UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended **December 31, 2019**

OR

☐ **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.
(Exact 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.)
Hatnufa 5, Yokneam Industrial Zone Box 372, Yokneam, Israel	**2069200**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **+ 972-4-6868000**

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

Title of each class	Trading Symbol	Name of each exchange on which registered
None		

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

Ordinary Shares, par value NIS 0.10 per share
(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 (§ 232.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," 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: $17,797,138. The number of shares of the registrant's Ordinary Shares outstanding on March 16, 2020, was 47,824,377.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Definitive Proxy Statement, filed with the Securities and Exchange Commission on March 10, 2020 pursuant to Regulation 14A in connection with the Extraordinary General Meeting of Shareholders of On Track Innovations Ltd., or the Proxy Statement, are incorporated by reference in Part III of this report.

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In this annual report, unless otherwise specified, all dollar amounts are expressed in United States dollars. In Note 2B 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.

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," "foresee," or “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;
- our intention to increase the 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;
- information with respect to any other plans and strategies for our business; and
- our belief that our updated strategy will enable us to realize our potential and resume our growth, and ultimately create shareholder value.

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.

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, Internet of Payment Things, or IoPT, and the petroleum management industries.

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 quoted on the OTCQX® market, or OTCQX, under the symbol OTIVF.

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.

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 NFC compatible 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 for loyalty schemes.

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 (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 programs, 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 services.

OTI PetroSmart has introduced GOSTrack, which provides all the benefits of its enhanced fuel management solution: GOSFuel, along with powerful vehicle location tracking functionality. GOSFleet adds vehicle and driver diagnostic functionality to the GOSTrack solution.

OTI PetroSmart also supplies complete packaged solutions to automate and wet stock management for commercial home base; mobile bowzer, industrial and mining customers.

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</u>

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.

Among our principal readers, there are the *OTI UNO* readers, the *OTI Trio* reader and the *OTI Interno* reader.

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

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.

TRIO-IQ – Intelligent 5-in-1 Telemetry Gateway & Payment Reader

The TRIO-IQ introduces an intelligent and sleek ultra-modern, innovative design, combining a high-quality touchscreen, HDMI Full HD multimedia output, Full NFC support, 5mp Camera with QR Code scanner and Bluetooth Low Energy, or BLE, all packaged in an elegant, smart design.

<u>Payment and Management Solutions for Vending, Kiosk and Coin-op Pulse Machines</u>

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

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: leading of electronic contactless cards for public transport and servicing city resident cards, tourist cards, and other cards.

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

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. We have been working for the past few months on updating our strategy for the coming years, which we believe will enable us to realize our potential and resume our growth, and ultimately create shareholder value.

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 Yokneam, Israel, as well as employees located in our subsidiaries in Europe, South Africa and the United States. Our customer service teams in Yokneam 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 Yokneam, 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 2019, 2018 and 2017, our customer related to mass transit in Poland provided 21%, 15% and 16%, respectively, of our total revenues for such periods. In addition, another customer in North America accounted for 0%, 9% and 12% of our total revenues for 2019, 2018 and 2017, respectively. In addition, another customer in Japan accounted for 4%, 11% and 11% of our total revenues for 2019, 2018 and 2017, respectively. In addition, another customer in America accounted for 15%, 7% and 4% of our revenues for 2019, 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**.**

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 9001:2015 certified. ISO 9001:2015 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.

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 9001:2015 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. As part of our efficiency program, we have reduced our investment in non-core patents and registrations. The expiration dates for our granted patents range between 2027 to 2033.

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

As of December 31, 2019, we had 115 employees.

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.

SEC Filings

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 2020 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 $5,889,000 in 2019, $263,000 in 2018 and $598,000 in 2017. We may continue to incur full-year losses in 2020 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 2019, 2018 and 2017, our customer related to mass transit in Poland provided 21%, 15% and 16%, respectively, of our total revenues for such periods. In addition, another customer in North America accounted for 0%, 9% and 12% of our total revenues for 2019, 2018 and 2017, respectively. In addition, another customer in America accounted for 15%, 7% and 4% of our revenues for 2019, 2018 and 2017. In addition, another customer in Japan accounted for 4%, 11% and 11% of our total revenues for 2019, 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.

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. 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.

We face risks resulting from the recent outbreak of the novel coronavirus 2019 (COVID-19), which could adversely affect our business and results of operations.

Our operations and business could be adversely affected by the recent outbreak of COVID-19. The spread of COVID-19 from China to other countries has resulted in the World Health Organization declaring the outbreak of COVID-19 as a "pandemic," or a worldwide spread of a new disease, on March 11, 2020. Many countries around the world have imposed quarantines and restrictions on travel and mass gatherings to slow the spread of the virus. On March 10, 2020, the Government of Israel announced that effective Thursday, March 12, 2020, at 20:00 (Israel time) foreign travelers arriving from any country will be required to remain in home quarantine until 14 days have passed since the date of entry into Israel; non-Israeli residents will be required to prove they have the means to self-quarantine before being allowed entry into Israel. The Ministry of Health in the State of Israel issued additional guidelines recommending people avoid gatherings in one space and providing that no gathering of more than 10 people should be held under any circumstances. Employers (including us) are also required to prepare and increase as much as possible the capacity and arrangement for employees to work remotely. With respect to global financial markets, the continuing and significant decline in the Dow Industrial Average from the end of February through March 2020 has been largely attributed to the effects of COVID-19. As of the reporting date, it is hard to assess the future influence of COVID-19 on the Company. We believe that one impact of COVID-19 on the Company may be a decrease in the Company's revenues derived from Mass Transit activity in the Polish market. We are aware of no other material short term adverse influences on the company. However, at this initial point in time, it is hard to predict what other impacts COVID-19 may have on the Company.

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 the recent spread of the coronavirus, 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 OTCQX 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.

There is a limited market for our Ordinary Shares, and the trading price of our Ordinary Shares is subject to volatility.

Our Ordinary Shares began trading on the OTCQX in the end of October 2019, following the delisting of our Ordinary Shares from the Nasdaq Capital Market. Because our Ordinary Shares is no longer listed on a registered national securities exchange, we are subject to certain “blue sky” laws of the various states which impose restrictions on our ability to offer and sell our securities. These “blue sky” laws may make it more difficult for us to raise capital or to issue our Ordinary Shares for equity compensation or other strategic purposes, which could adversely affect our ability to fund our operations or to attract and retain employees. In addition, our Ordinary Shares may be defined as a “penny stock” under Rule 3a51-1 under the Exchange Act. “Penny stocks” are subject to Rule 15g-9, which imposes additional sales practice requirements on broker-dealers that sell low-priced securities to persons other than established customers and institutional accredited investors. For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser’s written consent to the transaction prior to sale. Consequently, the rule may affect the ability of broker-dealers to sell our Ordinary Shares and affect the ability of holders to sell their Ordinary Shares in the secondary market. To the extent our share is subject to the penny stock regulations, the market liquidity for the Ordinary Shares will be adversely affected.

