that qualifies as discontinued operations have been included in the results of the discontinued operations.

We also present cash flows from discontinued operations separately from cash flows of continuing operations.

Contingent consideration. Certain sale arrangements consist of contingent consideration based on the divested businesses future sales or profits. We record the contingent consideration portion of the arrangement when the consideration is determined to be realizable.

Liquidity and Capital Resources

Our principal sources of liquidity since our inception have been sales of equity securities, borrowings from banks, cash from the exercise of options and warrants and proceeds from the divestiture of part of our businesses. We had cash, cash equivalents and short-term investments representing bank deposits of $5.9 million (of which an amount of $278,000 has been pledged as a security in respect of performance guarantees granted to third parties, loans and credit lines received from a bank) as of December 31, 2018, and $10.1 million as of December 31, 2017 (of which an amount of $1.0 million had then been pledged as a security in respect of performance guarantees granted to third parties, loans and credit lines received from a bank). We believe that we have sufficient capital resources to fund our operations for at least the next 12 months. We adhere to an investment policy which is intended to enable the Company to avoid being classified as a "passive foreign investment company," or PFIC, under United States law. That said, we cannot provide complete assurance that PFIC status will be avoided in the future. In addition, our investment policy requires investment in high-quality investment-grade securities. As of December 31, 2018, the bank loans are denominated in the following currencies: Polish Zloty ($252, with maturity dates in 2019) and South African Rand ($47,000, with maturity dates ranging from 2019 through 2020). As of December 31, 2018, these loans bear weighted average annual interest of 4.66%.

The composition of our long-term loans as of December 31, 2018, was as follows (in thousands):

	December 31, 2018
Long-term loans	$ 299
Less-current maturities	260
	$ 39

Our and certain of our subsidiaries' manufacturing facilities and certain equipment have been pledged as security in respect of a loan received from a bank. The Company's short-term deposits in the amount of $278,000 have been pledged as security in respect of guarantees granted to third parties, loans and credit lines received from a bank. Such deposits cannot be pledged to others or withdrawn without the consent of the bank.

As of December 31, 2018, we granted guarantees to third parties including performance guarantees and guarantees to secure customer advances in the sum of $304,000. The expiration dates of the guarantees ranged from January 2019 to June 2019.

For the years ended December 31, 2018 and December 31, 2017, we had a negative cash flow from continuing operations of $2.2 million and $3.1 million, respectively.

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Operating activities related to continuing operations

For the year ended December 31, 2018, net cash used in continuing operating activities was $2.2 million primarily due to a $2.1 million decrease in trade payables, a $1.9 million net loss from operating activities, a $573,000 decrease in inventories, a $110,000 decrease in other current liabilities, a $57,000 decrease in accrued severance pay, a $37,000 gain on sale of property and equipment, $477,000 of deferred tax benefits, partially offset by a $1.3 million of depreciation and amortization, a $1.1 million increase in trade receivables, a $350,000 increase in other receivables and prepaid expenses, a $234,000 non-cash expense due to stock-based compensation issued to employees and others and a $19,000 increase in accrued interest and linkage differences.

For the year ended December 31, 2017, net cash used in continuing operating activities was $3.1 million primarily due to a $2.4 million net loss from operating activities, a $838,000 decrease in other receivables and prepaid expenses, $165,000 of deferred tax benefits, a $644,000 decrease in trade payables, a $597,000 decrease in other current liabilities, a $124,000 decrease in trade receivables and a $6,000 decrease in accrued interest and linkage differences, partially offset by $1.2 million of depreciation and amortization, a $254,000 non-cash expense due to stock-based compensation issued to employees and others, a $110,000 increase in inventories, a $52,000 loss on sale of property and equipment and a $45,000 increase in accrued severance pay.

For the year ended December 31, 2016, net cash used in continuing operating activities was $2.9 million primarily due to a $3.0 million net loss from operating activities, a $3.2 million decrease in trade receivables, a $183,000 decrease in accrued severance pay and a $106,000 decrease in inventories, $155,000 of deferred tax benefits, partially offset by a $1.6 million increase in trade payables, $1.2 million of depreciation and amortization, a $349,000 increase in other receivables and prepaid expenses, a $288,000 increase in other current liabilities, a $239,000 non-cash expense due to stock-based compensation issued to employees and others, an $83,000 loss on sale of property and equipment and a $56,000 increase in accrued interest and linkage differences.

Operating activities related to discontinued operations

For the year ended December 31, 2018, net cash provided by discontinued operating activities was $750,000 mainly related to the MediSmart operation.

For the year ended December 31, 2017, net cash provided by discontinued operating activities was $2.3 million, of which $1.5 million was related to proceeds from Harel following the judgment issued by the Israeli Central District Court described above and $838,000 mainly related to MediSmart operation.

For the year ended December 31, 2016, net cash provided by discontinued operating activities was $469,000, of which $752,000 mainly related to the MediSmart operation, offset by $283,000 related to the SmartID division and previous parking business.

Investing and financing activities related to continuing operations

For the year ended December 31, 2018, net cash provided by continuing investing activities was $815,000, mainly due to a $1.5 million net change in short-term investments, $68,000 in proceeds from the sale of property and $8,000 in proceeds from restricted deposit for employee benefits, partially offset by $636,000 of purchases of property and equipment and $120,000 of investment in capitalized product costs.

For the year ended December 31, 2017, net cash provided by continuing investing activities was $1.3 million, mainly due to $1.8 million net change in short-term investments, $44,000 in proceeds from restricted deposit for employee benefits and $17,000 in proceeds from the sale of property, partially offset by $293,000 of purchases of property and equipment and $239,000 of investment in capitalized product costs.

For the year ended December 31, 2016, net cash provided by continuing investing activities was $556,000, mainly due to $1.8 million in proceeds from the sale of property, plant and equipment and $142,000 in proceeds from restricted deposit for employee benefits, partially offset by a $822,000 net change in short-term investments, a $311,000 purchases of property and equipment, a $188,000 investment in capitalized product costs and a $44,000 investment in restricted deposit for employee benefits.

For the year ended December 31, 2018, net cash used in continuing financing activities was $4.6 million, mainly due to a $3.6 million decrease in short-term bank credit and $1.1 million repayment of long-term bank, partially offset by $34,000 in proceeds from the exercise of options.

For the year ended December 31, 2017, net cash used in continuing financing activities was $875,000, mainly due to a $632,000 repayment of long-term bank loans and a $335,000 decrease in short-term bank credit, partially offset by $92,000 in proceeds from the exercise of options.

For the year ended December 31, 2016, net cash used in continuing financing activities was $359,000, mainly due to a $1.6 million repayment of long-term bank loans, partially offset by a $1.0 million increase in short-term bank credit, $177,000 in proceeds from the exercise of options and warrants and $27,000 in proceeds from long-term bank loans.

Investing and financing activities related to discontinued operations

For the year ended December 31, 2018, net cash provided by discontinued investing activities was $2.8 million, due to the MediSmart Transaction.

For the year 2017, no cash flow was related to discontinued investing activities.

For the year ended December 31, 2016, net cash provided by discontinued investing activities was $2.3 million, due to contingent consideration received related to the Smart ID division divestiture and consideration derived from the divestiture of our parking business.

For the years 2018, 2017 and 2016, no cash flow was related to discontinued financing activities.

Market Risks

Market risks relating to our operations result primarily from changes in interest rates and currency fluctuations. In order to limit our exposure, we may enter, from time to time, into various non-speculative derivative transactions. Our objective is to reduce exposure and fluctuations in earnings and cash flows associated with changes in interest rates and foreign currency rates. We do not use financial instruments for trading purposes.

Interest Rate Risks

We are exposed to market risks resulting from changes in interest rates, primarily in connection with our loan obligations to banks. We do not currently use derivative financial instruments to limit exposure to interest rate risk. As of December 31, 2018, we had long-term loan obligations of $299,000, the vast majority of which is subject to variable interest rates. Of this amount, $252,000 was denominated in Polish Zloty, and $47,000 was denominated in South African Rand. These loans are scheduled to be repaid during approximately the next two years. The carrying values of the loans are equivalent to or approximate their fair market value as they bear interest at approximate market rates.

Impact of Inflation and Currency Fluctuations

Our functional and reporting currency is the U.S. Dollar. We generate a certain portion of our revenues, and we incur some of our expenses in other currencies. As a result, we are exposed to the risk that the rate of inflation in countries in which we are active other than the United States will exceed the rate of devaluation of such countries' currencies in relation to the dollar or that the timing of any such devaluation will lag behind inflation in such countries. To date, we have been affected by changes in the rate of inflation or the exchange rates of other countries' currencies compared to the dollar, and we cannot assure you that we will not be adversely affected in the future.

The annual rate of inflation in Israel was 1.3% in 2018, 0.6% in 2017 and -0.3% in 2016. The NIS revaluated against the U.S. Dollar by approximately 8.1% in 2018, 11% in 2017 and 1.5% in 2016.

The functional currency of ASEC is the Polish Zloty and of OTI PetroSmart was until September 30, 2017 the South African Rand. A significant amount of these subsidiaries' revenues is earned, and a significant amount of their expenses are incurred, in their functional currencies. To the extent that there are fluctuations between the Polish Zloty and/or the South African Rand against the U.S. Dollar, the translation adjustment will be included in our consolidated statements of changes in equity as other comprehensive income or loss and will not impact the consolidated statements of operations.

Corporate Tax Rate

On December 22, 2016, the Israeli government passed a law under which the corporate tax rate will be reduced from 25% to 23% in two steps. As an Israeli resident company, we were subject from January 2017 to statutory tax at the rate of 24%, following a reduction of a corporate tax by the Israeli government above mentioned. The second reduction was to a rate of 23% as from January 2018.

Government of Israel Support Programs

Until 2005, we participated in programs offered by the IIA that supports research and development activities. Under the terms of these programs, a royalty of 3%-3.5% of the sales of products must be paid to the IIA, beginning with the commencement of sales of products developed with grant funds and ending when the dollar value of the grant (including interest based on annual rate of LIBOR applicable to dollar deposits) is repaid. In 2006, we decided to cease our participation with the IIA.

Royalties payable with respect to grants received under programs approved after January 1, 1999, however, will be subject to interest on the dollar-linked value of the total grants received at an annual rate of LIBOR applicable to dollar deposits. As of December 31, 2018, we have received a total of $3.8 million from the IIA net of royalties paid to it (or accrued for). The terms of Israeli government participation also require that the manufacturing of products developed with government grants be performed in Israel unless the IIA has granted special approval. If the IIA consents to the manufacture of the products outside of Israel, we may be required to pay increased royalties, ranging from 120% to 300% of the amount of the IIA grant, depending on the percentage of foreign manufacture. These restrictions continue to apply even after we have paid the full amount of royalties payable with respect of the grants. Based upon the aggregate grants received to date, we expect that we will continue to pay royalties to the IIA to the extent of our sales of our products and related services for the foreseeable future. Separate IIA consent is required to transfer to third-parties technologies developed through projects in which the government participates. These restrictions do not apply to exports from Israel of products developed with these technologies.

Off-Balance Sheet Arrangements

Our Company has no off-balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

Our financial statements are stated in thousands of United States dollars and are prepared in accordance with U.S. GAAP.

The following audited consolidated financial statements are filed as part of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm, dated March 25, 2019.

Consolidated Balance Sheets.

Consolidated Statements of Operations.

Consolidated Statements of Comprehensive Loss.

Consolidated Statements of Changes in Equity.

Consolidated Statements of Cash Flows.

Notes to the Consolidated Financial Statements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, are responsible for establishing and maintaining our disclosure controls and procedures (within the meaning of Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, or Exchange Act). These controls and procedures are designed to ensure that information required to be disclosed in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information was made known to our management, including our CEO and CFO, by others within the Company, as appropriate to allow timely decisions regarding required disclosure. We evaluated these disclosure controls and procedures under the supervision of our CEO and CFO as of December 31, 2018. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures are effective as of such date.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Our internal control over financial reporting policies and procedures are designed under the supervision of the CEO and CFO to provide reasonable assurance regarding the reliability of the financial reporting and preparation of the financial statements for the external reporting purposes in accordance with U.S. GAAP. Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our evaluation under the framework in *Internal Control—Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management’s report regarding internal control over financial reporting was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management’s report in this Annual Report.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Our Directors and executive officers, as of the date hereof, together with their ages and business backgrounds are as follows:

Name	Age	Position(s) Held
James Scott Medford (1)	67	Chairman of the Board of Directors
Michael Soluri (1)(2)(3)	47	Director
William C. Anderson III (1)(2)(3)	48	Director
Donna Seidenberg Marks (1)(2)(3)	63	Director
Shlomi Cohen	54	Director and Chief Executive Officer
Assaf Cohen	34	Chief Financial Officer

(1) Independent Director under Nasdaq rules

(2) Member of Compensation Committee

(3) Member of Audit Committee

Directors

James Scott Medford was appointed in January 2017 as a director and as Chairman of the Board of Directors and was reelected on November 21, 2017 to serve until the general meeting of shareholders that will take place three years following his reelection. Mr. Medford has over 35 years of experience in the fields of AIDC (automatic identification and data capture), encompassing an early introduction to bar coding, wireless technology, speech recognition and RFID (Radio-Frequency Identification). From 1990 to 2006, Mr. Medford served as a Vice President at Intermec Technologies, where he developed various departments. During 2006, Mr. Medford was a partner at Genesta Partnership, which designs and deploys systems in manufacturing and logistics, where he also managed projects for Fortune 100 companies. From 2008 to 2015, Mr. Medford served as a Senior Vice President of Sales at Impinj, a manufacturer of RFID integrated circuits, devices and software. Most recently, Mr. Medford served as Chief Sales Officer at Invengo International Pte Ltd., a leading provider of RFID technology and solutions, focused on growing the American and European markets, mainly in the retail segments. Mr. Medford currently provides consulting services to numerous high-tech solution companies and investment firms and serves as Chairman of LMC, Ltd, a UK based company providing solutions to the international rail and transportation industry. Mr. Medford is also a Senior

Vice President of Global Sales for Apex Supply Chain Technologies.

The Company believes Mr. Medford's operational executive management and board experience with global companies make him suitable to serve as a director and Chairman of the Board of Directors of the Company.

Michael Soluri was appointed in January 2017 as a director and was reelected on November 21, 2017 to serve until the general meeting of shareholders that will take place three years following his reelection. Mr. Soluri is a technology sales executive with expertise in global direct IT sales within the finance, manufacturing and retail industries and the internet of things field. From 1993 to 1995, Mr. Soluri served as the Sales Director of Ameriquest Technologies, a company digitizing existing processes. From 1995 to 1997, Mr. Soluri served as the Executive Sales Director of Siemens Data Communications, where he focused on smart switching technologies and intelligent data hub markets. From 1998 to 2015, Mr. Soluri served as the Executive Manager, Global Client Services at the Imaging, Software and Solutions Division of Lexmark International, and he currently serves as the Chief Revenue Officer and Vice President of EDM Group that focuses on information management for organizations.

The Company believes Mr. Soluri's professional and corporate experience make him suitable to serve as a director of the Company.