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, 2019, we had 46,784,377 outstanding Ordinary Shares, 1,178,699 Ordinary Shares that were repurchased by us and are held as dormant shares, and 809,000 options to purchase additional Ordinary Shares at a weighted average exercise price of $0.93 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. As disclosed in the Proxy Statement, if certain conditions are met, including the approval of our shareholders at the extraordinary general meeting of our shareholders that is scheduled for April 2020, we expect to receive funds in a total amount of up to $1,200,000 in consideration for the issuance of up to 6,000,000 Ordinary Shares, all in accordance with the terms and provisions of the share purchase agreement, or the Share Purchase Agreement, dated December 23, 2019 with Jerry L. Ivy, Jr. Descendants’ Trust, or Ivy, and certain other investors. 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 unless those rights are provided pursuant to a contract. This means that generally our shareholders do not have the legal right to purchase shares in a new issue before they are offered to third parties. However, pursuant to the Share Purchase Agreement, Ivy has a right to purchase any future equity securities offered by us, except with respect to certain exempt issuances as set forth in the Share Purchase Agreement. 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. For example, if our shareholders approve at the extraordinary general meeting of our shareholders that expected to be held in April 2020, Ivy will get more Ordinary Shares, in accordance with the terms of the Share Purchase Agreement. 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, 2019, we have only 1,137,123 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. Under the Proxy Statement, we are proposing to increase our authorized 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, 2019, 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 2019). 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, 2019, we received a total of approximately $7 million from the IIA. The total amount of grants received as of December 31, 2019, net of royalties paid, was approximately $3.4 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.

Until the end of January 2020, we leased 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 January 31, 2020.

In January 2019, we signed two new lease agreements for two new locations, one in Yokne'am (for approximately 700 square meter) and one in Rosh Pina (for approximately 260 square meters).

The term of the Yokne'am lease, to which our headquarters relocated, commenced during January 2020, and will end on January 31, 2025 with an option of a 5-year extension which shall begin on February 1, 2024 and end on January 31, 2029.

The term of the Rosh Pina lease, to which our research and development functions relocated, commenced in August 2019 and will end on August 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 previous northern location and its distance from the center made it challenging for us to do business and in particular to hire qualified personnel.

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.

In March 2019, OTI Petrosmart, our South African subsidiary entered into an agreement pursuant to which OTI Petrosmart agreed to sell its head office in Cape Town, South Africa, to a third party for a consideration of Rand 15,500,000 (approximately $1.1 million), and Petrosmart agreed to lease back this building for its current operations. The sale was completed, and the operating lease commenced during the third quarter of 2019.

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 two separate locations in Warsaw, Poland: (i) 60 square meters of office space pursuant to a lease that expires on April 30, 2022; and (ii) 86 square meters of office space pursuant to a lease for an indefinite period, terminable on three months' prior notice; and 87 square meters of warehouse space pursuant for an indefinite period, terminable on three months' prior notice 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.

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. On January 26, 2020, a hearing in the Israeli Supreme Court took place in front of three judges. Further to discussions held during the hearing, the judges made the parties an offer by way of a settlement, pursuant to which the Company shall return to Harel a sum of approximately $553,000, in three subsequent monthly installments commencing on February 26, 2020. Based on the Supreme Court’s recommendation and the advice of the Company’s legal counsel, the Company agreed to the suggested offer which was also approved by Harel. As of the date hereof, the Company has paid to Harel $369,000 out of the $553,000 settlement amount mentioned above.

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. On November 7, 2019, our external legal counsel concluded that the appeal was inadmissible, and that it believed that the opposing claims would be dismissed. The appeal hearing is scheduled for May 4, 2020. Based on the assessment of the Company's external legal counsel, our opinion is that the chances of the appeal being approved against us are low.

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 5,080,000 (approximately $1,370,000). 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. Since SuperCom failed to pay us the amounts due, in February 2019, we initiated an arbitration process to collect from SuperCom the amount paid to Merwell, as well as any complementary amounts as may be ordered in the future.

On June 12, 2019, Merwell submitted a complementary claim against the Company in arbitration, with respect to the additional financial details that Merwell claims that the Company was ordered to provide according to the arbitration verdict from February 21, 2016, and additional payments that Merwell claims that the Company is obligated to pay Merwell. The said financial details refer to the quantity of smart driving licenses that Merwell claims were issued in the later period of a project in Tanzania in which Merwell claims to have provided services to the Company. Merwell claims that despite the Company’s failure to provide the details, Merwell obtained the details independently from other sources, and they indicate that the Company is obligated to pay Merwell an additional amount of $1,618,792, and there might be additional amounts to be claimed in the future, as additional information might be found from time to time. On March 4, 2020, we submitted a response to this complementary claim, rejecting Merwell’s claims. As mentioned above, we are conducting in parallel a separate arbitration process against SuperCom in that matter, as we deem SuperCom to be liable for all the costs and liabilities arising out of this claim.

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. The arbitration verdict was approved as a court’s verdict in June 2019, but SuperCom failed to disclose the financial information in the way it should have done according to the arbitration decision. Therefore, in December 2019 we submitted a complementary claim to the arbitrator, asking for a final award that includes a final payment by SuperCom (as opposed to merely disclosing information).

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 quoted on the OTCQX Market under the symbol "OTIVF".

Record Holders

Based on a review of the information provided to us by our transfer agent, as of March 16, 2020, there were 19 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.

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 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, 2019 compared to year ended December 31, 2018

For a comparison of consolidated results for the year ended December 31, 2018 compared to the year ended December 31, 2017 please see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

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 two 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,	
	2019	**2018**
Sales	$ 9,983	$ 16,725
Licensing and transaction fees	$ 4,768	$ 5,153
Total revenues	$ 14,751	$ 21,878

Sales. Sales decreased by $6.7 million, or 40%, in 2019 compared to 2018. The decrease in 2019 compared to 2018 is mainly attributed to a decrease in Retail and Mass Transit Ticketing segment sales in the United States and Japan and to a decrease in sales of Petroleum products in the United States.

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 decrease of $385,000 in 2019, or 7%, compared to 2018, is mainly attributed to a decrease in our licensing and transaction fees 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 two years:

Year ended December 31,	**Americas**		**Europe**		**Africa**		**APAC**	
2019	$ 3,625	25%	$ 7,965	54%	$ 2,087	14%	$ 1,074	7%
2018	$ 7,914	36%	$ 8,395	39%	$ 2,447	11%	$ 3,122	14%

Our revenues from sales in Americas decreased by $4.3 million, or 54%, in 2019 compared to 2018, mainly due to a decrease in sales of readers to the U.S. market that we believe was caused by new tariffs that were presented by the U.S. administration on goods imported from China to the U.S. market and due to a decrease in sales of Petroleum products in Americas. As a result of the abovementioned tariffs, we have relocated our production from China to the Philippines.

Our revenues from sales in Europe decreased by $430,000, or 5%, in 2019 compared to 2018, mainly due to a decrease in our licensing and transaction fees and to a lesser extent, due to a decrease in sales of readers, partially offset by an increase of sales of readers in the Russian market.

Our revenues from sales in Africa decreased by $360,000, or 15%, in 2019 compared to 2018, mainly due to a decrease in sales of Petroleum products.

Our revenues from sales in APAC decreased by $2 million, or 66%, in 2019 compared to 2018 mainly due to a decrease in sales in the Japanese market.

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 two years:

Year ended December 31,	**Retail and Mass Transit Ticketing**			**Petroleum**		
2019	$	11,509	78%	$	3,242	22%
2018	$	16,627	76%	$	5,251	24%

Revenues in 2019 from Retail and Mass Transit Ticketing segment decreased by $5.1 million, or 31%, compared to 2018 mainly due to a decrease in sales of readers in the United States and a decrease in sales in Japan.

Revenues in 2019 from the Petroleum segment decreased by $2.0 million, or 38%, compared to 2018, mainly due to a decrease in Petroleum products in the United States.

Cost of Revenues and Gross Margin

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

	Year ended December 31,			
Cost of revenues	**2019**		**2018**	
Cost of sales	$	7,455	$	10,710
Gross profit	$	7,296	$	11,168
Gross margin percentage		49%		51%

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 2019 compared to 2018 decreased by $3.3 million, or 30%, resulting primarily from the corresponding decrease in sales.

Gross margin. The decrease in 2019 compared to 2018 of 2% is attributed to a change in our revenue mix.