William C. Anderson III was elected in 2014 as a director and was reelected on November 21, 2017 to serve until the general meeting of shareholders that will take place three years following his reelection. Mr. Anderson is the founder of AmpThink LLC, a wireless solutions company focused on building large, complex, wireless networks employing different technologies including low and high frequency RFID, wireless bridging, WiFi, near field communications and Bluetooth. AmpThink has led the delivery of networks for three recent major American football sporting events. Mr. Anderson has been acting as the President of AmpThink LLC since its incorporation in 2011. Prior to AmpThink, Mr. Anderson was co-founder of Genesta, a wireless systems integrator specializing in the design and deployment of warehouse automation systems, where Mr. Anderson from 2000 to 2011 acted as Chief Technology Officer. In this position, Mr. Anderson helped create solutions for clients such as Con Edison, Frito-Lay, and Sara Lee. Mr. Anderson holds a degree in Economics and Philosophy from Boston College and a Master’s degree in Management Science from The State University of New York.

The Company believes Mr. Anderson’s qualifications including his years of experience in the high-tech industry and network solutions business, as well as his experience as Chief Technology Officer and President of private American companies, make him suitable to serve as an External Director of the Company.

Donna Seidenberg Marks was elected as an External Director under the Companies Law in November 2015, effective January 1, 2016, to hold office for a three-year term. On November 20, 2018, the term of office of Ms. Seidenberg Marks as an External Director expired pursuant to the provisions of section 5D of the Israeli Companies Regulations (Relief for Public Companies with Shares Listed for Trading on a Stock Market Outside of Israel), 5760-2000. In connection with such expiration and the previous adoption by the Company of the exemption provided in section 5D of the Israeli Companies Regulations (Relief for Public Companies with Shares Listed for Trading on a Stock Market Outside of Israel), 5760-2000, that allows the Company to follow Nasdaq Stock Market Rules with respect to appointment of independent directors and composition of audit and compensation committees (and exempts the Company from the need to elect External Directors and other requirements with respect to audit and compensation committees as more fully specified below), our Board of Directors appointed Ms. Seidenberg Marks as a director, effective November 21, 2018, to serve until the next general meeting of shareholders of the Company at which directors are being elected. Ms. Seidenberg Marks is a Certified Public Accountant with a wide variety of experience serving clients in various industries over her 38 years in the practice of public accounting. Ms. Seidenberg Marks has served as a director at the Fuoco Group, LLC, a certified public accounting firm that provides audit, tax and consulting services to its clients throughout its five locations in Florida and New York. Prior to joining the Fuoco Group, Mrs. Seidenberg Marks was the managing partner of her own firm, Donna Seidenberg, PA and served as a Managing Director at American Express Tax and Business Services (which merged into the international accounting firm of RSM International). Her practice includes performing audits, reviews, and compilations of financial statements, preparing tax returns, and rendering consulting services, including forensic accounting and expert witness testimony in mediations and litigation matters in her areas of specialization. Her experience also includes consulting on Sarbanes-Oxley implementation. Ms. Seidenberg Marks is a frequent speaker at local and national meetings of the Community Associations Institute for which she serves on its National Business Partners Council, and is a past President and Treasurer of its local chapter. Ms. Seidenberg Marks earned a B.A. in Business Administration degree in Accounting (magna cum laude) from the University of South Florida in 1978 and is a member of the Florida Institute of Certified Public Accountants.

The Company believes that Ms. Seidenberg Marks' professional and corporate experience, as well as her knowledge and familiarity with corporate finance and accounting as an experienced Certified Public Accountant, make her suitable to serve as an External Director of the Company.

Shlomi Cohen was elected as a director in December 2016 to hold office until the first general meeting of the shareholders of the Company to be held following the termination of a 36-month period that commenced as of December 15, 2016. Mr. Cohen currently serves as the Company's Chief Executive Officer. Prior to joining the Company, Mr. Cohen, served as president and Chief Executive Officer of RayV Technologies Ltd. from 2012 until it was acquired by Yahoo! in 2014. Prior to that and from 2010 to 2012, Mr. Cohen served as president of Europe Middle-East Africa for NICE Systems Ltd (Nasdaq: NICE). Mr. Cohen has also held sales positions with a number of leading technology companies, including Nokia (2007-2010), Siemens (2003-2007), BATM Advanced Communications (1998-2002) and Eldor Computers (1990-1995). Mr. Cohen holds an M.B.A. from the Bar Ilan University and a B.Sc. in mechanical engineering from the Tel-Aviv University.

The Company believes Mr. Cohen’s professional and corporate experience make him suitable to serve as a director of the Company.

Executive Officers

Shlomi Cohen was appointed by the Board in August 2015, to serve as the Company’s Chief Executive Officer. For additional information see the information set forth above.

Assaf Cohen was appointed as the Company’s Chief Financial Officer effective February 27, 2018. Prior to his appointment, Mr. Cohen served as the Company’s controller and deputy Chief Financial Officer from July 2015 and oversaw the Company’s finance department in this capacity. Prior to joining the Company, Mr. Cohen was a controller at a private company, Samgal Ltd., for a year and a half and prior to that he was a senior accountant at Ernst & Young. Mr. Cohen received a B.A. in economics and accounting from the Haifa University, and he is a Certified Public Accountant in Israel.

Board Practices

Election of Directors; Appointment of Officers

Our current Board consists of five directors. A majority of these directors must be non-executive directors, who are directors that are neither office holders nor our employees. Our non-External Directors (where currently none of our directors is External Director) are appointed, removed or replaced by a majority vote of our shareholders present in person or by proxy at a general meeting of our shareholders according to the Companies Law.

Once elected at a shareholders’ meeting, our directors, except for External Directors (if any), hold office until the first general meeting of shareholders held at least three years after their election. Incumbent directors may be reelected at that meeting. A director may be elected for consecutive terms unless prohibited by law.

Under the Companies Law, neither the Chief Executive Officer of a public company nor a family member thereof or any person directly or indirectly subordinate to the Chief Executive Officer, may serve as a Chairman of the board of directors, and vice versa unless authorized by a general meeting of the shareholders according to the required vote pursuant to the Companies Law and then only for a period of time that does not exceed three years.

Our Board appoints our Chief Executive Officer and his terms of employment are approved by the general shareholders meeting according to the provisions of the Companies Law. With the exception of our Chief Executive Officer and our directors, each of our executive officers serves at the discretion of our Chief Executive Officer, subject to the terms of any employment agreement, and holds office until his or her successor is elected or until his or her earlier resignation or removal.

Board Leadership Structure

Mr. Cohen is our Chief Executive Officer, and Mr. Medford is Chairman of our Board. As Chief Executive Officer of the Company, Mr. Cohen reports to the Company’s Board. None of our independent directors serves as the lead independent director. We believe that this leadership structure is appropriate given the current size and operations of the Company.

Risk Oversight

Our Board’s role in risk oversight includes risk analysis and assessment in connection with each financial and business review, update and decision-making proposal and deliberations.

The Board’s role in our risk oversight is consistent with our leadership structure, with our Chief Executive Officer, whose performance is assessed by the Board, and other members of senior management having responsibility for assessing and managing our risk exposure, and the Board providing oversight in connection with those efforts.

The Board, including the Audit Committee and Compensation Committee, periodically reviews and assesses the significant risks to the Company. Our management is responsible for the Company's risk management process and the day-to-day supervision and mitigation of risks. These risks include strategic, operational, competitive, financial, legal and regulatory risks. Our Board leadership structure, together with the frequent interaction between our directors and management, assists in this effort. Communication between our Board and management regarding long-term strategic planning and short-term operational practices include matters of material risk inherent in our business.

The Board plays an active role, as a whole and at the committee level in overseeing management of the Company's risks. Each of our Board committees is focused on specific risks within their areas of responsibility, but the Board believes that the overall enterprise risk management process is more properly overseen by all of the members of the Board. The Audit Committee is responsible, among other things, for overseeing the management of financial and accounting risks, risks related to the Company's compliance with legal and regulatory requirements, risks in regard to the independent auditor's performance of its internal audit function, evaluation of any inadequacies in the business management of the Company and risks in related-party transactions. The Compensation Committee is responsible, among other things, for overseeing the management of risks relating to executive and employee compensation plans, incentive awards and other beneficial arrangements. While each committee is responsible for the evaluation and management of such risks, the entire Board is regularly informed through committee reports. The Board incorporates the insight provided by these reports into its overall risk management analysis.

The Board administers its risk oversight responsibilities through the Chief Executive Officer and the Chief Financial Officer, who, together with management representatives of the relevant functional areas review and assess the operations of the Company as well as operating management's identification, assessment and mitigation of the material risks affecting our operations.

External Directors

Under the Companies Law, a company incorporated under the laws of the State of Israel with shares listed on an exchange, including Nasdaq, must appoint at least two External Directors; however, pursuant to an exemption provided under section 5D of the Israeli Companies Regulations (Relief for Public Companies with Shares Listed for Trading on a Stock Market Outside of Israel), 5760-2000, or the Exemption, a public company with securities listed on certain foreign exchanges, including Nasdaq, that satisfies the applicable foreign country laws and regulations that apply to companies organized in that country relating to the appointment of independent directors and composition of audit and compensation committees and has no controlling shareholder is exempt from the requirement to appoint External Directors or comply with the audit committee and compensation committee composition requirements under the Companies Law.

On May 25, 2017, in conjunction with the expiration of Mr. Anderson's term as External Director the Company adopted the Exemption and appointed William C. Anderson III as a director (who is not an External Director), effective May 26, 2017, to serve until the next general meeting of shareholders of the Company at which directors are being elected. At the general meeting of shareholders that took place on November 21, 2017, Mr. Anderson was elected to serve as director.

Ms. Seidenberg Marks, the Company's only then remaining External Director at that time, ceased to act as an External Director on November 20, 2018 and the Board appointed Ms. Seidenberg Marks as a director (who is not an External Director), effective November 21, 2018, to serve until the next general meeting of shareholders of the Company at which directors are being elected.

Currently, there is no External Director sitting on the Board of Directors of the Company.

Alternate Directors

Under our current articles of association as amended and restated on December 6, 2013, each of our directors may appoint, with the agreement of the Board and subject to the provisions of the Companies Law, by written notice to us, any person to serve as an alternate director. Under the Companies Law, neither a currently serving director nor a currently-serving alternate director or any person not eligible under the Companies Law to be appointed as a director may be appointed as an alternate director. An alternate director has all the rights and duties of the director appointing him, unless the appointment of the alternate provides otherwise, and the right to remuneration. The alternate director may not act at any meeting at which the appointing director is present. Unless the time period or scope of the appointment is limited by the appointing director, the appointment is effective for all purposes but expires upon the expiration of the appointing director's term. Currently, none of our directors has appointed any alternate directors.

Directors' Service Contracts

Except for Mr. Cohen, who serves as the Company's Chief Executive Officer, none of our directors have any services contracts either with us or with any of our subsidiaries, which provide for benefits upon termination of employment or service.

Board Committees

Our Board has established an Audit Committee and a Compensation Committee.

Audit Committee

The current members of our Audit Committee are William C. Anderson III, Donna Seidenberg Marks and Michael Soluri. Donna Seidenberg Marks serves as the Chairman of the Audit Committee. Our Board has determined that all of the above are independent Audit Committee members within the meaning of Nasdaq and SEC rules. Our Board has also determined that Donna Seidenberg Marks is an "Audit Committee Financial Expert" as defined in Item 407(d)(5)(ii) of Regulation S-K under the Exchange Act and that he has the requisite experience under Nasdaq rules.

Our Audit Committee operates under a written charter that is posted on our website at http://investors.otiglobal.com.

Our Audit Committee provides assistance to our Board in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by pre-approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal control over financial reporting. Our Audit Committee also oversees the audit efforts of our independent accountants and takes those actions that it deems necessary to satisfy itself that the accountants are independent of management.

Under the Companies Law and Nasdaq rules, our Audit Committee is responsible for (i) determining whether there are deficiencies in the business management practices of our Company, including in consultation with our internal auditor or the independent auditor, and making recommendations to the Board to improve such practices, (ii) determining whether to approve certain related party transactions (including transactions in which an office holder has a personal interest) and whether such transaction should be deemed as material or extraordinary, (iii) where the Board approves the working plan of the internal auditor, to examine such working plan before its submission to the Board and propose amendments thereto, (iv) examining our internal controls and internal auditor's performance, including whether the internal auditor has sufficient resources and tools to dispose of its responsibilities, (v) examining the scope of our auditor's work and compensation and submitting a recommendation with respect thereto to our Board or shareholders, depending on which of them is considering the appointment of our auditor, and (vi) establishing procedures for the handling of employee complaints as to the management of our business and the protection to be provided to such employees. In compliance with regulations promulgated under the Companies Law, our Audit Committee also approves our financial statements, thereby fulfilling the requirement that a board committee provide such approval.

Our Audit Committee held four meetings during the fiscal year ended December 31, 2018 (and one written resolution in lieu of a meeting).

Internal Auditor

Under the Companies Law, the Board must appoint an internal auditor who is recommended by the Audit Committee. The role of the internal auditor is to examine, among other things, whether the company's actions comply with the law and orderly business procedure. Under the Companies Law, the internal auditor may not be an office holder or an interested party, as defined below, or a relative of an office holder or an interested party, or the company's independent accountant or the independent accountant's representative. The Companies Law defines an "interested party" as a holder of 5% or more of the issued shares or voting rights of a company, a person or entity who has the right to designate at least one director or the general manager of the company, and a person who serves as a director or general manager. Since March 5, 2012, Mr. Gali Gana, CPA, of Rosenblum Holzman & Co., has served as our internal auditor.

Compensation Committee

The current members of our Compensation Committee are William C. Anderson III, Donna Seidenberg Marks and Michael Soluri. William C. Anderson III is the Compensation Committee's Chairman. Our Board has determined that all Compensation Committee members are independent within the meaning of Nasdaq and SEC rules.

The Compensation Committee operates under a charter that is posted on our website at http://investors.otiglobal.com.

Under the Companies Law and Nasdaq rules, our Compensation Committee is responsible for (i) proposing office holder compensation policies to the Board, (ii) proposing necessary revisions to any compensation policy and examining its implementation, (iii) determining whether to approve transactions with respect to compensation of office holders, and (iv) determining, in accordance with office holder compensation policies, whether to exempt an engagement with an unaffiliated nominee for the position of chief executive officer from requiring shareholder approval.

Subject to the provisions of the Companies Law, compensation of executive officers is generally determined and approved by our Compensation Committee and our Board. Shareholder approval is generally required when (i) approval by our Board and our Compensation Committee is not consistent with our Amended and Restated Executive Officers Compensation Policy which was adopted by the annual meeting of shareholders on December 15, 2016, or (ii) the compensation is that of our Chief Executive Officer. In special circumstances, our Compensation Committee and Board may approve the compensation of an executive officer (other than a director, a chief executive officer or a controlling shareholder) or approve the compensation policy despite shareholder objection. Additionally, under certain circumstances, our Compensation Committee may exempt an engagement with a nominee for the position of chief executive officer from requiring shareholders' approval or may otherwise postpone such shareholders' approval.