Operating expenses

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

	Year ended December 31,			
Operating expenses	**2019**		**2018**	
Research and development	$	3,334	$	3,175
Selling and marketing	$	5,026	$	5,940
General and administrative	$	4,112	$	3,981
Other)income) expenses, net	$	(341)	$	33
Total operating expenses	$	12,131	$	13,129

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. The increase of $159,000, or 5%, in 2019 compared to 2018, is primarily attributed to an increase in subcontracting 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 decrease of $914,000, or 15%, in 2019 compared to 2018, is primarily attributed to a decrease in employment expenses and to a lesser extent to a decrease 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 general and administrative expenses in 2019 compared to 2018 remained consistent.

Other (income) expenses, net. In 2019, our other (income) expenses, net, consisted mainly of expenses related to a capital gain from the sale of a building by our South African subsidiary. In 2018, our other expenses, net, consisted mainly of expenses related to consulting fees, partially offset by gain on sale of property and equipment.

Financing expenses, net

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

	Year ended December 31,	
	2019	**2018**
Financing expenses, net	$ 397	$ 228

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 increase in financing expenses, net in 2019 compared to 2018 of $169,000, or 74%, is mainly attributed to exchange rate differentials.

Net loss from continuing operations

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

	Year ended December 31,	
	2019	**2018**
Net loss from continuing operations	$ (5,175)	$ (1,888)

The increase of net loss from continuing operations of $3.3 million, or 174%, in 2019 compared to 2018 is primarily due to a decrease in our sales, partially offset by a decrease in our operating expenses, as described above.

Net (loss) 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 two years has been as follows (in thousands):

	Year ended December 31,	
	2019	**2018**
Net (loss) income from discontinued operations	$ (714)	$ 1,625

The change in net (loss) income from discontinued operations of $2.3 million, or 144%, in 2019 compared to 2018 is mainly attributed to expenses in amount of $482,000 derived from legal proceedings with Harel, as recognized in 2019, 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 pursuant to the Nazareth District Court judgment.

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

	Year ended December 31,	
	2019	2018
Net loss	$ (5,889)	$ (263)

The increase in net loss of $5.6 million, or 2,139%, in 2019 compared to 2018, is primarily due to a decrease in our sales and an increase in net loss from discontinued operations and an increase in financial expenses, net, partially offset by a decrease in our operating expenses, 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 2K and 10 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 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

Since inception, our principal sources of liquidity have been revenues, proceeds from sales of equity securities, borrowings from banks, cash from the exercise of options and warrants as well as proceeds from the divestiture of part of our businesses. We had cash, cash equivalents and short-term investments representing bank deposits of $4,848,000 (of which an amount of $105,000 has been pledged as securities for certain items) as of December 31, 2019. We believe that we have sufficient capital resources to fund our operations for at least the next 12 months. As disclosed in the Proxy Statement and mentioned above, if certain conditions are met, including the approval of our shareholders at the extraordinary general meeting of our shareholders that is scheduled for April 2020, we expect to receive funds in a total amount of up to $1,200,000 in consideration for the issuance of up to 6,000,000 Ordinary Shares, all in accordance with the terms and provisions of the Share Purchase Agreement.

As of the reporting date, it is hard to assess the future influence of the coronavirus 2019 (COVID-19) on the Company. We believe that one impact of the COVID-19 on the Company may be a decrease in the Company’s revenues derived from Mass Transit activity in the Polish market. We are aware of no other material short term adverse influences on the Company. However, at this initial point in time, it is hard to predict what other impacts COVID-19 may have on the Company.

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 $105,000 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, 2019, we granted guarantees to third parties including performance guarantees and guarantees to secure customer advances in the sum of $404,000. The expiration dates of the guarantees ranged from April 2020 to September 2021.

For the years ended December 31, 2019 and December 31, 2018, we had a negative cash flow from continuing operations of $2.9 million and $2.2 million, respectively.

Operating activities related to continuing operations

For the year ended December 31, 2019, net cash used in continuing operating activities was $2.9 million primarily due to a $5.2 million net loss from operating activities, a $507,000 decrease in trade payables, a $328,000 gain on sale of property and equipment, a $270,000 decrease in other current liabilities, a $36,000 decrease in accrued interest and linkage differences and a $25,000 of deferred tax benefits, partially offset by a $1.6 million decrease in trade receivables, a $1.3 million of depreciation and amortization, a $228,000 decrease in other receivables and prepaid expenses, a $184,000 decrease in inventories, a $125,000 non-cash expense due to stock-based compensation issued to employees and others and a $23,000 increase in accrued severance pay.

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 increase 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 $1.3 million of depreciation and amortization, a $1.1 million decrease in trade receivables, a $350,000 decrease 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.

Operating activities related to discontinued operations

For the year ended December 31, 2019, net cash used in discontinued operating activities was $1.3 million mainly related to the dispute with Merwell related to the SmartID division.

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

Investing and financing activities related to continuing operations

For the year ended December 31, 2019, net cash used in continuing investing activities was $1.4 million, mainly due to a $1.4 million net change in short-term investments, $1.2 million of purchases of property and equipment and intangible assets, partially offset by $1.1 million in proceeds from the sale of an office property in South Africa and $10,000 in proceeds from restricted deposit for employee benefits.

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 $756,000 of purchases of property and equipment and intangible assets.

For the year ended December 31, 2019, net cash provided by continuing financing activities was $3.2 million, mainly due to a $2.5 million increase in short-term bank credit and $981,000 in proceeds from the issuance of shares, net of issuance expenses, offset by $270,000 repayment of long-term bank loans.

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 loans, partially offset by $34,000 in proceeds from the exercise of options.

Investing and financing activities related to discontinued operations

For the year ended December 31, 2019, no cash flow was related to discontinued investing activities.

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 years 2019 and 2018, 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, 2019, we had long-term loan obligations of $24,000, the vast majority of which are subject to variable interest rates. 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 0.6% in 2019 and 1.3% in 2018. The NIS revaluated against the U.S. Dollar by approximately -7.8% in 2019 and 8.1% in 2018.

The functional currency of ASEC is the Polish Zloty. A significant amount of this subsidiary's 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 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.

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, 2019, we have received a total of $3.4 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 24, 2020.

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, 2019. 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, 2019.

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, 2019, 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.

The information required by this item is contained in the Proxy Statement, under the sections titled “Item No. 3 – Election of Directors and Approval of the Grant of options to the Directors,” “Security Ownership of Certain Beneficial Owners and Management,” (see under subsection “Delinquent Section 16(a) Reports”) and “Corporate Governance” and is incorporated in this report by reference.

Item 11. Executive Compensation.

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 (effective August 1, 2019 and as described below NIS 45,000; between January 1, 2019 and July 31, 2019 NIS 35,000; between March 1, 2018 and December 31, 2018 NIS 30,000) 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 six months (formerly was three months), prior to termination. Effective August 1, 2019, as approved by our Board and Compensation Committee, and pursuant to the amendment to Mr. Cohen’s employment agreement dated September 30, 2019, Mr. Cohen’s monthly gross salary is NIS 45,000 and the abovementioned written notice for termination is six months. In addition, pursuant to the amendment to Mr. Cohen’s employment agreement, as also approved by the Company’s shareholders, Mr. Cohen received a lump sum bonus, in the amount of NIS 100,000, for his services as the Interim Chief Executive Officer of the Company. On March 17, 2020, our Board and Compensation Committee approved an increase in Mr. Cohen’s 2020 maximum annual bonus from 4 months’ to 6 months’ gross base salary.

The other information required by this item is set forth in the Proxy Statement under the section titled “Compensation of Directors and Executive Officers” and is incorporated in this report by reference.