A director or executive officer may not be present when the Board discusses or votes upon the terms of his or her compensation, unless the chairman of the Board (as applicable) determines that he or she should be present to present the transaction that is subject to approval. The Chief Executive Officer may not be present during voting or deliberations regarding his or her compensation.

We may from time to time engage the services of external compensation consultants on a case by case basis, though we did not engage any such compensation consultant for the fiscal year ended December 31, 2018. All compensation consultants we have engaged are independent for the purposes of Nasdaq rules.

Our Compensation Committee held two meetings during the fiscal year ended December 31, 2018 (and adopted certain resolutions by way of two unanimous written consents).

Nominating Committee; Director Candidates

We do not have a Nominating Committee or any committees of a similar nature, nor any charter governing the nomination process. Our Board does not believe that such committees are needed for a company our size. However, our independent directors will consider shareholder suggestions for additions to our Board.

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Director nominees are recommended for our Board's selection by a majority of our independent directors in a vote in which only our independent directors participate. Under the Companies Law, our directors are elected by the general meeting of shareholders, with the recommendation of the Board. There is no formal process or policy that governs the manner in which we identify potential candidates for the Board. Historically, however, the Board has considered several factors in evaluating candidates for nomination to the Board, including the candidate's knowledge of the Company and its business, the candidate's business experience and credentials, and whether the candidate would represent the interests of all the Company's shareholders as opposed to a specific group of shareholders. Diversity is not considered material in identifying nominees for directors. We do not have a formal policy with respect to our consideration of Board nominees recommended by our shareholders because we are a small company. However, our independent directors will consider shareholders suggestions for additions to our Board. A shareholder who desires to recommend a candidate for nomination to the Board should do so by writing to us at Board of Directors, c/o Company Secretary, On Track Innovations Ltd., Z.H.R. Industrial Zone, Rosh Pina, Israel, 1200000.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to our directors, executive officers and all of our employees. The Code of Business Conduct and Ethics is publicly available on our website at http://investors.otiglobal.com/corporate-governance, and we will provide, at no charge, persons with a written copy upon written request made to us. The information contained in, or accessible through, our website does not constitute part of this Annual Report.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 3 and 4, and amendments thereto, submitted to the SEC during the fiscal year ended December 31, 2018, we believe that during said year, our executive officers, directors and all persons who own more than ten percent of a registered class of our equity securities complied with all Section 16(a) filing requirements.

Item 11. Executive Compensation.

The following table sets forth the compensation earned during the years ended December 31, 2018 and 2017 by (i) our Chief Executive Officer; (ii) our Chief Financial Officer; (iii) our VP of Hardware Engineering; and (iv) our VP, Research & Development; and (v) our General Counsel and Corporate Secretary. We refer to the persons listed in (i) through (v) collectively as the Named Executive Officers. Certain of these officers are included solely to comply with Israeli law.

Summary Compensation Table

Name and Principal		**Salary**	**Bonus**	**Stock-based Awards**	**Non-equity Incentive Plan Compensation**	**All other Compensation**	**Total**
Position	Year	($) (1)	($)	($) (2)	($)	($) (3)	($)
Shlomi Cohen	2018	419,524	36,351	65,000	259,550	71,479	851,904
Chief Executive Officer (4)	2017	416,917	36,302	81,000	279,526	72,548	886,293
Assaf Cohen	2018	104,754	2,643	6,000	19,861	38,385	171,643
Chief Financial Officer (5)	2017	-	-	-	-	-	-
Nehemia Itay	2018	162,629	2,033	-	19,521	43,680	227,863
VP of Hardware Engineering (6)	2017	157,809	-	-	27,251	44,575	229,635
Amir Eilam	2018	143,547	-	-	33,158	47,288	223,993
VP, Research & Development (7)	2017	141,231	-	-	25,350	48,390	214,971
Ye’ela Haggai-Levy	2018	118,029	1,752	4,500	15,889	43,046	183,216
General Counsel and Corporate Secretary (8)	2017	-	-	-	-	-	-

(1) Salary payments which were in NIS were translated into U.S. Dollars according to the annual average exchange rate of NIS 3.59 per U.S. Dollar in 2018 and NIS 3.60 per U.S. Dollar in 2017.

(2) The fair value recognized for the option awards was determined as of the grant date in accordance with FASB ASC Topic 718 (see Note 10B to our consolidated financial statements included elsewhere in this Annual Report).

(3) This cost reflects social benefits (as required under applicable Israeli law), car expenses and termination payments.

(4) The 2018 “All Other Compensation” of Mr. Cohen, as shown in the table above, is comprised of $20,529 of car expenses and $50,950 of social benefits. The 2017 “All Other Compensation” of Mr. Cohen, as shown in the table above, is comprised of $21,668 of car expenses and $50,880 of social benefits.

(5) The 2018 “All Other Compensation” of Mr. Cohen, as shown in the table above, is comprised of $16,579 of car expenses and $21,806 of social benefits. In 2017, Mr. Cohen, was not a Named Executive Officer.

(6) The 2018 “All Other Compensation” of Mr. Itay, as shown in the table above, is comprised of $17,024 of car expenses and $26,656 of social benefits. The 2017 “All Other Compensation” of Mr. Itay, as shown in the table above, is comprised of $18,334 of car expenses and $26,241 of social benefits.

(7) The 2018 “All Other Compensation” of Mr. Eilam, as shown in the table above, is comprised of $17,024 of car expenses and $30,264 of social benefits. The 2017 “All Other Compensation” of Mr. Eilam, as shown in the table above, is comprised of $18,334 of car expenses and $30,056 of social benefits.

(8) The 2018 “All Other Compensation” of Ms. Haggai-Levi, as shown in the table above, is comprised of $17,024 of car expenses and $26,022 of social benefits. In 2017, Ms. Haggai-Levi was not a Named Executive Officer.

All of the incumbent Named Executive Officers mentioned in the table above and our directors are entitled to acceleration of the vesting of any unvested share options and restricted shares in the event of a change of control of the Company.

Pension, Retirement or Similar Benefit Plans

Except as required by applicable law (relating to severance payments to Israeli employees), none of our current officers or employees are entitled to receive any payments upon termination of employment.

Executive Officers Compensation Policy

In accordance with recent requirements and limitations set forth in the Companies Law, we adopted a Compensation Policy in 2013, which was thereafter amended by our Compensation Committee, approved by our Board and recommended to our shareholders and approved thereby at our annual general meeting held on December 15, 2016.

The Compensation Policy sets rules and guidelines with respect to our compensation strategy for executive officers, and is designed to provide for the retention of, and to attract, highly qualified executives. The Policy is designed to balance competitive compensation of executive officers with our financial resources, while creating appropriate incentives considering, *inter alia*, risk management factors arising from our business, executive compensation benchmarks used in the industry, our size (including without limitation, sales volume and number of employees), the nature of our business and our then-current cash flow situation, in order to promote our long-term goals, work plan, policies and the interests of our shareholders.

The Compensation Policy is designed to allow us to create a full compensation package for each of our executives based on common principles. With respect to variable compensation components, the Compensation Policy is designed to allow us to consider each executive's contribution in achieving our short-term and long-term strategic goals and in maximizing its profits from a long-term perspective and in accordance with the executive's position.

The Compensation Policy further provides for an annual performance bonus payable to executive officers. The payment of such bonus is tied to long-term corporate performance, rather than short-term stock market performance. Bonuses are paid in accordance with specific performance targets and based, among others, upon the following factors: (i) the Company's achievement of certain financial performance metrics, consisting of annual revenue targets, EBITDA target, each based on our annual budget; (ii) achievement by the respective executive of certain predetermined objectives; and (iii) other discretionary considerations, taking into account tangible and intangible performance factors, including the executive's relative contribution to the Company.

Bonus payments shall not exceed, in the case of a Chief Executive Officer, an aggregate amount equivalent to twelve months' base salary, and for other executive officers, an aggregate amount equivalent to nine months' base salary of the respective executive.

Employment Agreements

We maintain written employment and related agreements with all of our current executive officers. These agreements provide for monthly salaries and contributions by us to executive insurance and vocational studies funds. The employment agreements of certain executive officers provide for the achievement of an annual bonus, as described above. In addition, we may decide to grant our executive officers share options from time to time. All of our executive officers' employment and related agreements contain provisions regarding noncompetition, confidentiality of information and assignment of inventions. The enforceability of covenants not to compete in Israel is unclear.

We have the following written agreements and other arrangements concerning compensation with our current executive officers:

(1) *Agreement with Shlomi Cohen.* We have an employment agreement with Mr. Cohen, which provides that Mr. Cohen will serve as Chief Executive Officer of the Company and our subsidiaries, in consideration of a monthly gross salary (currently NIS 119,790; NIS 108,900 in 2018 and 2017) and other standard benefits. Mr. Cohen also receives grants of options to purchase up to 100,000 ordinary shares on an annual basis to promote retention and as an incentive, subject to vesting requirements. The issuance of such options is subject to the discretion and approval of both the Company's Compensation Committee and the Board of Directors. According to the

employment agreement, Mr. Cohen is eligible to receive an annual bonus in an amount up to 12 months' gross base salary. The employment agreement is for an unlimited duration, provided that each party may terminate it without cause upon serving the other party a written notice of six months, prior to termination.

(2) *Agreement with Assaf Cohen.* We have an employment agreement with Mr. Cohen, which provides that Mr. Cohen will serve as Chief Financial Officer of the Company and our subsidiaries, in consideration of a monthly gross salary (currently NIS 35,000; NIS 30,000 in 2018) and other standard benefits. Mr. Cohen also receives grants of options on an annual basis to promote retention and as an incentive, subject to vesting requirements. The issuance of such options is subject to the discretion and approval of both the Company's Compensation Committee and the Board of Directors. According to the employment agreement, Mr. Cohen is eligible to receive an annual bonus in an amount up to 4 months' gross base salary. The employment agreement is for an unlimited duration, provided that each party may terminate it without cause upon serving the other party a written notice of three months, prior to termination.

Outstanding Equity Awards at Fiscal Year-End

The following table shows options to purchase our Ordinary Shares outstanding on December 31, 2018, held by each of our Named Executive Officers.

Name	**Number of Securities Underlying Unexercised Option Awards** Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Option exercise price($)	Option expiration date
Shlomi Cohen (1)	200,000	-	$ 0.75	11/02/2020
	26,667	13,333	$ 0.44	02/14/2021
	66,667	33,333	$ 0.84	03/22/2021
	33,333	66,667	$ 1.58	02/06/2022
	-	100,000	$ 1.33	01/01/2023
Assaf Cohen (2)	10,000	--	$ 0.74	11/11/2020
	10,000	5,000	$ 1.07	11/30/2021
	5,000	10,000	$ 1.21	11/28/2022
	-	20,000	$ 0.84	11/27/2023
Nehemia Itay (3)	10,000	-	$ 2.36	05/13/2019
	10,000	5,000	$ 1.07	11/30/2021
Amir Eilam (4)	5,000	-	$ 1.68	01/01/2020
	13,333	6,667	$ 1.07	11/30/2021
Ye'ela Haggai-Levy (5)	-	15,000	$ 0.84	11/27/2023

(1) On November 2, 2015, 200,000 options were granted to Mr. Cohen under the 2001 Stock Option Plan, as amended, or the 2001 Plan. The options vest in three equal annual installments, commencing July 31, 2016. On February 14, 2016, 40,000 options were granted to Mr. Cohen under the 2001 Plan. The options vest in three equal annual installments, commencing February 3, 2017. On March 22, 2016, 100,000 options were granted to Mr. Cohen under the 2001 Plan. The options vest in three equal annual installments, commencing March 22, 2017. On February 6, 2017, 100,000 options were granted to Mr. Cohen under the 2001 Plan. The options vest in three equal annual installments, commencing February 6, 2018. On January 1, 2018, 100,000 options were granted to Mr.

Cohen under the 2001 Plan. The options vest in three equal annual installments, commencing January 1, 2019.

(2) On November 11, 2015, 10,000 options were granted to Mr. Cohen under the 2001 Plan. The options vest in three equal annual installments, commencing November 11, 2016. On November 30, 2016, 15,000 options were granted to Mr. Cohen under the 2001 Plan. The options vest in three equal annual installments, commencing November 30, 2017. On November 28, 2017, 15,000 options were granted to Mr. Cohen under the 2001 Plan. The options vest in three equal annual installments, commencing November 28, 2018. On November 27, 2018, 20,000 options were granted to Mr. Cohen under the 2001 Plan. The options vest in three equal annual installments, commencing November 27, 2019.

(3) On May 13, 2014, 10,000 options were granted to Mr. Itay under the 2001 Plan. The options vest in three equal annual installments, commencing May 13, 2015. On December 15, 2016, 15,000 options were granted to Mr. Itay under the 2001 Plan. The options vest in three equal annual installments, commencing November 30, 2017.

(4) On January 1, 2015, 15,000 options were granted to Mr. Eilam under the 2001 Plan, out of which 10,000 options were exercised by Mr. Eilam as of December 31, 2018. The options vest in three equal annual installments, commencing January 1, 2016. On December 15, 2016, 20,000 options were granted to Mr. Eilam under the 2001 Plan. The options vest in three equal annual installments, commencing November 30, 2017.

(5) On November 27, 2018, 15,000 options were granted to Ms. Haggai-Levy under the 2001 Plan. The options vest in three equal annual installments, commencing November 27, 2019.

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Director Compensation for 2018

The following table provides information regarding compensation earned by, awarded or paid to each person for serving as a director who was not a Named Executive Officer during the fiscal year ended December 31, 2018:

Name	Fees Earned or Paid in Cash ($) (1)	Option Awards ($)	Total ($)
William C. Anderson III	29,879	-	25,456
Donna Seidenberg Marks	25,456	-	25,456
James Scott Medford	21,786	-	21,786
Michael Soluri	25,456	-	25,456

(1) This column represents the sums that our non-executive directors received according to the Israeli regulations as an annual fee as well as for attending Board and Board committee meetings.

As of December 31, 2018, our directors held options to purchase our Ordinary Shares as follows:

Name	Aggregate number of shares Underlying stock options
William C. Anderson III	80,000
Donna Seidenberg Marks	50,000
James Scott Medford	30,000
Michael Soluri	30,000

We reimburse our directors for expenses incurred in connection with attending board meetings and committee meetings and provide the following compensation for directors: annual compensation of $17,692; meeting participation fees of $917 per in-person meeting; meeting participation by telephone of $550 per meeting; and $458 per written resolution.

Our executive directors do not receive additional separate compensation for their service on the Board or any committee of the Board. During 2018, our non-executive directors were reimbursed for their expenses for each board meeting, and committee meeting attended and in addition received the foregoing compensation with respect to attendance at such meetings. The aggregate amount paid by us to our non-executive directors for their service during 2018 was $99,904.

See Item 12 “Security Ownership of Certain Beneficial Owners and Management” for information on beneficial ownership of our shares by our directors and executive officers. We have no outstanding loans to any of our directors or executive officers.