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

The following table summarizes certain information regarding our equity compensation plan as of December 31, 2019:

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	809,000	$ 0.93	1,269,500
Equity compensation plan not approved by security holders	-	-	-
Total	809,000	$ 0.93	1,269,500

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 16, 2020, options for 14,371,500 Ordinary Shares had been exercised, and options for 834,000 Ordinary Shares are outstanding, including vested options with respect to 510,657 Ordinary Shares. Of the options that are outstanding, as of March 16, 2020, 390,000 options are held by our directors and officers and have a weighted average exercise price of $0.69 per share.

The other information required by this item is set forth in the Proxy Statement under the section titled “Security Ownership of Certain Beneficial Owners and Management”, and is incorporated in this report by reference.

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

The information required by this item is set forth in the Proxy Statement under the section titled “Compensation of Directors and Executive Officers,” (see subsection “Certain Relationships and Related Transactions,”) and is incorporated in this report by reference.

Item 14. Principal Accounting Fees and Services.

Independent Registered Public Accounting Firm

The Company has engaged Kesselman & Kesselman, Certified Public Accountants (Isr.), a member firm of PricewaterhouseCoopers International Limited, or PWC Israel, as its principal independent registered public accounting firm for the fiscal year ended December 31, 2019.

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 PWC Israel. 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, PWC Israel 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 PWC Israel and affiliate firms for professional services rendered thereby for the year ended December 31, 2019 and by Somekh Chaikin, a member firm of KPMG International, or Somekh Chaikin, and affiliate firms for professional services rendered thereby for the year ended December 31, 2018 (in thousands):

	2019	2018
Audit Fees (1)	$ 155	$ 171
Audit-Related Fees (2)	-	4
Tax Fees (3)	$ 6	$ 16
All Other Fees (4)	$ 5	-
Total	$ 166	$ 191

(1) The audit fees for the years ended December 31, 2019 and 2018, are the aggregate fees billed or billable (for the year) for the professional services rendered for the audits of our 2019 and 2018 annual consolidated financial statements, review of consolidated quarterly financial statements of 2019 and 2018, 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) All other fees are fees billed for accounting standard procedure.

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).
4.1*	Description of Securities of the Company Registered under Section 12 of the Exchange Act.
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 November 5, 2019, by and between the Company and Yehuda Holtzman (incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on November 6, 2019). +
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	Amendment to Personal Employment Agreement, dated September 30, 2019, by and between the Company and Assaf Cohen (incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed with the SEC on November 13, 2019). +
10.7	Amended and Restated Executive Compensation Policy (incorporated by reference to the Company's proxy statement on Schedule 14A filed with the SEC on August 23, 2019). +
10.8	Share Purchase Agreement dated December 23, 2019 by and among the Company, Jerry L. Ivy, Jr. Descendants' Trust and certain other investors (incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on December 26, 2019).
10.9	Transition and Amendment to Employment Agreement, dated June 11, 2019, 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 June 12, 2019).
21.1	List of Subsidiaries of the Company (incorporated by reference to the Company's Annual Report on Form 10-K, filed with the SEC on March 25, 2019).
23.1*	Consent of Independent Registered Public Accounting Firm.
23.2*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certification pursuant to Rule 13a-14(a)/15d-14(a) of Yehuda Holtzman.
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 Yehuda Holtzman.
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, 2019 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 24, 2020

By: /s/ Yehuda Holtzman
Yehuda Holtzman
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/ Yehuda Holtzman Yehuda Holtzman	Chief Executive Officer (principal executive officer)	March 24, 2020
/s/ Assaf Cohen Assaf Cohen	Chief Financial Officer (principal financial officer and principal accounting officer)	March 24, 2020
/s/ James Scott Medford James Scott Medford	Chairman of the Board of Directors	March 24, 2020
/s/ William C. Anderson William C. Anderson	Director	March 24, 2020
/s/ Eran Gilad Eran Gilad	Director	March 24, 2020
/s/ Donna Seidenberg Marks Donna Seidenberg Marks	Director	March 24, 2020
/s/ Michael Shanahan Michael Shanahan	Director	March 24, 2020
/s/ Michael Soluri Michael Soluri	Director	March 24, 2020

On Track Innovations Ltd.
and its Subsidiaries

Consolidated Financial Statements
as of December 31, 2019

Consolidated Financial Statements as of December 31, 2019

Contents

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of
On Track Innovations Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of On Track Innovations Ltd. and its subsidiaries (the “Company”) as of December 31, 2019, and the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the year then ended, including the related notes (collectively referred to as 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, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Changes in Accounting Principle

As discussed on note 2(W) to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. 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 audit of these consolidated financial statements 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 audit 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 audit 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 audit 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 audit provide a reasonable basis for our opinion.

Haifa, Israel
March 24, 2020

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers
International Limited

We have served as the Company's auditor since 2019.

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 sheet of On Track Innovations Ltd. and its subsidiaries (hereinafter – “the Company”) as of December 31, 2018, the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for each of the years in the two-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 the results of its operations and its cash flows for each of the years in the two-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. 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

Certified Public Accountants (Isr.)
Member firm of KPMG International

We served as the Company’s auditor from 2002 to 2018.
Tel-Aviv, Israel
March 25, 2019

Consolidated Balance Sheets

US dollars in thousands

	December 31	
	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 2,543	$ 4,827
Short-term investments	2,305	1,078
Trade receivables (net of allowance for doubtful accounts of $612 and $555 as of December 31, 2019 and December 31, 2018, respectively)	2,430	4,530
Other receivables and prepaid expenses	1,822	2,060
Inventories	3,332	3,527
Total current assets	12,432	16,022
Long term restricted deposit for employee benefits	477	451
Severance pay deposits	383	375
Property, plant and equipment, net	3,694	5,033
Intangible assets, net	733	241
Right-of-use assets due to operating leases	2,134	-
Total Assets	$ 19,853	$ 22,122

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

Consolidated Balance Sheets

US dollars in thousands except share data

	December 31	
	2019	**2018**
Liabilities and Equity		
Current Liabilities		
Short-term bank credit and current maturities of long-term bank loans	$ 2,478	$ 260
Trade payables	4,126	4,712
Other current liabilities	3,054	3,622
Total current liabilities	9,658	8,594
Long-Term Liabilities		
Long-term loans, net of current maturities	22	39
Long-term liabilities due to operating leases, net of current maturities	1,483	-
Accrued severance pay	884	853
Deferred tax liability	416	445
Total long-term liabilities	2,805	1,337
Total Liabilities	12,463	9,931
Commitments and Contingencies		
Equity		
Shareholders' Equity		
Ordinary shares of NIS 0.1 par value: Authorized – 50,000,000 shares as of December 31, 2019 and 2018; issued: 47,963,076 and 42,473,076 shares as of December 31, 2019 and 2018, respectively; outstanding: 46,784,377 and 41,294,377 shares as of December 31, 2019 and 2018, respectively	1,226	1,068
Additional paid-in capital	225,970	225,022
Treasury shares at cost - 1,178,699 shares as of December 31, 2019 and 2018	(2,000)	(2,000)
Accumulated other comprehensive loss	((974	(956)
Accumulated deficit	(216,832)	(210,943)
Total Equity	7,390	12,191
Total Liabilities and Equity	$ 19,853	$ 22,122