Under the Companies Law, External Director is entitled to compensation as provided in regulations adopted under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with services provided as an External Director.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters.

The following table sets forth certain information, to the best knowledge and belief of the Company, as of March 4, 2019 (unless provided herein otherwise), with respect to holdings of our Ordinary Shares by (1) each person known by us to be the beneficial owner of more than 5% of the total number of shares of our Ordinary Shares outstanding as of such date; (2) each of our directors; (3) each of our Named Executive Officers; and (4) all of our directors and our executive officers as a group.

All information with respect to the ownership of any of the below shareholders has been furnished by such shareholder and, unless otherwise indicated below, we believe that persons named in the table have sole voting and sole investment power with respect to all of the shares shown as owned, subject to community property laws, where applicable. The shares owned by the directors and executive officers include the shares owned by their family members to which such directors and executive officers disclaim beneficial ownership, as provided for below. If a shareholder has the right to acquire shares by exercising options currently exercisable or exercisable within 60 days of the date of this table, these shares are deemed outstanding for the purpose of computing the percentage owned by the specific shareholder (that is, they are included in both the numerator and the denominator), but they are disregarded for the purpose of computing the percentage owned by any other shareholder.

The information in the table below is based on 41,294,377 Ordinary Shares outstanding as of March 4, 2019. Unless otherwise indicated, the address of each of the individuals named below is: c/o On Track Innovations Inc., Z.H.R. Industrial Zone, P.O. Box 32, Rosh Pina, Israel.

Name of beneficial owner	Position	Number of Shares Beneficially Owned (*)	% of Class of Shares
William C. Anderson III (1)	Director	120,000	**
Donna Seidenberg Marks (2)	Director	50,000	**
James Scott Medford (3)	Director	20,000	**
Michael Soluri (4)	Director	10,000	**
Shlomi Cohen (5)	Chief Executive Officer	440,000	1.1 %
Assaf Cohen (6)	Chief Financial Officer	25,000	**
Nehemia Itay (7)	VP of Hardware	20,000	**
Amir Eilam (8)	VP, Research & Development	18,333	**
Ye’ela Haggai-Levy	General Counsel and Corporate Secretary	-	**
All executive officers and directors as a group (6 persons)		665,000	1.6 %

5% Shareholders			
Jerry L. Ivy, Jr. (9)	Shareholder	4,029,475	9.8 %

(*) If a shareholder has the right to acquire shares by exercising options currently exercisable or exercisable within 60 days of the date of this table, these shares are deemed outstanding for the purpose of computing the percentage owned by the specific shareholder (that is, they are included in both the numerator and the denominator), but they are disregarded for the purpose of computing the percentage owned by any other shareholder.

(**) Less than 1%

(1) Includes 60,000 Ordinary Shares held by Mr. Anderson and includes options held by Mr. Anderson to purchase 60,000 Ordinary Shares currently exercisable or exercisable within 60 days of this table.

(2) Consists of options held by Ms. Seidenberg Marks to purchase 50,000 Ordinary Shares currently exercisable or exercisable within 60 days of this table.

(3) Includes 10,000 Ordinary Shares held by Mr. Medford and includes options held by Mr. Medford to purchase 10,000 Ordinary Shares currently exercisable or exercisable within 60 days of this table.

(4) Includes options held by Mr. Soluri to purchase 10,000 Ordinary Shares currently exercisable or exercisable within 60 days of this table.

(5) Includes options held by Mr. Cohen to purchase 440,000 Ordinary Shares currently exercisable or exercisable within 60 days of this table.

(6) Includes options held by Mr. Cohen to purchase 25,000 Ordinary Shares currently exercisable or exercisable within 60 days of this table.

(7) Consists of options held by Mr. Itay to purchase 20,000 Ordinary Shares currently exercisable or exercisable within 60 days of this table.

(8) Consists of options held by Mr. Eilam to purchase 18,333 Ordinary Shares currently exercisable or exercisable within 60 days of this table.

(9) Information is based solely on Schedule 13G/A filed by Mr. Ivy with the SEC on January 25, 2018. Mr. Ivy's address is 2125 1st Ave., Seattle, WA 98121.

The following table summarizes certain information regarding our equity compensation plan as of December 31, 2018:

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plan approved by security holders	-	-	-
Equity compensation plan not approved by security holders	1,461,000	$ 1.24	617,500
Total	1,461,000	$ 1.24	617,500

2001 Stock Option Plan

We established our 2001 Plan in February 2001 (as amended and restated on December November 30, 2011), and have amended it several times up to the latest amendment on November 21, 2017. The 2001 Plan provides for the grant of options to our employees, directors, and consultants, and those of our subsidiaries and affiliates until December 31, 2021.

Under the 2001 Plan, as of March 4, 2019, options for 14,371,500 Ordinary Shares had been exercised, and options for 1,561,000 Ordinary Shares are outstanding, including vested options with respect to 952,308 Ordinary Shares. Of the options that are outstanding, as of March 4, 2019, 890,000 options are held by our directors and officers and have a weighted average exercise price of $1.05 per share.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Our policy is to enter into transactions with related parties on terms that are on the whole no less favorable to us than those that would be available from unaffiliated parties at arm’s length.

Agreements with Directors and Officers

We have entered into employment agreements with all of our executive officers as mentioned above and indemnification agreements with all of our executive officers and directors. In addition, we have granted options to purchase our Ordinary Shares to our directors and executive officers, as mentioned elsewhere in this Annual Report.

Other than described above, none of our directors, executive officers or shareholders holding more than 5% of our outstanding shares, or members of any such person's immediate family, has any relationship with the Company besides serving as directors or executive officers.

Our Board has determined that Ms. Seidenberg Marks, Mr. Anderson, and Mr. Soluri qualify as independent directors under Nasdaq Rules and as Audit Committee independent directors under the Nasdaq Rules.

Item 14. Principal Accounting Fees and Services.

Independent Registered Public Accounting Firm

The Company has engaged Somekh Chaikin, a member firm of KPMG International, or Somekh Chaikin, as its principal independent registered public accounting firm for the fiscal year ended December 31, 2018.

Policy on Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Our Audit Committee is generally responsible for the oversight of our independent auditors' work. The Audit Committee's policy is to pre-approve all audit and non-audit services provided by Somekh Chaikin. These services may include audit services, audit-related services, tax services and other services, as further described below. The Audit Committee sets forth the basis for its preapproval in detail, listing the particular services which are pre-approved, and setting forth a specific budget for such services. Additional services may be pre-approved by the Audit Committee on an individual basis. Once services have been pre-approved, Somekh Chaikin and our management then report to the Audit Committee on a periodic basis regarding the extent of services actually provided in accordance with the applicable pre-approval, and regarding the fees for the services performed.

Our Audit Committee pre-approved all audit and non-audit services provided to us and to our subsidiaries during the periods listed below. The Audit Committee approves discrete projects on a case-by-case basis that may have a material effect on our operations and also considers whether proposed services are compatible with the independence of the independent auditors.

Pursuant to our pre-approval policy, the Audit Committee pre-approves and delegates to our Chairman of the Board the authority to approve the retention of ad-hoc audit and non-audit services from our independent auditors, beyond the scope approved by the Audit Committee as part of the annual audit plan.

Principal Accountant Fees and Services

The following fees were billed by Somekh Chaikin, a member firm of KPMG International, and affiliate firms for professional services rendered thereby for the years ended December 31, 2018 and 2017 (in thousands):

	2018	2017
Audit Fees (1)	$171	$179
Audit-Related Fees (2)	4	-
Tax Fees (3)	$16	$19
All Other Fees (4)	-	-
Total	$191	$198

(1) The audit fees for the years ended December 31, 2018 and 2017, are the aggregate fees billed or billable (for the year) for the professional services rendered for the audits of our 2018 and 2017 annual consolidated financial statements, review of consolidated quarterly financial statements of 2018 and 2017, and services that are normally provided in connection with statutory audits of us and our subsidiaries, consents and assistance with review of documents filed with the SEC.

(2) Audit-related fees for fiscal year 2018 consisted primarily of agreed upon procedures reports.

(3) Tax fees are the aggregate fees billed (in the year) for professional services rendered for tax compliance and tax advice other than in connection with the audit.

(4) No Other Fees were incurred.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

3.1	Amended and Restated Articles of Association (incorporated by reference to the Company's report on Form 6-K filed with the SEC on October 31, 2013).
3.2	Memorandum of Association, dated February 14, 1990 (incorporated by reference to the Company's Registration Statement on Form F-1, filed with the SEC on June 14, 2002).
10.1	Amended and Restated On Track Innovations Ltd. 2001 Share Option Plan (incorporated by reference to the Company's proxy statement on Schedule 14A filed with the SEC on October 16, 2017). +
10.2	Form of Indemnification Agreement between the Company and its directors and officers (incorporated by reference to the Company's report on Form 6-K filed with the SEC on October 31, 2013). +
10.3	Asset Purchase Agreement, dated August 14, 2013, by and between the Company and SuperCom Ltd. (incorporated by reference to the Company's Annual Report on Form 10-K, filed with the SEC on March 31, 2014).
10.4	Personal Employment Agreement, dated August 2, 2015, by and between the Company and Shlomi Cohen (incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on August 3, 2015). +
10.5	Personal and Special Employment Agreement dated February 27, 2018, by and between the Company and Assaf Cohen (incorporated by reference to the Company's Annual Report on Form 10-K, filed with the SEC on March 29, 2017). +
10.6	Amended and Restated Executive Compensation Policy (incorporated by reference to the Company's proxy statement on Schedule 14A filed with the SEC on October 26, 2016). +
21.1*	List of Subsidiaries of the Company.
23.1*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certification pursuant to Rule 13a-14(a)/15d-14(a) of Shlomi Cohen.
31.2*	Certification pursuant to Rule 13a-14(a)/15d-14(a) of Assaf Cohen.
32.1**	Certification pursuant to 18 U.S.C. Section 1350 of Shlomi Cohen.
32.2**	Certification pursuant to 18 U.S.C. Section 1350 of Assaf Cohen.

101*	The following materials from our Annual Report on Form 10-K for the year ended December 31, 2018 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Loss, (iv) the Consolidated Statements of Changes in Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to the Consolidated Financial Statements, tagged as blocks of text and in detail.

*Filed herewith.

**Furnished herewith.

+Management contract or compensation plan.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	On Track Innovations Ltd.
Dated: March 25, 2019	By: /s/ Shlomi Cohen Shlomi Cohen *Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ Shlomi Cohen Shlomi Cohen	Chief Executive Officer (principal executive officer)	March 25, 2019
/s/ Assaf Cohen Assaf Cohen	Chief Financial Officer (principal financial officer and principal accounting officer)	March 25, 2019
/s/ James Scott Medford James Scott Medford	Chairman of the Board of Directors	March 25, 2019
/s/ William C. Anderson William C. Anderson	Director	March 25, 2019
/s/ Donna Seidenberg Marks Donna Seidenberg Marks	Director	March 25, 2019
/s/ Michael Soluri Michael Soluri	Director	March 25, 2019

On Track Innovations Ltd.

and its Subsidiaries

Consolidated Financial Statements

as of December 31, 2018

On Track Innovations Ltd.

and its Subsidiaries

Consolidated Financial Statements as of December 31, 2018

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors

On Track Innovations Ltd.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of On Track Innovations Ltd. and its subsidiaries (hereinafter – “the Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, “the consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Somekh Chaikin

Somekh Chaikin

Certified Public Accountants (Isr.)

Member firm of KPMG International

We have served as the Company's auditor since 2002.

Tel-Aviv, Israel

March 25, 2019

On Track Innovations Ltd.

and its Subsidiaries

Consolidated Balance Sheets

US dollars in thousands

	December 31	
	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$4,827	$6,742
Short-term investments	1,078	3,331
Trade receivables (net of allowance for doubtful accounts of $555 and $568 as of December 31, 2018 and December 31, 2017, respectively)	4,530	5,827
Other receivables and prepaid expenses	2,060	3,325
Inventories	3,527	3,009
Total current assets	16,022	22,234
Long term restricted deposit for employees benefit	451	498
Severance pay deposits	375	405
Property, plant and equipment, net	5,033	5,859
Intangible assets, net	241	336
Total Assets	$22,122	$29,332

The accompanying notes are an integral part of these consolidated financial statements.

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On Track Innovations Ltd.

and its Subsidiaries

Consolidated Balance Sheets

US dollars in thousands except share data

	December 31	
	2018	2017
Liabilities and Equity		
Current Liabilities		
Short-term bank credit and current maturities of long-term bank loans	$260	$4,181
Trade payables	4,712	7,171
Other current liabilities	3,622	3,276
Total current liabilities	8,594	14,628
Long-Term Liabilities		
Long-term loans, net of current maturities	39	814
Accrued severance pay	853	939
Deferred tax liability	445	500
Total long-term liabilities	1,337	2,253
Total Liabilities	9,931	16,881
Commitments and Contingencies		
Equity		
Shareholders' Equity		
Ordinary shares of NIS 0.1 par value: Authorized – 50,000,000 shares as of December 31, 2018 and 2017; issued: 42,473,076 and 42,353,077 shares as of December 31, 2018 and 2017, respectively; outstanding: 41,294,377 and 41,174,378 shares as of December 31, 2018 and 2017, respectively	1,068	1,064
Additional paid-in capital	225,022	224,758
Treasury shares at cost - 1,178,699 shares as of December 31, 2018 and 2017	(2,000)	(2,000)
Accumulated other comprehensive loss	(956)	(691)
Accumulated deficit	(210,943)	(210,680)

Total Equity	12,191	12,451
Total Liabilities and Equity	$22,122	$29,332

The accompanying notes are an integral part of these consolidated financial statements.

On Track Innovations Ltd.

and its Subsidiaries

Consolidated Statements of Operations

US dollars in thousands except share and per share data

	Year ended December 31		
	2018	*2017	*2016
Revenues			
Sales	$16,725	$16,252	$13,357
Licensing and transaction fees	5,153	4,621	5,395
Total revenues	21,878	20,873	18,752
Cost of revenues			
Cost of sales	10,710	10,456	9,276
Cost of licensing	-	-	250
Total cost of revenues	10,710	10,456	9,526
Gross profit	11,168	10,417	9,226
Operating expenses			
Research and development	3,175	3,263	2,768
Selling and marketing	5,940	5,633	5,516
General and administrative	3,971	3,620	3,482
Patent litigation and maintenance	10	31	48
Other expenses, net	33	52	191
Total operating expenses	13,129	12,599	12,005
Operating loss from continuing operations	(1,961)	(2,182)	(2,779)
Financial expenses, net	(228)	(341)	(396)
Loss from continuing operations before taxes on income	(2,189)	(2,523)	(3,175)
Income tax benefit, net	301	138	131
Net loss from continuing operations	(1,888)	(2,385)	(3,044)

Net income from discontinued operations	1,625	1,787	2,184
Net loss	(263)	(598)	(860)
Net loss attributable to non-controlling interest	-	-	32
Net loss attributable to shareholders	$(263)	$(598)	$(828)
Basic and diluted net (loss) income attributable to shareholders per ordinary share			
From continuing operations	$(0.05)	$(0.06)	$(0.07)
From discontinued operations	$0.04	$0.05	$0.05
	$(0.01)	$(0.01)	$(0.02)
Weighted average number of ordinary shares used in computing basic and diluted net (loss) income per ordinary share	41,268,984	41,109,875	40,914,558

*Reclassified to conform with the current period presentation, see Note 1B(3).

The accompanying notes are an integral part of these consolidated financial statements.

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On Track Innovations Ltd.

and its Subsidiaries

Consolidated Statements of Comprehensive Loss

US dollars in thousands

	Year ended December 31		
	2018	2017	2016
Total comprehensive loss:			
Net loss	$(263)	$(598)	$(860)
Foreign currency translation adjustments	(265)	545	(152)
Total comprehensive loss	$(528)	$(53)	$(1,012)
Comprehensive loss attributable to the non-controlling interest	-	-	32
Total comprehensive loss attributable to shareholders	$(528)	$(53)	$(980)

The accompanying notes are an integral part of these consolidated financial statements.

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On Track Innovations Ltd.

and its Subsidiaries

Consolidated Statements of Changes in Equity

US dollars in thousands, except share data

	Number of Shares issued	Share capital	Additional paid-in capital	Treasury Shares	Accumulated other comprehensive (loss) income	Accumulated deficit	Non-controlling interest	Total equity
Balance as of January 1, 2016	42,014,673	$ 1,055	$ 225,925	$ (2,000)	$ (1,084)	$ (209,254)	$ (1,819)	$ 12,823
Changes during the year ended December 31, 2016:								
Stock-based compensation	(**)15,000	**(*)**	239	-	-	-	-	239
Increase in the ownership rate in subsidiaries, see Note 10D	-	-	(1,920)	-	-	-	1,851	(69)
Exercise of options and warrants	213,402	6	171	-	-	-	-	177
Foreign currency translation adjustments	-	-	-	-	(152)	-	-	(152)
Net loss	-	-	-	-	-	(828)	(32)	(860)
Balance as of December 31, 2016	42,243,075	$ 1,061	$ 224,415	$ (2,000)	$ (1,236)	$ (210,082)	$ -	$ 12,158
Changes during the year ended December 31, 2017:								
Stock-based compensation	(**)45,000	1	253	-	-	-	-	254
Exercise of options	65,002	2	90	-	-	-	-	92
	-	-	-	-	545	-	-	545

Foreign currency translation adjustments								
Net loss	-	-	-	-	-	(598)	-	(598)
Balance as of December 31, 2017	42,353,077	$1,064	$224,758	$(2,000)	$(691)	$(210,680)	$ -	$12,451
Changes during the year ended December 31, 2018:								
Stock-based compensation	(**)80,000	3	231	-	-	-	-	234
Exercise of options	39,999	1	33	-	-	-	-	34
Foreign currency translation adjustments	-	-	-	-	(265)	-	-	(265)
Net loss	-	-	-	-	-	(263)	-	(263)
Balance as of December 31, 2018	42,473,076	$1,068	$225,022	$(2,000)	$(956)	$(210,943)	-	$12,191

(*) Less than $1.
(**) See Note 10A.

The accompanying notes are an integral part of these consolidated financial statements.

On Track Innovations Ltd.

and its Subsidiaries

Consolidated Statements of Cash Flows

US dollars in thousands

	Year ended December 31		
	2018	*2017	*2016
Cash flows from continuing operating activities			
Net loss from continuing operations	$(1,888)	$(2,385)	$(3,044)
Adjustments required to reconcile net loss to net cash used in continuing operating activities:			
Stock-based compensation related to options and shares issued to employees and others	234	254	239
(Gain) loss on sale of property and equipment	(37)	52	83
Accrued interest and linkage differences, net	19	(6)	56
Depreciation and amortization	1,328	1,172	1,172
Deferred tax benefits, net	(477)	(165)	(155)
Changes in operating assets and liabilities:			
Accrued severance pay, net	(57)	45	(183)
Decrease (increase) in trade receivables, net	1,118	(124)	(3,224)
Decrease (increase) in other receivables and prepaid expenses	350	(838)	349
(Increase) decrease in inventories	(573)	110	(106)
(Decrease) increase in trade payables	(2,089)	(644)	1,631
(Decrease) increase in other current liabilities	(110)	(597)	288
Net cash used in continuing operating activities	(2,182)	(3,126)	(2,894)
Cash flows from continuing investing activities			
Purchase of property and equipment	(636)	(293)	(311)
Proceeds from sale of property, plant and equipment	68	17	1,779
Change in short-term investments, net	1,495	1,773	(822)
Investment in capitalized certification costs	(120)	(239)	(188)
Investment in restricted deposit for employee benefits	-	-	(44)
Proceeds from restricted deposit for employee benefits	8	44	142
Net cash provided by continuing investing activities	815	1,302	556
Cash flows from continuing financing activities			

(Decrease) increase in short-term bank credit, net	(3,554)	(335)	1,018
Proceeds from long-term bank loans	-	-	27
Repayment of long-term bank loans	(1,064)	(632)	(1,581)
Proceeds from exercise of options and warrants	34	92	177
Net cash used in continuing financing activities	(4,584)	(875)	(359)
Cash flows from discontinued operations			
Net cash provided by discontinued operating activities	750	2,311	469
Net cash provided by discontinued investing activities	2,750	-	2,292
Total net cash provided by discontinued operations	3,500	2,311	2,761
Effect of exchange rate changes on cash and cash equivalents	(243)	687	(268)
(Decrease) increase in cash, cash equivalents and restricted cash	(2,694)	299	(204)
Cash, cash equivalents and restricted cash - beginning of the year	7,799	7,500	7,704
Cash, cash equivalents and restricted cash at the end of the year	$5,105	$7,799	$7,500

*Reclassified to conform with the current period presentation, see Notes 1B(3) and 2W(1).

The accompanying notes are an integral part of these consolidated financial statements.

On Track Innovations Ltd.

and its Subsidiaries

Consolidated Statements of Cash Flows (cont'd)

US dollars in thousands

	Year ended December 31		
	2018	2017	2016
Supplementary cash flows information:			
Cash paid during the period for:			
Interest paid	$121	$176	$220
Income taxes paid	$89	$61	$27

The accompanying notes are an integral part of these consolidated financial statements.

On Track Innovations Ltd.

and its Subsidiaries

Notes to the Consolidated Financial Statements

In thousands, except share and per share data

Note 1 - General

A. Introduction

On Track Innovations Ltd. (the "Company") was founded in 1990, in Israel. The Company and its subsidiaries (together, the "Group") are principally engaged in the field of design and development of cashless payment solutions.

The Company's ordinary shares are listed for trading on the Nasdaq Capital Market (formerly listed on the Nasdaq Global Market until April 13, 2016).

At December 31, 2018, the Company operates in two operating segments: (a) Retail and Mass Transit Ticketing, and (b) Petroleum. See Note 14. During 2016 and 2018, the Company sold its parking operating segment and its medical smart cards operation, respectively - see Note 1B.

As to the Company's major customers, see Note 15.

Certain definitions

$ - United States Dollars

NIS - New Israeli Shekel

B.Divestiture of operations

1. In December 2013, the Company completed the sale of certain assets, subsidiaries and intellectual property (“IP”) relating to its Smart ID division, for a total purchase price of $10,000 in cash and an additional $12,500 subject to performance-based milestones. Accordingly, the results and the cash flows of this operation for all reporting periods are presented in the statements of operations and in the statements of cash flows, respectively, as discontinued operations separately from continuing operations.

On April 20, 2016, the purchaser of the Smart ID division, SuperCom Ltd. (“SuperCom”), and the Company entered into a settlement agreement resolving certain litigation between SuperCom and the Company pursuant to which SuperCom paid the Company $2,050 and agreed to pay the Company up to $1,500 in accordance with and subject to a certain earn-out mechanism. In November 2017, the Company commenced an arbitration procedure with SuperCom, in which the Company claims that additional earn-out payments have not been paid to the Company. SuperCom raised issues against the Company during the arbitration for material damages. The evidence in the arbitration were heard on March 6, 2018, and an arbitration decision was issued on December 24, 2018 in the Company’s favor and denied SuperCom's claims. On February 7, 2019, SuperCom filed an application to the District Court in Tel Aviv to cancel the said arbitration decision and the Company submitted a response to the application on March 20, 2019.

As mentioned in Note 2U, the Company records the earn-out payments only when the consideration is determined to be realizable. For details in connection with contingent considerations recorded and received during the year ended December 31, 2016, see Note 13.

2. In September 2016, the Company completed the sale of certain assets and IP related to its former parking segment to Atrinet Ltd. and its affiliated entities for a non-material amount. The Company has determined that the sale of the parking business qualifies as a discontinued operation. Accordingly, the results and the cash flows of these operations for all reporting periods are presented in the statements of operations and in the statements of cash flows, respectively, as discontinued operations separately from continuing operations (see also Note 13).

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Notes to the Consolidated Financial Statements

In thousands, except share and per share data

Note 1 - General (cont'd)

B. Divestiture of operations (cont'd)

3. In December 2018, the Company completed the sale of its medical smart cards operation ("Medismart") (formerly part of the Company's "Other segment") to Smart Applications International Limited ("Smart") for a total price of $2,750. The Company has determined that the sale of the Medismart business qualifies as a discontinued operation. Accordingly, the results and the cash flows of this operation for all reporting periods are presented in the statements of operations and in the statements of cash flows, respectively, as discontinued operations separately from continuing operations (see also Note 13). All prior periods' information has been reclassified to conform with the current period's presentation.

Note 2 - Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The significant accounting policies followed in the preparation of the financial statements, applied on a consistent basis, except as for the mentioned in Note 2W, are as follows:

A. Financial statements in U.S. dollars

Substantially all of the Company's and certain of its subsidiaries' revenues are in U.S. dollars. A significant portion of purchases of materials and components and most marketing costs are denominated in U.S. dollars. Therefore, both the functional and reporting currencies of the Company and certain of its subsidiaries are the U.S. dollar.

Transactions and balances denominated in U.S. dollars are presented at their original amounts.

For entities with a U.S. dollar functional currency, transactions and balances in other currencies are remeasured into U.S. dollars in accordance with the principles set forth in Accounting Standards Codification ("ASC") Topic 830, *Foreign Currency Matters*, i.e. at the date the transaction is recognized, each asset, liability, or instance of revenue, expense, gain, or loss arising from the transaction is measured and recorded in the functional currency by use of the exchange rate in effect at that date. When translation using the exchange rates at the dates that the numerous revenues, expenses, gains and losses are recognized is impractical, an appropriately weighted average exchange rate for the period is used to translate those elements. At each balance sheet date, recorded balances of monetary assets and liabilities that are denominated in a currency other than the functional currency are adjusted to reflect the current exchange rate. Exchange gains and losses from the remeasurement of such items denominated in non U.S. dollar currencies are reflected in the consolidated statements of operations, among 'financial expenses, net', as appropriate.

The functional currency of the Company's subsidiary in South Africa changed in October 2017 from the South African Rand to U.S. dollar. This change resulted from a change in relevant circumstances whereby sales transactions denominated in U.S. dollars became the primary source of sales revenue. The functional currency of the Polish subsidiary is its local currency. The financial statements of companies with a functional currency that is not the U.S. dollar are translated into U.S. dollars using the exchange rate at the balance sheet date for assets and liabilities, and weighted average exchange rates for revenues and expenses (which approximates the translation of each transaction). Translation adjustments resulting from the process of the aforesaid translation are included as a separate component of equity (accumulated other comprehensive gain or loss).

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Notes to the Consolidated Financial Statements

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

B. Principles of consolidation

The consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries and its majority owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

C. Estimates and assumptions

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Such estimates include the valuation of useful lives of long-lived assets, revenue recognition, valuation of accounts receivable and allowance for doubtful accounts, valuation of inventories, legal contingencies, the assumptions used in the calculation of stock-based compensation, income taxes and other contingencies. Estimates and assumptions are periodically reviewed by management and the effects of any material revisions are reflected in the period that they are determined to be necessary. Actual results, however, may vary from these estimates.

D. Cash equivalents

Cash equivalents are short-term highly liquid investments and debt instruments that are readily convertible to cash with original maturities of three months or less from the date of purchase. Bank deposits with original maturities of more than three months, or specific deposits that are intended to be held as bank deposits for more than three months, and which will mature within one year, are classified as short-term investments.

E. Trade receivables

Trade receivables are recorded at the invoiced amount and do not bear interest. Collections of trade receivables are included in net cash provided by operating activities in the consolidated statements of cash flows. The consolidated financial statements include an allowance for loss from receivables for which collection is in doubt. In determining the adequacy of the allowance consideration is given to each trade receivable historical experience, aging of the receivable, adjusted to take into account current market conditions and information available about specific debtors, including their financial condition, current payment patterns, the volume of their operations, and evaluation of the security received from them or their guarantors.

F. Short-term investments

Short-term investments consist of:

(1) Bank deposits whose maturities are longer than three months from the date of purchase, but not longer than one year from the balance sheet date.

(2) Bank deposits whose maturities are less than three months from the date of purchase, but are intended to be held as bank deposits for more than three months.

(3) Restricted bank deposits whose maturities are not longer than one year from the balance sheet date (for further details, see Note 8C).

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Notes to the Consolidated Financial Statements

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Note 2 - Significant Accounting Policies (cont'd)

G. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by calculating raw materials, work in process and finished products on a "moving average" basis. Net realizable value is defined as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation." Inventory write-offs are provided to cover risks arising from slow moving items or technological obsolescence. Such write-offs, which were not material for the reported years, have been included in cost of revenues.

H. Property, plant and equipment, net

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Buildings	25
Computers, software and manufacturing equipment	3-5
Office furniture and equipment	5-16 (mainly - 10)

I. Impairment of long-lived assets

Long-lived assets, such as property, plant, and equipment, and intangible assets subject to amortization, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

J. Revenue recognition

Accounting policy applicable before January 1, 2018:

The Group generates revenues from product sales manufactured based on the Company's technology. In addition, the Company generates revenues from the technology it developed through transaction fee arrangements, licensing agreements and patent litigation settlements, as part of its patent activity. Revenues are also generated from non-recurring engineering, customer services and technical support.

Revenues from product sales and non-recurring engineering are recognized when delivery has occurred provided there is persuasive evidence of an agreement, the fee is fixed or determinable, collection of the related receivable is probable and no further obligations exist. In the case of non-recurring engineering, revenue is recognized upon completion of testing and approval of the customization of the product by the customer, provided that no further obligation exists. Revenues are recognized net of value added tax.

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Note 2 - Significant Accounting Policies (cont'd)

J. Revenue recognition (cont'd)

License and transaction fees are recognized as earned based on actual usage. Usage is determined by receiving confirmation from the users. Patent litigation revenues are recognized upon final settlement of the litigation (see Note 14).

Revenues relating to customer services and technical support are recognized as the services are rendered ratably over the term of the related contract.

Licensing and transaction fees are recognized based on the volume of transactions or monthly licensing fees from systems that contain the Company's products and usually bear no cost to the Company.