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

Consolidated Statements of Operations

US dollars in thousands except share and per share data

	Year ended December 31		
	2019	**2018**	**2017**
Revenues			
Sales	$ 9,983	$ 16,725	$ 16,252
Licensing and transaction fees	4,768	5,153	4,621
Total revenues	14,751	21,878	20,873
Cost of revenues			
Cost of sales	7,455	10,710	10,456
Total cost of revenues	7,455	10,710	10,456
Gross profit	7,296	11,168	10,417
Operating expenses			
Research and development	3,334	3,175	3,263
Selling and marketing	5,026	5,940	5,633
General and administrative	4,112	3,981	3,651
Other (income) expenses, net	(341)	33	52
Total operating expenses	12,131	13,129	12,599
Operating loss from continuing operations	(4,835)	(1,961)	(2,182)
Financial expenses, net	(397)	(228)	(341)
Loss from continuing operations before taxes on income	(5,232)	(2,189)	(2,523)
Income tax benefit, net	57	301	138
Net loss from continuing operations	(5,175)	(1,888)	(2,385)
Net (loss) income from discontinued operations	(714)	1,625	1,787
Net loss	$ (5,889)	$ (263)	$ (598)
Basic and diluted net (loss) income attributable to shareholders per ordinary share			
From continuing operations	$ (0.12)	$ (0.05)	$ (0.06)
From discontinued operations	$ (0.02)	$ 0.04	$ 0.05
	$ (0.14)	$ (0.01)	$ (0.01)
Weighted average number of ordinary shares used in computing basic and diluted net (loss) income per ordinary share	41,385,856	41,268,984	41,109,875

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

Consolidated Statements of Comprehensive Loss

US dollars in thousands

	Year ended December 31		
	2019	**2018**	**2017**
Total comprehensive loss:			
Net loss	$ (5,889)	$ (263)	$ (598)
Foreign currency translation adjustments	(18)	(265)	545
Total comprehensive loss	$ (5,907)	$ (528)	$ (53)

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

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	Total equity
Balance as of January 1, 2017	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
Foreign currency translation adjustments	-	-	-	-	545	-	545
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
Changes during the year ended December 31, 2019:							
Issuance of shares, net of issuance expenses of $111	(*)5,460,000	157	824	-	-	-	981
Stock-based compensation	(**)30,000	1	124	-	-	-	125
Foreign currency translation adjustments	-	-	-	-	(18)	-	(18)
Net loss	-	-	-	-	-	(5,889)	(5,889)
Balance as of December 31, 2019	47,963,076	$ 1,226	$ 225,970	$ (2,000)	$ (974)	$ (216,832)	$ 7,390

(*) See Note 11A.

(**) See Note 11B.

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

Consolidated Statements of Cash Flows

US dollars in thousands

	Year ended December 31		
	2019	**2018**	**2017**
Cash flows from continuing operating activities			
Net loss from continuing operations	$ (5,175)	$ (1,888)	$ (2,385)
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	125	234	254
(Gain) loss on sale of property and equipment	(328)	(37)	52
Accrued interest and linkage differences, net	(36)	19	(6)
Depreciation and amortization	1,270	1,328	1,172
Deferred tax benefits, net	(25)	(477)	(165)
Changes in operating assets and liabilities:			
Change in accrued severance pay, net	23	(57)	45
Decrease (increase) in trade receivables, net	1,646	1,118	(124)
Decrease (increase) in other receivables and prepaid expenses	228	350	(838)
Decrease (increase) in inventories	184	(573)	110
Decrease in trade payables	(507)	(2,089)	(644)
Decrease in other current liabilities	(270)	(110)	(597)
Net cash used in continuing operating activities	(2,865)	(2,182)	(3,126)
Cash flows from continuing investing activities			
Purchase of property and equipment and intangible assets	(1,155)	(756)	(532)
Proceeds from sale of property, plant and equipment	1,102	68	17
Change in short-term investments, net	(1,369)	1,495	1,773
Proceeds from restricted deposit for employee benefits	10	8	44
Net cash (used in) provided by continuing investing activities	(1,412)	815	1,302
Cash flows from continuing financing activities			
Increase (decrease) in short-term bank credit, net	2,450	(3,554)	(335)
Repayment of long-term bank loans	(270)	(1,064)	(632)
Proceeds from issuance of shares, net of issuance expenses	981	-	-
Proceeds from exercise of options and warrants	-	34	92
Net cash provided by (used in) continuing financing activities	3,161	(4,584)	(875)
Cash flows from discontinued operations			
Net cash (used in) provided by discontinued operating activities	(1,344)	750	2,311
Net cash provided by discontinued investing activities	-	2,750	-
Total net cash (used in) provided by discontinued operations	(1,344)	3,500	2,311
Effect of exchange rate changes on cash and cash equivalents	3	(243)	687
(Decrease) increase in cash, cash equivalents and restricted cash	(2,457)	(2,694)	299
Cash, cash equivalents and restricted cash - beginning of the year	5,105	7,799	7,500
Cash, cash equivalents and restricted cash at the end of the year	$ 2,648	$ 5,105	$ 7,799

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

Consolidated Statements of Cash Flows (cont'd)

US dollars in thousands

	Year ended December 31		
	2019	**2018**	**2017**
Supplementary cash flows information:			
Cash paid during the period for:			
Interest paid	$ 78	$ 121	$ 176
Income taxes paid	$ 150	$ 89	$ 61
Supplemental disclosures of non-cash flow information			
Payables due to purchase of fixed assets	$ 73	$ -	$ -

The accompanying notes are an integral part of these 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 OTCQX market (formerly listed on the Nasdaq Capital Market until October 31, 2019).

At December 31, 2019, the Company operates in two operating segments: (a) Retail and Mass Transit Ticketing, and (b) Petroleum. See Note 15. During December 2018, the Company sold its medical smart cards operation - see Note 1B.

As to the Company’s major customers, see Note 16.

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 claims against the Company during the arbitration for material damages. The evidence in the arbitration was 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. The arbitrator ordered SuperCom to disclose the financial information regarding the earn-out payments that the Company is entitled to receive, and to pay the Company accordingly, or otherwise pay the Company the maximum earn-out amount, which equals $1,500 minus the earn-out amounts that were already paid by SuperCom to the Company. The arbitration verdict was approved as a court’s verdict in June 2019, but SuperCom failed to disclose the financial information in the way it should have done according to the arbitration decision. Therefore, in December 2019 the Company submitted a complementary claim to the arbitrator, asking for a final award that includes a final payment by SuperCom (as opposed to merely disclosing information).

As mentioned in Note 2U, the Company records the earn-out payments only when the consideration is determined to be realizable. The Company did not record or receive any contingent consideration during the years ended December 31, 2019, 2018 and 2017.

In thousands, except share and per share data

Note 1 - General (cont'd)

B. Divestiture of operations (cont'd)

2. 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 14).

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 the accounting policy as mentioned in Note 2W, are as follows:

A. Liquidity and Capital Resources

The Company has had recurring losses and currently has an accumulated deficit as of December 31, 2019 of $216,832. The Company also has a payable balance on its short-term loan of $2,478 that is due within the next 12 months.

Since inception, the Company's principal sources of liquidity have been revenues, proceeds from sales of equity securities, borrowings from banks, cash from the exercise of options and warrants as well as proceeds from the divestiture of part of the Company's businesses. The Company had cash, cash equivalents and short-term investments representing bank deposits of $4,848 (of which an amount of $105 has been pledged as securities for certain items) as of December 31, 2019. The Company believes that it has sufficient capital resources to fund its operations for at least the next 12 months.

Further, as disclosed in Note 11A, if certain conditions are met, including the approval of the Company's shareholders at the extraordinary general meeting of the shareholders that is scheduled for April 2020, the Company expects to receive funds in a total amount of up to $1,200 in consideration for the issuance of up to 6,000,000 Ordinary Shares, all in accordance with the terms and provisions of the Share Purchase Agreement (as defined in Note 11A below).

As of the reporting date, it is hard to assess the future influence of the Corona Virus on the Company. The Company believes that one impact of the Corona Virus on the Company may be a decrease in the Company's revenues derived from Mass Transit activity in the Polish market. The Company is aware of no other material short term adverse influences on the Company. However, at this initial point in time, it is hard to predict what other impacts the Corona Virus may have on the Company.