The cost to the Company of warranty that the product will perform according to certain specifications and that the Company will repair or replace the product if it ceases to work properly, is insignificant and is treated according to accounting guidance for contingencies.

Regarding the accounting policy applicable after January 1, 2018 and the first-time adoption of ASC 606, *Revenues from Contracts with Customers*, see also Note 2W(2).

K. Research, development costs and certification costs

Research and development costs, which consist mainly of labor costs, materials and subcontractors, are charged to operations as incurred.

According to ASC Topic 350, "*Intangibles - Goodwill and Other*," software that is part of a product or process to be sold to a customer shall be accounted for under ASC Subtopic 985-20. The Company's products contain embedded software which is an integral part of these products because it allows the various components of the products to communicate with each other and the products are clearly unable to function without this coding. The costs of product certification are capitalized once technological feasibility is determined. The Company determines that technological feasibility for its products is reached after all high-risk development issues have been resolved. Once the products are available for general release to the Company's customers, the Company ceases capitalizing the product certification costs and all additional costs, if any, are expensed. The capitalized product certification costs are amortized on a product-by-product basis using straight-line amortization, over a period of 3 years. The amortization begins when the products are available for general release to the Company's customers. The depreciation is presented within research and development in the consolidated statements of operations. Amortization expenses amounted to $215, $181 and $90 for the years ended December 31, 2018, 2017 and 2016, respectively.

L. Stock-based compensation

The Company measures and recognizes compensation expense for all stock-based payment awards made to employees and directors based on estimated grant date fair values. The estimated fair value of awards is charged to income on a straight-line basis over the requisite service period, which is generally the vesting period.

ASC Topic 718, *Compensation – Stock Compensation*, requires estimating the fair value of stock-based payments awards on the date of the grant using an option pricing model. The Company uses the Black-Scholes option pricing model.

The Company elected to recognize compensation cost for awards with only service conditions that have a graded vesting schedule using the straight-line method.

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Note 2 - Significant Accounting Policies (cont'd)

M. Basic and diluted net loss per share

Basic and diluted net loss per ordinary share is computed based on the weighted average number of ordinary shares outstanding during each year. Shares issuable for little or no cash consideration, are considered outstanding ordinary shares and included in the computation of basic net loss per ordinary share as of the date that all necessary conditions have been satisfied. In years that discontinued operations are presented, the Company uses income from continuing operations (attributable to the parent entity) as the benchmark to determine whether potential common shares are dilutive or antidilutive. Therefore, when the Company records a loss from continuing operations and the issuance of option shares would be antidilutive due to the loss, but the Company has net income from discontinued operations, potential shares are excluded from the diluted calculation even though the effect on net income from discontinued operations would be dilutive.

Stock options and warrants in the amounts of 1,501,000, 1,535,000 and 1,644,836 outstanding as of the years ended December 31, 2018, 2017 and 2016, respectively, have been excluded from the calculation of the diluted net loss per ordinary share because all such securities have an anti-dilutive effect for all periods presented.

N. Fair value of financial instruments

The Company's financial instruments consist mainly of cash and cash equivalents, short-term interest bearing investments, accounts receivable, restricted deposits for employee benefits, accounts payable and short-term and long-term loans.

Fair value for the measurement of financial assets and liabilities is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Company utilizes a valuation hierarchy for disclosure of the inputs for fair value measurement. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

By distinguishing between inputs that are observable in the market place, and therefore more objective, and those that are unobservable and therefore more subjective, the hierarchy is designed to indicate the relative reliability of the fair value measurements. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Company, in estimating fair value for financial instruments, determined that the carrying amounts of cash and cash equivalents, trade receivables, short-term bank credit and trade payables are equivalent to, or approximate their fair value due to the short-term maturity of these instruments.

The carrying amounts of variable interest rate long-term loans are equivalent or approximate to their fair value as they bear interest at approximate market rates.

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Note 2 - Significant Accounting Policies (cont'd)

O. Income tax

The Company accounts for taxes on income in accordance with ASC Topic 740, *Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations in the period that includes the enactment date. The Company provides a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized.

The Company accounts for interest and penalties as a component of income tax expense.

P. Non-controlling interest

The Company implements ASC Topic 810, *Consolidation*, which requires net loss (income) attributable to non-controlling interests to be classified in the consolidated statements of operations as part of consolidated net earnings and to include the accumulated amount of non-controlling interests in the consolidated balance sheets as part of equity. If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interests are remeasured with the gain or loss reported in net earnings.

If a change in ownership of a consolidated subsidiary does not result in loss of control, or results in an increase of ownership interests, the Company accounts for such a change as an equity transaction. Therefore, no gain or loss is recognized in consolidated net earnings or comprehensive income. The carrying amount of the non-controlling interest is adjusted to reflect the change in its ownership interest in the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the non-controlling interest is adjusted is recognized in equity attributable to the Company.

Q. Severance pay

The Company's liability for severance pay for some of its Israeli employees is calculated pursuant to Israeli Severance Pay Law, 1963 (the "Israeli Severance Pay Law") based on the most recent salary of the employee multiplied by the number of years of employment, as of the balance sheet date. Those employees are entitled to one month's salary for each year of employment or a portion thereof. Certain senior executives were entitled to receive additional severance pay. The Company records the liability as if it were payable at each balance sheet date on an undiscounted basis. The liability is classified based on the expected date of settlement, and therefore is usually classified as a long-term liability, unless the cessation of the employees is expected during the upcoming year.

The Company's liability for those Israeli employees is partially provided for by monthly deposits for insurance policies and the remainder by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet.

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Notes to the Consolidated Financial Statements

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

Q. Severance pay (cont'd)

The deposited funds include profits and losses accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to the Israeli Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash redemption value of these policies. In addition, the Company has deposited certain amounts with a trustee, to compensate for any severance pay liability that is not covered by other funds. These deposits are restricted and may be withdrawn only for payment of severance pay liabilities. The severance pay funds and the restricted deposits for employee benefits are classified based on the classification of the corresponding liability.

In respect of other Israeli employees, the Company acts pursuant to the general approval of the Israeli Ministry of Labor and Welfare, pursuant to the terms of Section 14 of the Israeli Severance Pay Law, according to which the current deposits with the pension fund and/or with the insurance company exempt the Company from any additional obligation to these employees for whom the said depository payments are made. These deposits are accounted as defined contribution payments.

Severance pay expenses for the years ended December 31, 2018, 2017 and 2016 amounted to $212, $242 and $227, respectively. Defined contribution plan expenses were $232, $231 and $182 in the years ended December 31, 2018, 2017 and 2016, respectively.

R. Advertising expenses

Advertising expenses are charged to the statements of operations as incurred. Advertising expenses for the years ended December 31, 2018, 2017 and 2016 amounted to $1,367, $1,254 and $1,142, respectively.

S. Concentrations of credit or business risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, bank deposits and trade receivables.

Cash equivalents are invested mainly in U.S. dollars with major banks in Israel and Europe. Management believes that the financial institutions that hold the Group's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

Most of the Company's trade receivables are derived from sales to large and financially secure organizations. In determining the adequacy of the allowance, management bases its opinion, inter alia, on the estimated risks, current market conditions and in reliance on available information with respect to the debtor's financial position. As for major customers, see Note 15. The Company acquires certain components of its products from single source manufacturers.

The activity in the allowance for doubtful accounts for the years ended December 31, 2018, 2017 and 2016 is as follows:

	2018	2017	2016
Allowance for doubtful accounts at beginning of year	$568	$720	$778
Additions charged to allowance for doubtful accounts	52	73	147
Write-downs charged against the allowance	(45)	(225)	(205)
Other	(20)	-	-
Allowance for doubtful accounts at end of year	$555	$568	$720

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Notes to the Consolidated Financial Statements

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

T. Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigations, fines and penalties and other sources are recognized when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Loss recovery related to recovery of a loss when the recovery is less than or equal to the amount of the loss recognized in the financial statements is recognized if collection is probable and estimable. Gain contingencies are recognized only when resolved.

U. Business divestures

As described in Note 1B, the Company has sold certain operations. Upon reaching a definitive agreement with an acquirer, the Company recognizes the consideration received from the divesture, less all assets and liabilities sold, as a gain or loss.

Discontinued operations

Upon divesture of a business, the Company classifies such business as a discontinued operation, if the divested business represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results.

For disposals other than by sale such as abandonment, the results of operations of a business would not be recorded as a discontinued operation until the period in which the business is actually abandoned.

The SmartID Division divesture, the parking business divesture and the Medismart divesture qualify as discontinued operations and therefore have been presented as such.

The results of businesses that have qualified as discontinued operations have been presented as such for all reporting periods. Results of discontinued operations include all revenues and expenses directly derived from such businesses; general corporate overhead is not allocated to discontinued operations.

Any loss or gain that arose from the divesture of a business that qualifies as discontinued operations has been included within the results of the discontinued operations.

The Company also presents cash flows from discontinued operations separately from cash flows of continuing operations.

Contingent consideration

The Company's sale arrangements consist of contingent consideration based on the divested businesses' future sales or profits. The Company records the contingent consideration portion of the arrangement when the consideration is determined to be realizable.

V. Patent litigation and maintenance expenses

Patent litigation and maintenance expenses, which consist mainly of salaries and consultants' fees, are expensed as incurred. The Company presents such expenses (excluding expenses associated directly with revenues from a litigation settlement agreement that contains a license agreement) as a separate item within its operating expenses because it believes that such presentation improves the understandability of the statement of operations.

Expenses associated directly with revenues from a litigation settlement agreement that contains a license agreement are presented within 'cost of licensing'.

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In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

W. Recently Adopted Accounting Pronouncements

1. Restricted Cash and Cash Equivalents in Statement of Cash Flows

In December 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires amounts generally described as restricted cash and restricted cash equivalents to be included within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. The Company has adopted ASU 2016-18 commencing from January 1, 2018. The Company has applied the guidance retrospectively to all periods presented.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash and cash equivalents reported within the accompanying consolidated balance sheets that sum to the total of the same such amounts presented in the accompanying consolidated statements of cash flows:

	December 31			
	2018	2017	2016	2015
Cash and cash equivalents	$4,827	$6,742	$5,952	$5,450
Restricted cash and cash equivalents (*)	278	1,057	1,548	2,254
Total cash, cash equivalents, and restricted cash and cash equivalents presented in the statements of cash flows	$5,105	$7,799	$7,500	$7,704

(*) The restricted cash and cash equivalents are included in short-term investments in the accompanying consolidated balance sheets.

2. Revenue Recognition

In May 2014, the FASB issued ASC Topic 606, *Revenue from Contracts with Customers* ("Topic 606"). The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes previous revenue recognition guidance, including industry-specific revenue guidance.

The Company has adopted Topic 606 commencing from January 1, 2018 on a modified retrospective basis. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with historic accounting under Topic 605 (as described in Note 2 J).

The Company utilized a comprehensive approach in order to assess the impact of the guidance on its contract portfolio by reviewing its current accounting policies and practices to identify potential differences that would result from applying the new requirements, including evaluation of the performance obligations and variable consideration.

The Company did not have a cumulative adjustment to retained earnings or an impact on its revenue recognition policies or on its consolidated financial statements as a result of the adoption of the new standard.

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Notes to the Consolidated Financial Statements

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

W. Recently Adopted Accounting Pronouncements (cont'd)

2. Revenue Recognition (cont'd)

Topic 606 requires entities to follow a five step process:

(1) Identify the contract(s) with a customer,

(2) Identify the performance obligations in the contract,

(3) Determine the transaction price,

(4) Allocate the transaction price to the performance obligations in the contract, and

(5) Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company accounts for a contract with customer when it has approval and commitment from both parties, the rights of the parties and payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

For each contract, the Company exercises judgement to identify separate performance obligations and to evaluate, at the inception of the contract, if each distinct performance obligation within the contract is satisfied at a point in time or over time.

Revenue is measured based on a consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties.

In certain arrangements with variable consideration, the Company exercises judgement in order to estimate the amount of variable consideration to be included in the transaction price. In these arrangements, revenue is recognized over time as it is mainly attributed to ongoing services provided. An insignificant amount which is related to the product is not recognized upon delivery since it is not probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Revenue is allocated among performance obligations in a manner that reflects the consideration that the Company expects to be entitled for the promised goods or services based on standalone selling prices (SSP). SSP are estimated for each distinct performance obligation and judgment may be required in their determination. The best evidence of SSP is the observable price of a product or service when the Company sells the goods separately in similar circumstances and to similar customers.

The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. For an analysis of the performance obligations and the timing of revenue recognition, for each type of the contract, see also Note 9.

The new standard requires the Company to provide more robust disclosures than required by previous guidance. Such disclosures have been provided in Note 9.

In addition, when the Company has an unconditional right to receive proceeds before the performance obligation was fulfilled, it is now required to record receivables against contract liabilities.

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Note 2 - Significant Accounting Policies (cont'd)

X. Recent accounting pronouncements

1. In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes ASC 840, Leases. This ASU requires lessees to recognize a right-of-use asset and lease liability on the balance sheet for most leases, whereas currently only financing-type lease liabilities (capital leases) are recognized on the balance sheet. In addition, the definition of a lease has been revised with respect to when an arrangement conveys the right to control the use of the identified asset under the arrangement, which may result in changes to the classification of an arrangement as a lease. The ASU does not significantly change the lessees' recognition, measurement and presentation of expenses and cash flows from the previous accounting standard. Lessors' accounting under the ASU is largely unchanged from the previous accounting standard. The ASU expands the disclosure requirements of lease arrangements. The guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company will adopt this standard on January 1, 2019, under the effective date method. In accordance with the effective date method, the Company needs to record a cumulative-effect adjustment within its accumulated deficit in the equity on January 1, 2019, without reclassification of previous financial statements. The guidance is not expected to have a material impact on the Company's financial statements, including the results of its operations and its cash flows, with an expected increase of the Company's assets and liabilities in amount that reflects approximately 4%-7% of the Company's total assets as of January 1, 2019, subject to completion of its assessment.

2. In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326)*. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net

income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018. The Company currently does not expect the adoption of this accounting standard to have a material impact on its consolidated financial statements.

Y. Immaterial error correction

The consolidated balance Sheet as of December 31, 2017 includes the impact of an immaterial correction that is reflected by increasing other receivables and prepaid expenses and other current liabilities by $855 in order to reflect the Company's exposure to a claim and the right to receive full indemnity for this exposure (see Note 8E1). In addition, the Company reclassified supplier advance that was previously presented net of the trade payables in the amount of $907 to other receivables and prepaid expenses. These corrections had no impact on the previously reported amounts of total equity, consolidated statements of operations, consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated cash flows from operating, investing or financing activities.

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Notes to the Consolidated Financial Statements

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Note 2 - Significant Accounting Policies (cont'd)

Y. Immaterial error correction (cont'd)

The Company evaluated these corrections and determined, based on quantitative and qualitative factors, that the corrections made were not material to the consolidated financial statements taken as a whole for any previously filed consolidated financial statement.