B. 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, components and 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.

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

B. Financial statements in U.S. dollars (cont'd)

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).

C. Principles of consolidation

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

D. 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 whether renewal options of lease period of buildings will be exercised in the future, 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.

E. 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.

F. 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.

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

G. 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 9C).

H. 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 have been included in cost of revenues.

I. 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)

Leasehold improvements are amortized by the straight-line method over the shorter of the lease term or the estimated useful economic life of such improvements.

J. Impairment of long-lived assets

Long-lived assets, such as right-of-use assets due to operating leases, 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.

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

K. 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 and licensing agreements. 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.

License and transaction fees are recognized as earned based on actual usage. Usage is determined by receiving confirmation from the users.

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.

Accounting policy applicable after January 1, 2018:

In May 2014, the Financial Accounting Standards Board ("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.

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.

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.

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

K. Revenue recognition (cont'd)

<u>Accounting policy applicable after January 1, 2018 (cont'd):</u>

The Company accounts for a contract with a 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.

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 10.

The new standard requires the Company to provide more robust disclosures than required by previous guidance. Such disclosures have been provided in Note 10.

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.

L. Research, development costs and intangible assets

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

In accordance with ASC Topic 350-40, *"Internal Use Software"*, the subsidiary in Poland capitalizes certain internal use software development costs associated with creating and enhancing internally developed software related to its operations. Software development activities generally consist of three stages (i) the research and planning stage, (ii) the application and development stage, and (iii) the post-implementation stage. Costs incurred in the research and planning stage and in the post-implementation stage are expensed as incurred. Costs incurred in the application and infrastructure development stage are capitalized. These costs include personnel and related employee benefits expenses for employees who are directly associated with the software development. These capitalized costs are amortized on a straight-line basis over the estimated useful life of 5 years upon initial release of the software. As of December 31, 2019, the capitalized internal use software development costs, net of accumulated amortization, are $483.

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont’d)

L. Research, development costs and intangible assets (cont’d)

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. As of December 31, 2019, the capitalized certification costs, net of accumulated amortization, are $250.

Amortization expenses amounted to $202, $215 and $181 for the years ended December 31, 2019, 2018 and 2017, respectively. The amortization is presented within research and development in the consolidated statements of operations.

M. 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 estimates forfeitures based on historical experience.

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

N. 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 809,000, 1,501,000 and 1,535,000 outstanding as of the years ended December 31, 2019, 2018 and 2017, 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.

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

O. 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.

P. 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.

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

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.

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, 2019, 2018 and 2017 amounted to $275, $212 and $242, respectively. Defined contribution plan expenses were $231, $232 and $231 in the years ended December 31, 2019, 2018 and 2017, respectively.

R. Advertising expenses

Advertising expenses are charged to the statements of operations as incurred. Advertising expenses for the years ended December 31, 2019, 2018 and 2017 amounted to $1,015, $1,367 and $1,254, respectively.

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont’d)

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 16. 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, 2019, 2018 and 2017 is as follows:

	2019	2018	2017
Allowance for doubtful accounts at beginning of year	$ 555	$ 568	$ 720
Additions charged to allowance for doubtful accounts	54	52	73
Write-downs charged against the allowance	(10)	(45)	(225)
Other	13	(20)	-
Allowance for doubtful accounts at end of year	$ 612	$ 555	$ 568

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.

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

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 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.

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

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

In December 2016, the 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		
	2019	**2018**	**2017**
Cash and cash equivalents	$ 2,543	$ 4,827	$ 6,742
Restricted cash and cash equivalents (*)	105	278	1,057
Total cash, cash equivalents, and restricted cash and cash equivalents presented in the statements of cash flows	$ 2,648	$ 5,105	$ 7,799

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

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

W. Recently Adopted Accounting Pronouncements

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 until December 31, 2018, only financing-type lease liabilities (capital leases) were recognized on the balance sheet. Right-of-use assets represent a company's right to use an underlying asset for the lease term and lease liabilities represent a company's obligation to make lease payments arising from the lease. Operating and finance lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of the lease payments.

In addition, the definition of a lease in the ASU 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 Company has adopted ASU 2016-02 commencing from January 1, 2019, under the effective date method. In accordance with the effective date method, comparative periods are not restated, and 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 new standard provides a number of optional practical expedients in transition. The Company elected the 'package of practical expedients', which permits the Company not to reassess its prior conclusions regarding lease identification, lease classification and initial direct costs under the new standard and also elected the practical expedient pertaining to the use-of hindsight. The new standard also provides practical expedients for an entity's ongoing accounting. The Company also elected the practical expedient to not separate lease and non-lease components for all of the Company's leases, other than leases of real estate. Additionally, following the adoption of the new standard and in subsequent measurements, the Company applies the portfolio approach to account for the operating lease right-of-use assets and liabilities for certain leases and incremental borrowing rates.

The Company did not have a cumulative-effect adjustment to retained earnings as a result of the adoption of the new standard. The adoption of this standard does not have a material impact on the results of operations and cash flows. See Note 17 for the impact on the balance sheet as of December 31, 2019, and additional disclosures, as required by the new standard.

In thousands, except share and per share data

Note 2 - Significant Accounting Policies (cont'd)

X. Recent accounting pronouncements

1. 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 the Company for fiscal years beginning after December 15, 2022, 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.

2. In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (ASU 2019-12), which simplifies the accounting for income taxes. This ASU, among other things, removes the exception to the incremental approach for intraperiod allocation of tax expense when a company has a loss from continuing operations and income from other items that are not included in continuing operations, such as income from discontinued operations, or income recorded in other comprehensive income. The general rule under ASC 740-20-45-7 is that the tax effect of pretax income or loss from continuing operations should be determined by a computation that does not consider the tax effects of items that are not included in continuing operations. Previously, companies could consider the impact on a loss from continuing operations of items in discontinued operations or other comprehensive income. However, under the amended guidance, companies should not consider the effect of items outside of continuing operations in calculating the tax effect on continuing operations. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted, with the amendments to be applied on a retrospective, modified retrospective or prospective basis, depending on the specific amendment. The Company is currently evaluating the impact of adopting this guidance.

Note 3 - Short-term investments

Balances at December 31, 2019 and 2018 consist of bank deposits**.** The bank deposits bear weighted average annual interest of 1.82% as of December 31, 2019 (As of December 31, 2018 – 2.29%).

See Note 9C as to restrictions on certain deposits.

In thousands, except share and per share data

Note 4 - Other Receivables and Prepaid Expenses

	December 31	
	2019	2018
Government institutions	$ 414	$ 387
Prepaid expenses	224	226
Receivables under contractual obligations to be transferred to others (*)	330	349
Suppliers advance	544	932
Other receivables	310	166
	$ 1,822	$ 2,060

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

Note 5 - Inventories

	December 31	
	2019	2018
Raw materials	$ 1,497	$ 1,331
Finished products	1,835	2,196
	$ 3,332	$ 3,527

Note 6 - Property, Plant and Equipment, Net

A. Consist of:

	December 31	
	2019	2018
Cost		
Buildings and leasehold improvements (*)	$ 278	$ 966
Computers, software and manufacturing equipment	15,630	16,052
Office furniture and equipment	253	153
Motor vehicles	173	195
Total cost	16,334	17,366
Total accumulated depreciation	12,640	12,333
	$ 3,694	$ 5,033

(*) See also Note 12 in connection with sale of the building in South Africa.

B. As to liens - See Note 9C.

C. Depreciation expenses amounted to $1,068, $1,113 and $991 for the years ended December 31, 2019, 2018 and 2017, respectively.