Note 3 - Short-term investments:

Balances at December 31, 2018 and 2017 consist of bank deposits. The bank deposits bear weighted average annual interest of 2.29% as of December 31, 2018 (As of December 31, 2017 – 0.7%).

See Note 8C as to restrictions on certain deposits.

Note 4 - Other Receivables and Prepaid Expenses

	December 31	
	2018	2017

Government institutions	$387	$263
Prepaid expenses	226	381
Receivables under contractual obligations to be transferred to others (*)	349	446
Suppliers advance	932	(**) 1,029
Other receivables	166	(**) 1,206
	$2,060	$3,325

(*) The Company's subsidiary in Poland is required to collect certain fees that are to be transferred to local authorities.

(**) See Note 2Y.

Note 5 - Property, Plant and Equipment, Net

A. Consist of:

	December 31	
	2018	2017
Cost		
Buildings	$966	$917
Computers, software and manufacturing equipment	16,052	16,279
Office furniture and equipment	153	172
Motor vehicles	195	201
Total cost	17,366	17,569
Total accumulated depreciation	12,333	11,710
	$5,033	$5,859

B. As to liens - See Note 8C.

C. Depreciation expenses amounted to $1,113, $991 and $1,082 for the years ended December 31, 2018, 2017 and 2016, respectively.

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Notes to the Consolidated Financial Statements

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Note 6 - Other Current Liabilities

	December 31	
	2018	2017
Employees and related expenses	$1,042	$1,073
Accrued expenses	921	1,054
Customer advances	141	178
Other current liabilities	* 1,518	* 971
	$3,622	$3,276

* See Notes 8E(1) and 2Y.

Note 7 - Bank Loans

A. Composition of long-term loans:

	December 31	
	2018	2017
Long-term loans (*)	$299	$1,400
Less - current maturities	260	586
	$39	$814

(*) As of December 31, 2018, the bank loans are denominated in the following currencies: Polish Zloty ($252; matures in 2019) and South African Rand ($47; matures in 2019-2020). As of December 31, 2018, these loans bear a weighted average interest rate of 4.66% per annum.

B. Repayment dates of long-term loans subsequent to December 31, 2018:

2019	$260
2020	39
	$299

C. Composition of short-term loans, bank credit and current maturities of long-term loans:

	December 31 2017 % Interest rate	December 31 2018	December 31 2017
In U.S. Dollars	4.50	$-	$1,669
In Polish Zloty	3.63	-	1,147
In NIS	3.60	-	779
		-	3,595
Current maturities of long-term loans		260	586
		$260	$4,181

The weighted average interest rates of the short-term bank credit for the years ended December 31, 2018 and 2017 were 3.82% and 4.03%, respectively, per annum.

D. Liens for short-term and long-term loans - see Note 8C.

E. As of December 31, 2018, the Group has authorized unused credit lines of $2,565.

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Note 8 - Commitments and Contingencies

A. Commitments and Contingencies:

The Company has entered into several research and development agreements, pursuant to which the Company received grants from the Government of Israel, and are therefore obligated to pay royalties to the Government of Israel at a rate of 3%-3.5% of its sales up to the amounts granted (linked to the U.S. dollar with annual interest at LIBOR as of the date of approval, for programs approved from January 1, 1999 and thereafter). The total amount of grants received as of December 31, 2018, net of royalties paid, was approximately $3,800 (including accrued interest). No grants from the Government of Israel were received during the three-year period ended December 31, 2018.

During the year ended December 31, 2018, there were no royalty expenses. Royalty expenses amounted to $111 and $423 for the years ended December 31, 2017 and 2016, respectively, and were charged to cost of revenues.

B. Leases

The Group operates from leased facilities in the United States, Israel, Poland and South Africa, leased for periods expiring in years 2019 through 2023.

Minimum future rentals of premises under non-cancelable operating lease agreements at rates in effect as of December 31, 2018 are as follows:

2019	$284
2020	184
2021	170
2022	175
2023	46
	$859

Rent expenses amounted to $363, $399 and $313 for the years ended December 31, 2018, 2017 and 2016, respectively. See also Note 16.

C. Liens

The Company and certain subsidiaries have recorded floating charges on all of its tangible assets in favor of banks.

The Company's and certain subsidiaries' manufacturing facilities and certain equipment have been pledged as security in respect of a loan received from a bank.

The Company's short-term deposits in the amount of $278 have been pledged as security in respect of guarantees granted and in respect of credit lines received from a bank**.** Such deposits cannot be pledged to others or withdrawn without the consent of the bank.

D. Guarantees

As of December 31, 2018, the Company granted performance guarantees and guarantees to secure customer advances in the sum of $304. The expiration dates of the guarantees range from January 2019 to June 2019.

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Note 8 - Commitments and Contingencies (cont'd)

E. Legal claims

1. In June 2013, prior to the Company's divestiture of its SmartID division, Merwell Inc. ("Merwell") filed a claim against the Company before an agreed-upon arbitrator alleging breach of contract in connection with certain commissions claimed to be owed to Merwell with respect to the division's activities in Tanzania. These activities, along with all other activities of the SmartID division, were later assigned to and assumed by SuperCom in its purchase of the division. SuperCom undertook to indemnify the Company and hold it harmless against any liabilities the Company may incur in connection with Merwell's consulting agreement and the arbitration. An arbitration decision was issued on February 21, 2016, awarding Merwell approximately $855 for outstanding commissions, plus expenses and legal fees. The arbitration decision had been appealed and the appeal was denied on June 17, 2018. In order to collect the award, Merwell filed a motion against the Company and the Nazareth District Court issued a judgment requiring the Company to pay Merwell an amount of NIS 5,080 (approximately $1,370) that was paid by the Company on January 8, 2019. As mentioned above, based on the agreement with SuperCom from April 2016 (which was granted an effect of a court judgment), SuperCom is liable for all the costs and liabilities arising out of this claim. Subsequent to the balance sheet date, the Company initiated an arbitration process to collect from SuperCom, the amount paid to Merwell, which SuperCom failed to pay as of the date hereof.

As of December 31, 2018, the Company recorded a provision for the full amount paid. Despite the fact that, based on the assessment of the Company's external legal counsel, the likelihood to succeed in the arbitration process (or other legal procedure in that matter) is high, the Company did not record an indemnification asset as of December 31, 2018, in accordance with accounting standard ASC 450.

2. In October 2013, a financial claim was filed against the Company and its then French subsidiary, Parx France (in this paragraph, together, the "Defendants"), in the Commercial Court of Paris, France (in this paragraph, the "Court").

The sum of the claim is €1,500 ($1,743) and is based on the allegation that the plaintiff sustained certain losses in connection with Defendants not granting the plaintiff exclusive marketing rights to distribute and operate the Defendants' PIAF Parking System in Paris and the Ile of France. On October 25, 2017, the Court issued its ruling in this matter dismissing all claims against the Company but ordering Parx France to pay the plaintiff €50 ($58) plus interest in damages plus another approximately €5 ($6) in other fees and penalties. The Company offered to pay the amounts mentioned above to the plaintiff in consideration for not filing future appeals. The Plaintiff rejected this offer and filed an appeal against Parx France and the Company claiming the sum of €503 ($584) plus interest and expenses. The Company will submit its answer to the appeal by November 7, 2019, and the appeal hearing is scheduled for December 5, 2019. Based on the assessment of the Company's external legal counsel, the Company's management is of the opinion that the chances of the appeal being approved against the Company are low.

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Note 9 - Revenues

Disaggregation of revenue

The following table disaggregates the Company's revenue by major source based on categories that depict its nature and timing as reviewed by management for the year ended December 31, 2018:

	Year ended December 31		
	2018		
	Retail and Mass Transit Ticketing	Petroleum	Total
Cashless payment products (A)	$8,751	$ -	$8,751
Complete cashless payment solutions (B):			
Sales of products (B1)	2,986	3,794	6,780
Licensing fees, transaction fees and services (B2)	4,890	1,457	6,347
	7,876	5,251	13,127
Total revenues	$16,627	$ 5,251	$21,878

Performance obligations

Below is a listing of performance obligations for the Company’s main revenue streams:

A. Cashless payment products –

The performance obligation is the selling of contactless payment products. Most of those products are Near Field Communication (NFC) readers. For such sales the performance obligation, transfer of control and revenue recognition occur when the products are delivered.

B. Complete cashless payment solutions –

The complete solution includes selling of products and complementary services, as follows:

1. Sales of products –

Selling of contactless payment products (see A above) together with payment gateways and machine-to-machine controllers.

Selling of petroleum payment solutions including site and vehicle equipment.

For such sales, the performance obligation, transfer of control and revenue recognition occur when the products are delivered.

2. Licensing fees, transaction fees and services -

The types of arrangements and their main performance obligations are as follows:

To provide terminal management system licensing for software that is responsible for remote terminal management and cloud-based software licensing which provide data insights. For such services, the revenue recognition occurs as the services are rendered since the performance obligation is satisfied over time.

To enable loading and sale of electronic contactless and paper cards. For such transaction fees the revenue recognition occurs on the transaction date.

To provide technical and customer services for products. For such services, the performance obligation is satisfied over time and therefore revenue recognition occurs as the services are rendered.

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Note 9 - Revenues (cont'd)

Performance obligations (cont'd)

The Company includes a warranty in connection with certain contracts with customers, which are not considered to be separate performance obligations. The cost to the Company of this warranty is insignificant.

Contract balances

	December 31 2018	December 31 2017
Trade receivables, net of allowance for doubtful accounts	$ 4,530	$ 5,827
Customer advances	$ 141	$ 178

Accounts receivable are recognized when the right to consideration becomes unconditional based upon contractual billing schedules.

Transaction price and variable consideration

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. In certain arrangements with variable consideration, revenue is recognized over time as it is mainly attributed to ongoing services provided. An insignificant amount which is related to the product is not recognized upon delivery since it is not probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

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Note 10 - Equity

A. Shares to non-employees

During 2018, 2017 and 2016, the Company granted its consultants 80,000, 45,000 and 15,000 ordinary shares, respectively. The expenses that are recognized due to these grants are immaterial and are presented within 'stock-based compensation' in the statement of changes in equity.

B. Stock option plans

In February 2001, the Company's Board of Directors (the "Board") approved an option plan, under which up to 75,000 share options are to be granted to the Company's employees, directors and consultants and those of the Company's subsidiaries and affiliates.

During the years 2002 to 2012, the Board approved an increase of 13,125,000 options to be reserved under the Company's share option plan.

On October 22, 2013, the Board approved a further increase of 2,500,000 options to be reserved under the Company's share option plan.

On June 17, 2014, the Board approved a further increase of 750,000 options to be reserved under the Company's share option plan.

On November 21, 2017, following the approval of the compensation committee and the Board, the shareholders of the Company approved an amendment to the Company's share option plan, so that securities may be issued under such plan from time to time until December 31, 2021.

The vesting period for the options ranges from immediate vesting to ratable vesting over a four- year period. The exercise price of options under the plan is at varying prices. Those options expire up to five years after the date of the grant. Any options which are forfeited or cancelled before expiration become available for future grants.

The fair value of each option granted to employees during 2018, 2017 and 2016 was estimated on the date of grant, using the Black-Scholes model and the following assumptions:

	Year ended December 31					
	2018		2017		2016	
Expected dividend yield	0	%	0	%	0	%
Expected volatility	69%-81	%	67%-74	%	71%-75	%
Risk-free interest rate	1.92%-2.84	%	1.35%-1.83	%	0.97%-1.42	%
Expected life - in years	2.33		2.45		2.45-3.5	

1. Dividend yield of zero percent for all periods.

2. Expected average volatility represents a weighted average standard deviation rate for the price of the Company's ordinary shares on Nasdaq.

3. Risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant.

4. For options granted during 2018 and 2017 - estimated expected lives are based on historical grants data. For 2016 - estimated expected lives are according to the simplified method.

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Note 10 - Equity (cont'd)

B. Stock option plans (cont'd)

The Company's options activity during 2018 (including options to non-employees) and information as to options outstanding and options exercisable as of December 31, 2018 and 2017 are summarized in the following table:

	Number of options outstanding	Weighted average exercise price per share	Aggregate intrinsic value
Outstanding – December 31, 2017	1,495,000	$ 1.27	
Options granted	224,000	1.06	
Options expired or forfeited	(218,001)	1.32	
Options exercised	(39,999)	0.86	
Outstanding – December 31, 2018	1,461,000	$ 1.24	$ 6
Exercisable as of:			
December 31, 2018	855,642	$ 1.32	$ 4

The weighted average grant date fair value of options granted is $0.46, $0.66 and $0.95 per option during 2018, 2017 and 2016, respectively.

The following table summarizes information about options outstanding and exercisable (including options to non-employees) as of December 31, 2018:

	Options outstanding			Options Exercisable		
Range of exercise price	Number outstanding as of December 31, 2018	Weighted average remaining contractual life (years)	Weighted Average Exercise Price	Number Outstanding As of December 31, 2018	Weighted average remaining contractual life (years)	Weighted Average Exercise Price
$0.44-0.90	544,000	2.65	$ 0.76	356,666	1.95	$ 0.74
1.07-1.68	707,000	3.44	1.23	288,976	3.19	1.18
2.32-2.36	170,000	0.37	2.35	170,000	0.37	2.35
$3.03	40,000	0.73	$ 3.03	40,000	0.73	$ 3.03
	1,461,000	2.71		855,642	2.00	

The total exercise date intrinsic value of options exercised during the years ended December 31, 2018, 2017 and 2016, was $16, $32 and $45, respectively.

As of December 31, 2018, there was $251 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.21 years. The total fair value of shares vested during the year ended December 31, 2018 was $180.

During 2018, 2017 and 2016, the Company recorded stock-based compensation expenses in the amount of $234, $254 and $239, respectively, in accordance with ASC Topic 718.

Stock-based compensation expenses are not deductible for tax purpose.

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Note 10 - Equity (cont’d)

C. Warrants

1. During 2018, no warrants expired or were exercised into ordinary shares.

2. As of December 31, 2018, there are remaining 40,000 outstanding warrants issued to one of the Company’s consultants during 2016 with a per share exercise price of $0.95. The warrants expire during 2019.

D**. Change in the ownership rate**

During 2016, the Company bought out the minority interest in its subsidiaries that operated the parking business, PARX Ltd. and Easy Park Ltd., in consideration of $69. In addition to the payment of $69, the Consolidated Statement of Changes in Equity for the year ended December 31, 2016 includes classification between Non-controlling interest and additional paid-in capital of $1,851 due to this increase in the ownership rate.

Note 11 - Supplemental statement of operations data

Other expenses, net

Consists of:

	Year ended December 31.		
	2018	2017	2016
(Gain) loss on sale of property and equipment, net (1)	(37)	52	83
Cessation of employment agreements (2)	-	-	108
Consulting fees	70	-	-
Other expenses, net	$33	$ 52	$191

1 On May 7, 2016, the Company entered into an agreement pursuant to which the Company agreed to sell its headquarters building in Rosh Pina, Israel, to a third party for consideration of NIS 7,000 (approximately $1,848) and will lease back the portion of the building necessary for its current operations. The leaseback period is two years and the annual rent is $130. On September 4, 2016, the sale of the building was completed. As a result of the sale, the Company recorded a loss of $83. The Company has the right to extend the lease by two additional one year periods on the same terms and it has extended the lease by one year until July 31, 2019.