In thousands, except share and per share data

Note 7 - Other Current Liabilities

	December 31	
	2019	2018
Employees and related expenses	$ 613	$ 1,042
Accrued expenses	887	921
Customer advances	111	141
Short-term liabilities due to operating leases and current maturities (**)	686	-
Other current liabilities	(*)757	(*)1,518
	$ 3,054	$ 3,622

(*) The balances as of December 31, 2019 and 2018 include provisions in amounts of $552 and $1,370, as mentioned in Note 14 and Note 9E(1), respectively.

(**) See Note 2W.

Note 8 - Bank Loans

A. Composition of long-term loans:

	December 31	
	2019	2018
Long-term loans (*)	$ 24	$ 299
Less - current maturities	2	260
	$ 22	$ 39

(*) As of December 31, 2019, the bank loans are denominated in South African Rand.

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

	December 31 2019	December 31	
	% Interest rate	2019	2018
In U.S. Dollars (*)	3.60	$ 2,020	$ -
In NIS	5.12	456	-
		2,476	-
Current maturities of long-term loans		2	260
		$ 2,478	$ 260

The weighted average interest rates of the short-term bank credit for the years ended December 31, 2019 and 2018 were 3.88% and 3.82%, respectively, per annum.

(*) On May 24, 2019, ASEC S.A. (Spolka Akcyjna), the Polish subsidiary of the Company (hereinafter – "ASEC"), entered into a loan agreement with PKO Bank Polski, a Polish bank (hereinafter – "the Lender"). The agreement provides that the Lender will grant an overdraft facility to ASEC in the amount of $2,000. On May 24, 2019 the Lender loaned to ASEC the full amount of the loan, secured by certain assets of ASEC (hereinafter – "the Secured Loan"). The Secured Loan matures on May 23, 2020. The loan will be payable in full on maturity (with option of early repayment by ASEC) and the interest is paid on a monthly basis. The Secured Loan bears interest at an annual interest rate based on 1-month LIBOR plus a margin of 1.8%, or currently approximately 3.6% in total. The agreement includes customary events of default, including, among others, failures to repay any amounts due to the Lender, breaches or defaults under the terms of the agreement, etc. If an event of default occurs, the Lender may reduce the amount of the Secured Loan, demand an additional security or terminate the agreement.

C. Liens for short-term and long-term loans - see Note 9C.

D. As of December 31, 2019, the Group has authorized unused credit lines of $1,694.

In thousands, except share and per share data

Note 9 - 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, 2019, net of royalties paid, was approximately $3,400 (including accrued interest). No grants from the Government of Israel were received during the three-year period ended December 31, 2019.

During the years ended December 31, 2019 and 2018, there were no royalty expenses. Royalty expenses amounted to $111 for the year ended December 31, 2017, 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 2020 through 2024.

Minimum future rentals of premises, including construction costs-reimbursement, that should be paid under non-cancelable operating lease agreements at rates in effect as of December 31, 2019 are as follows:

2020	$	738
2021		675
2022		558
2023		322
2024		(*)543
	$	2,836

(*) The table above includes, among other things, the minimum future rentals of the headquarter office in Yokne'am, Israel (in lieu of the previous leased headquarters building in Rosh Pina), that the Company has leased since January 2020, subsequent to the balance sheet date, due to the fact that its lease agreement was signed as of December 31, 2019. The operating lease period of this office is five years (excluding the extension-period, as mentioned in the agreement). The total annual rent expenses of this building, including management fees and excluding construction costs-reimbursement, is approximately NIS 595 ($172). The construction costs-reimbursement is approximately NIS 2,913 ($843), out of which 50% will be paid during the lease period. If the Company will lease this office during the extension-period of five years, the rest of 50% will be paid during the extension-period. Otherwise, the 50% will be paid at the end 2024, as taken into account in the table above.

See also Note 17.

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 $105 have been pledged as security in respect of guarantees granted. Such deposits cannot be pledged to others or withdrawn without the consent of the bank.

In thousands, except share and per share data

Note 9 - Commitments and Contingencies (cont'd)

D. Guarantees

As of December 31, 2019, the Company granted performance guarantees and guarantees to secure customer advances in the sum of $404. The expiration dates of the guarantees range from April 2020 to September 2021.

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. Since SuperCom failed to pay the Company the amounts due, in February 2019 the Company initiated an arbitration process to collect from SuperCom, the amount paid to Merwell, as well as any complementary amounts, as may be ordered in the future.

   The consolidated financial statements as of December 31, 2018, include 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, 2019 and December 31, 2018, in accordance with accounting standard ASC 450.

2. On June 12, 2019, Merwell submitted a complementary claim against the Company in arbitration, with respect to the additional financial details that Merwell claims that the Company was ordered to provide according to the arbitration verdict from February 21, 2016, and additional payments that Merwell claims that the Company is obligated to pay Merwell. The said financial details refer to the quantity of smart driving licenses that Merwell claims were issued in the later period of a project in Tanzania in which Merwell claims to have provided services to the Company. Merwell claims that despite the Company's failure to provide the details, Merwell obtained the details independently from other sources, and they indicate that the Company is obligated to pay Merwell an additional amount of approximately $1,618, and there might be additional amounts to be claimed in the future, as additional information might be found from time to time. On March 4, 2020, the Company submitted a response to this complementary claim, rejecting Merwell's claims. As mentioned above, the Company is conducting in parallel a separate arbitration process against SuperCom in that matter, as the Company deems SuperCom to be liable for all the costs and liabilities arising out of this claim. Based on the assessment of the Company's external legal counsel, given the preliminary stage of the procedure, it is difficult, at this point, to estimate the chances of Merwell's claims for a complementary arbitration verdict.

In thousands, except share and per share data

Note 9 - Commitments and Contingencies (cont'd)

E. Legal claims (cont'd)

3. 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 (approximately $1,708) 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 ($57) 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 ($573) plus interest and expenses. On November 7, 2019, our external legal counsel concluded that the appeal was inadmissible, and that it believed that the opposing claims would be dismissed. The appeal hearing is scheduled for May 4, 2020. 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.

4. In July 2019, the Company received a request (the "Request"), to allow a petitioner to submit a class action, which concerns the petitioner's claims that, inter alia, through the EasyPark card, drivers are permitted to exceed the quota of permitted hours in accordance with the instructions of various local authorities in Israel. The Request was submitted against a company (the "Buyer's Company") incorporated by the buyer of the assets (including the parking activity) of the Israeli subsidiaries of the Company (the "Company's Subsidiaries") and against two other companies that operate technological means for payment for public parking spaces scattered throughout the cities. Since the majority of potential claims against the Company's Subsidiaries relate to the period following the sale of the Company's Subsidiaries' assets, including the parking activity, it appears that the Company's exposure through this channel is limited. Furthermore, even if payment will be required, the buyer would be liable for the majority of such payment. Therefore the Company will not participate in such procedure at this stage. Based on the assessment of the Company's external legal counsel, the exposure of the Company is low.

5. Regarding additional legal claims please see Notes 1B(1) and 14.

In thousands, except share and per share data

Note 10 - 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 years ended December 31, 2019 and 2018:

	Year ended December 31 2019		
	Retail and Mass Transit Ticketing	Petroleum	Total
Cashless payment products (A)	$ 6,156	$ -	$ 6,156
Complete cashless payment solutions (B):			
Sales of products (B1)	773	1,964	2,737
Licensing fees, transaction fees and services (B2)	4,580	1,278	5,858
	5,353	3,242	8,595
Total revenues	$ 11,509	$ 3,242	$ 14,751

	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.

In thousands, except share and per share data

Note 10 - Revenues (cont'd)

Performance obligations (cont'd)

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.