2 During 2016, the Company recorded compensation expenses related to the cessation of employment of the Company's former Chief Financial Officer and former General Counsel and Secretary.

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Note 12 - Income Taxes

A. The Company and its Israeli subsidiaries

1. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985

The Company and one of its Israeli subsidiaries are foreign invested companies, and have elected, commencing January 1, 2007, to maintain their books and records in U.S. dollars for income tax purposes, as permitted under the tax regulations.

2. The Law for the Encouragement of Industry (taxes), 1969

The Company believes that it qualifies as an "Industrial Company" under the Law for the Encouragement of Industry. The principal tax benefits for the Company are the deductibility of costs in connection with public offerings and amortization of certain intangibles.

3. Corporate tax rate

Presented hereunder are the standard tax rates in Israel in the years 2016-2018:

2018 – 23%

2017 – 24%

2016 – 25%

Current taxes for the reported periods are calculated according to the tax rates presented above.

On January 4, 2016, the statutory tax rate was changed to 25% following a reduction of a corporate tax by the Israeli government. Furthermore, on December 22, 2016, the Israeli government passed a law under which the corporate tax rate was reduced from 25% to 23% in two steps. The first reduction was to a rate of 24% as from January 2017 and the second reduction was to a rate of 23% as from January 2018.

The deferred tax balances as at December 31, 2018 and 2017 were calculated according to the new tax rates, at the tax rate expected to apply on the date of reversal.

4. Benefits under the Law for the Encouragement of Capital Investments

According to the Law for the Encouragement of Capital Investments – 1959 (the “Law”), as amended, two new tax tracks exist, one of which may be relevant to the Company, the preferred enterprise track, which mainly provide a uniform and reduced tax rate for all the Company’s income entitled to benefits. According to the amended law, the tax rates on income derived by preferred companies are as follows: 7.5% for Development Area A and 16% for the rest of the country. Additional amendments to the Law became effective in January 2017 (the “2017 Amendment”), according to which, subject to certain conditions, income derived by preferred companies which will meet the definition of ‘Preferred Technological Enterprises’ or “PTE” (as defined in the 2017 Amendment), would be subject to reduced corporate tax rates of 7.5% in Development Area A and 12% for the rest of the country.

In addition to the aforesaid beneficial tax rates, preferred companies in Development Area A are entitled to grants track.

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Note 12 - Income Taxes (cont'd)

A. The Company and its Israeli subsidiaries (cont'd)

4. Benefits under the Law for the Encouragement of Capital Investments (cont'd)

The Law also provides that no tax will apply to a dividend distributed out of preferred income to a shareholder that is an Israeli resident company. A tax rate of 20% shall apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties.

The Company currently meets the conditions provided in the Law for inclusion in the scope of the preferred enterprise track.

B. Non-Israeli subsidiaries are taxed based on the income tax laws in their country of residence.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "US Tax Legislation") was enacted in the United States. Except for certain provisions, the Tax Legislation is effective for tax years beginning on or after January 1, 2018. The Tax Legislation significantly revises several sections of the U.S. Internal Revenue Code including, among other things, lowering the corporate income tax rate from 35% to 21% effective January 1, 2018, limiting deductibility of interest expense and implementing a modified territorial tax system that imposes a repatriation tax on deemed repatriated earnings of foreign subsidiaries. The main effect on the Company's U.S. subsidiary is the lowering the corporate income tax rate from 35% to 21%, which does not have a material effect on the Company's financial statements.

C. Deferred tax assets and liabilities:

	December 31 2018	December 31 2017
Deferred tax assets:		
Carryforward losses	$ 44,926	$ 45,239
Other	763	785
Total gross deferred tax assets	45,689	46,024
Less – valuation allowance	(45,689)	(46,024)
Net deferred tax assets	$ -	$ -
Deferred tax liability -		
Other *	(445)	(500)
Net deferred tax liability	$ (445)	$ (500)

*Relates mainly to property, plant and equipment.

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Note 12 - Income Taxes (cont'd)

C. Deferred tax assets and liabilities (cont'd)

The net changes in the total valuation allowance for each of the years ended December 31, 2018, 2017 and 2016, are comprised as follows:

	Year ended December 31		
	2018	2017	2016
Balance at beginning of year	$46,024	$46,450	$52,431
Additions during the year from Continuing operations	122	413	764
Changes due to amendments to tax laws and applicable future tax rates, see Note 12A(3)	-	(518)	(6,408)
Discontinued operations - see Note 1B	(5)	(239)	(382)
Tax from previous years	(310)	(312)	-
Exchange rate differences on carryforward losses	(20)	244	33
Adjustments to beginning-of-the-year balance due to utilization of carryforward losses in certain subsidiaries	-	(16)	-
Deferred intercompany transactions	(122)	-	-
Other changes	-	2	12
Balance at end of year	$45,689	$46,024	$46,450

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences or carry-forwards are deductible. Based on the level of historical taxable losses, management has reduced the deferred tax assets with a valuation allowance to the amount it believes is more likely than not to be realized.

D. As of December 31, 2018, the operating loss carry-forwards and capital loss carryforwards relating to Israeli companies amounted to $155,341 and $36,741, respectively. Operating losses in Israel may be carried forward indefinitely to offset against future taxable operational income. Under the Income Tax (Inflationary Adjustments) Law, 1985, and based on the Company's election (see Note 12A(1)), tax loss carry-forwards are denominated in U.S. dollars.

Net operating carry-forward losses relating to non-Israeli companies aggregate $3,364, which will expire as follows: 2027 - $2,831 and 2028- $533.

E. The Company has not recognized a deferred tax liability for the undistributed earnings of its foreign subsidiaries that arose in 2018 and prior years, because the Company considers these earnings to be indefinitely reinvested. These undistributed earnings will be taxed upon distribution, if at all. A deferred tax liability will be recognized when the Company can no longer demonstrate that it plans to indefinitely reinvest these undistributed earnings. As of December 31, 2018, the undistributed earnings of these foreign subsidiaries were $4,435. It is impracticable to determine the additional taxes payable when these earnings are remitted.

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Note 12 - Income Taxes (cont'd)

F. Income tax expenses allocated to continuing operations are as follows:

	Year ended December 31		
	2018	*2017	*2016
Current income tax expenses	$(176)	$(27)	$(24)
Deferred tax benefit	477	165	155
Income tax benefit, net	$301	$138	$131

*Reclassified to conform with the current period presentation. See Note 1B(3).

Income tax expenses included in discontinued operations expenses are $515, $212 and $213 for the years ended December 31, 2018, 2017 and 2016.

Reported income tax expense for the years ended December 31, 2018, 2017 and 2016, differed from the amounts that would result from applying the Israeli statutory tax rates of 23%, 24% and 25%, respectively, to loss from continuing operations before taxes on income, as a result of the following:

Year ended December 31

	2018	*2017	*2016
Computed “expected” income tax benefit	$503	$606	$794
Decrease in income tax benefit resulting from:			
Change in valuation allowance, net	(122)	(413)	(764)
Nondeductible stock-based compensation related to options issued to employees	(53)	(61)	(60)
Other nondeductible expenses	(3)	(22)	(16)
Tax from previous years	(15)	(13)	110
Other	(9)	41	67
Reported income tax benefit	$301	$138	$131

*Reclassified to conform with the current period presentation. See Note 1B(3).

G. Loss from continuing operations before taxes on income consists of the following:

	Year ended December 31		
	2018	*2017	*2016
Israel	$(2,765)	$(2,906)	$(3,775)
Non-Israel	576	383	600
	$(2,189)	$(2,523)	$(3,175)

*Reclassified to conform with the current period presentation. See Note 1B(3).

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Note 12 - Income Taxes (cont'd)

H. Unrecognized tax benefits

As of December 31, 2018, 2017 and 2016, the Company did not have any unrecognized tax benefits. In addition, the Company does not expect that the amount of unrecognized tax benefits will change significantly within the next twelve months.

For the years ended December 31, 2018, 2017 and 2016, no interest and penalties related to unrecognized tax benefits have been accrued.

The Company and its major subsidiaries file income tax returns in Israel, Poland and South Africa. With few exceptions, the income tax returns of the Company and its major subsidiaries are open to examination by the Israeli and the respective foreign tax authorities for the tax years beginning in 2013, except the income tax returns of the subsidiary in South Africa that are open to examination for the tax years beginning in 2017.

Note 13 - Discontinued operations

As described in Note 1B, the Company divested its interest in the SmartID division, its parking business and Medismart activity and presented these activities as discontinued operations.

During the year ended December 31, 2018, the total gain from the Medismart operation divesture, net of transaction costs, amounted to $2,639. This gain is presented as ‘other income, net’ within the net income from discontinued operations. This gain together with the expense in the amount of $1,355 that derives from a loss contingency, as mentioned in Note 8E(1), are included in ‘other income, net’ within the net income from discontinued operations.

During the year ended December 31, 2017, the Company recorded $1,346 as ‘other income, net’ within the net income from discontinued operations based on a judgment issued by the Israeli Central District Court regarding the Company’s lawsuit against Harel Insurance Company Ltd. (“Harel”) for damages incurred by the Company due to flooding in a subcontractor’s manufacturing site in 2011. The judgment determined that an amount of $1,600, net be awarded to cover the Company’s damages. On October 10, 2017, Harel submitted its appeal of the judgment to the Israeli Supreme Court as well as a request for stay of judgment. On October 30, 2017, the Court denied the requested stay. Based on the advice of counsel, the Company currently believes that there are sufficient grounds on which to uphold the District Court’s ruling and, as such, Harel’s appeal will be denied. The appeal hearing is scheduled for May 29, 2019.

During the year ended December 31, 2016, the Company recorded and received profit from contingent consideration in the amount of $209, according to an earn out mechanism derived from the Smart ID division divesture. This profit is presented as ‘other income, net’ within income from discontinued operations for the year ended December 31, 2016. The profit for the year ended December 31, 2016, includes a one-time payment for the SmartID division divesture of $2,050 and loss in the amount of $111 which derives from the parking business divesture, including transaction costs.

Set forth below are the results of the discontinued operations:

	Year ended December 31		
	2018	*2017	*2016
Revenues	$1,722	$1,509	$2,580
Expenses	(1,381)	(1,068)	(2,456)
Other income, net	1,284	1,346	2,060
Net income from discontinued operations	$1,625	$1,787	$2,184

*Reclassified to conform with the current period presentation. See Note 1B(3).

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Note 14 - Operating segments

In view of how the Company's chief operating decision maker ("CODM") reviews operating results for the purposes of allocating resources and assessing performance, the Company currently reports two segments which are the Group's strategic business units: (a) Retail and Mass Transit Ticketing, and (b) Petroleum.

The following summary describes the operations in each of the Group's operating segments:

Retail and Mass Transit Ticketing - includes selling and marketing a variety of products for cashless payment solutions for the retail market and mass transit ticketing.

Petroleum - includes manufacturing and selling of fuel payment and management solutions. The Group's solution is a wireless, cashless, cardless and paperless refueling tracking and payment solution, providing customers with maximum flexibility and security.

The strategic business unit's allocation of resources and evaluation of performance are managed separately. The CODM does not examine assets or liabilities for those segments and therefore they are not presented.

Information regarding the results of each reportable segment is included below based on the internal management reports that are reviewed by the CODM.

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Note 14 - Operating segments (cont'd)

	Year ended December 31, 2018		
	Retail and Mass Transit Ticketing	Petroleum	Consolidated
Revenues	$16,627	$ 5,251	$ 21,878
Reportable segment gross profit *	9,441	2,557	11,998
Reconciliation of reportable segment gross profit to gross profit for the period			
Depreciation			(826)
Stock-based compensation			(4)
Gross profit for the period			$ 11,168

	Year ended December 31, 2017**		
	Retail and Mass Transit Ticketing	Petroleum	Consolidated
Revenues	$15,755	$ 5,118	$ 20,873
Reportable segment gross profit *	8,623	2,552	11,175
Reconciliation of reportable segment gross profit to gross profit for the period			
Depreciation			(757)
Stock-based compensation			(1)
Gross profit for the period			$ 10,417

	Year ended December 31, 2016**		
	Retail and Mass Transit Ticketing	Petroleum	Consolidated
Revenues	$(***) 14,630	$ 4,122	$ 18,752
Reportable segment gross profit *	7,598	2,365	9,963
Reconciliation of reportable segment gross profit to gross profit for the period			
Depreciation			(733)
Stock-based compensation			(4)
Gross profit for the period			**$ 9,226**

* Gross profit as reviewed by the CODM represents gross profit, adjusted to exclude depreciation and stock-based compensation.

** Reclassified to conform with the current period presentation. See Note 1B(3).

*** The revenues from retail and mass transit ticketing segment for the years ended December 31, 2016 include revenues derived from litigation settlements with a perpetual license agreement. Those revenues are presented within revenues from ‘licensing and transaction fees’ in the statements of operations.

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On Track Innovations Ltd.

and its Subsidiaries

Notes to the Consolidated Financial Statements

In thousands, except share and per share data

Note 15 - Geographic Information and Major Customers

The data is presented in accordance with ASC Topic 280, "*Disclosures About Segments of an Enterprise and Related Information.*"

	Year ended December 31		
	2018	***2017**	***2016**
Revenues by geographical areas from external customers			
Americas	$7,914	$7,167	$9,984
Asia	3,122	3,421	286
Africa	2,447	2,814	2,310
Europe	8,395	7,295	5,890
Total export	21,878	20,697	18,470
Domestic (Israel)	-	176	282
	$21,878	$20,873	$18,752

*Reclassified to conform with the current period presentation. See Note 1B(3).

	December 31 2018	December 31 2017
Long lived assets by geographical areas		
Domestic (Israel)	$ 686	$ 740
Poland	3,704	4,555

South Africa	884	900
America	-	-
	$ 5,274	$ 6,195

Major Customers

	Year ended December 31		
	2018	***2017**	***2016**
	%	%	%
Major Customers by percentage from total revenues			
Customer A	15%	16 %	17 %
Customer B	9 %	12 %	9 %
Customer C	11%	11 %	0 %

*Reclassified to conform with the current period presentation. See Note 1B(3).

** The revenues derived from those three customers are presented within the revenues from the Retail and Mass Transit Ticketing.

Note 16 - Subsequent events

In January 2019, the Company signed agreements pursuant to which the Company will lease offices in Yokne'am and in Rosh Pina, Israel (in lieu of the current leased headquarters building in Rosh Pina). The operating lease periods of those buildings in Yokne'am and in Rosh Pina are five years and three years, respectively (excluding the extension-periods, as mentioned in the agreements), and expected to commence during the second quarter of 2019. The total annual rent expenses of both offices, including management fees and excluding construction costs-reimbursement, are $150. The construction costs-reimbursement are expected to be approximately $1,000 that will be paid during the lease period.