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 2019	December 31 2018
Trade receivables, net of allowance for doubtful accounts	$ 2,430	$ 4,530
Customer advances	$ 111	$ 141

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.

In thousands, except share and per share data

Note 11 - Equity

A. Share capital

On December 23, 2019, the Company entered into a share purchase agreement (hereinafter – the “Agreement”) with Jerry L Ivy, Jr. Descendants Trust (hereinafter - “Ivy”) and two other investors who are members of the Company’s Board of Directors (collectively together with Ivy – “Investors”). The Agreement relates to a private placement of an aggregate of up to 12,500,000 ordinary shares of the Company for aggregate gross proceeds to the Company of up to $2,500.

As part of this Agreement, on December 2019 and January 2020 (subsequent to the balance sheet date), the Company issued 5,460,000 and 1,040,000 ordinary shares, respectively, for aggregate gross proceed of $1,092 and $208, respectively. The issuance costs were approximately $111 during 2019. Under the term of the Agreement and following the issuance of those shares, the Company agreed to appoint one representative to its Board of Directors, designated by Ivy. Also, pursuant to the Agreement, Ivy has a right to purchase any future equity securities offered by the Company, except with respect to certain exempt issuances as set forth in the Agreement.

The issuance of the remainder 6,000,000 ordinary shares (hereinafter – the “Subsequent Closing”) for aggregate gross proceeds of $1,200 is subject, among other things, to the Company obtaining approval from its shareholders to an increase in the number of the ordinary shares authorized for issuance from 50,000,000 to 100,000,000, the issuance of the ordinary shares to Ivy following which Ivy will hold 25% or more of the total voting rights at the general meeting of the shareholders of the Company and to the election of the representative to the Board of Directors, designated by Ivy. In addition, pursuant to the terms of the Agreement, after the Subsequent Closing occurs, at Ivy’s election, the Board shall appoint an additional representative designated by Ivy; provided, however, that the appointment of such designee shall remain valid through the next general meeting of the Company’s shareholders or as set forth in the Articles of Association of the Company.

The Subsequent Closing may be terminated by the Company or Investors by written notice to the other parties if, among other, the Subsequent Closing has not been consummated by April 30, 2020.

B. Shares to non-employees

During 2019, 2018 and 2017, the Company granted its consultants 30,000, 80,000 and 45,000 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.

C. 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.

In thousands, except share and per share data

Note 11 - Equity (cont'd)

C. Stock option plans (cont'd)

The fair value of each option granted to employees during 2019, 2018 and 2017 was estimated on the date of grant, using the Black-Scholes model and the following assumptions:

	Year ended December 31		
	2019	**2018**	**2017**
Expected dividend yield	0%	0%	0%
Expected volatility	78%-88%	69%-81%	67%-74%
Risk-free interest rate	1.63%-2.47%	1.92%-2.84%	1.35%-1.83%
Expected life - in years	2.44	2.33	2.45

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 and on the OTCQX market, as applicable.

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

4. Estimated expected lives are based on historical grants data.

The Company's options activity during 2019 (including options to non-employees) and information as to options outstanding and options exercisable as of December 31, 2019 and 2018 are summarized in the following table:

	Number of options outstanding	**Weighted average exercise price per share**	**Aggregate intrinsic value**
Outstanding – December 31, 2018	1,461,000	$ 1.24	
Options granted	260,000	0.51	
Options expired or forfeited	(912,000)	1.31	
Outstanding – December 31, 2019	(*)809,000	$ 0.93	-
Exercisable as of:			
December 31, 2019	505,657	$ 1.06	-

(*) As of December 31, 2019, the shareholders meeting has not yet converged in order to approve a grant of 450,000 options to the Company's Chief Executive Officer (hereinafter – "CEO"). Therefore, the options outstanding as of December 31, 2019, do not include those options. Each option shall be exercisable upon payment of the exercise price which will be equal to the average closing price of the share of Company during the trading days over the 30 calendar days prior to the date when the CEO's employment agreement will be approved by the Company's Shareholders. The options will be subject to a three-year vesting period starting on the CEO employment commencement date so that each portion of 150,000 options shall vest on each of the first, second and third anniversaries of the commencement date.

The weighted average grant date fair value of options granted is $0.19, $0.46 and $0.66 per option during 2019, 2018 and 2017, respectively.

In thousands, except share and per share data

Note 11 - Equity (cont'd)

C. Stock option plans (cont'd)

The following table summarizes information about options outstanding and exercisable (including options to non-employees) as of December 31, 2019:

Range of exercise price	Options outstanding: Number outstanding as of December 31, 2019	Options outstanding: Weighted average remaining contractual life (years)	Options outstanding: Weighted Average Exercise Price	Options Exercisable: Number Outstanding As of December 31, 2019	Options Exercisable: Weighted average remaining contractual life (years)	Options Exercisable: Weighted Average Exercise Price
$ 0.44-0.90	333,000	3.54	$ 0.61	110,995	1.78	$ 0.77
$ 1.07-1.68	476,000	2.40	$ 1.15	394,662	2.30	$ 1.14
	809,000	2.87		505,657	2.19	

No options were exercised in 2019. The total exercise date intrinsic value of options exercised during the years ended December 31, 2018 and 2017, was $16 and $32, respectively.

As of December 31, 2019, there was $90 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 1.11 years. The total fair value of shares vested during the year ended December 31, 2019 was $157.

During 2019, 2018 and 2017, the Company recorded stock-based compensation expenses in the amount of $125, $234 and $254, respectively, in accordance with ASC Topic 718.

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

D. Warrants

1. During 2019, 40,000 warrants expired.

2. As of December 31, 2019, there are no outstanding warrants.

Note 12 - Supplemental statement of operations data

Other (income) expenses, net

Consists of:

	Year ended December 31. 2019	2018	2017
(Gain) loss on sale of property and equipment, net (*)	(328)	(37)	52
Consulting fees	-	70	-
Other	(13)	-	-
Other (income) expenses, net	$ (341)	$ 33	$ 52

(*) In March 2019, OTI Petrosmart (Pty), Ltd., the South African subsidiary (hereinafter – "Petrosmart"), entered into an agreement pursuant to which Petrosmart agreed to sell its head office in Cape Town, South Africa, to a third party for consideration of Rand 15,500 (approximately $1,100), and Petrosmart agreed to lease back this building for its current operations. The sale has been completed and the operating lease commenced during the third quarter of 2019. The leaseback period is three years. The annual rent for the first year is approximately Rand 1,800 (approximately $128) and will be increased by 8.5% each year. Petrosmart has the right to extend the lease by two years. The Company recognized a profit in the amount of approximately $328 during the third quarter of 2019 due to the sale of the building.

In thousands, except share and per share data

Note 13 - 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 2017-2019:

2019 – 23%
2018 – 23%
2017 – 24%

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, 2019, 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.

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.

In thousands, except share and per share data

Note 13 - Income Taxes (cont'd)

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 "Tax Legislation") was enacted in the United States. Except for certain provisions, the Tax Legislation was effective for tax years beginning on or after January 1, 2018. The Tax Legislation significantly revised 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 was the lowering the corporate income tax rate from 35% to 21%, which did not have a material effect on the Company's financial statements.

C. Deferred tax assets and liabilities:

	December 31 2019	December 31 2018
Deferred tax assets:		
Carryforward losses	$ 46,102	$ 44,926
Other	766	763
Total gross deferred tax assets	46,868	45,689
Less – valuation allowance	(46,868)	(45,689)
Net deferred tax assets	$ -	$ -
Deferred tax liability -		
Other *	(416)	(445)
Net deferred tax liability	$ (416)	$ (445)

* Relates mainly to property, plant and equipment.

In thousands, except share and per share data

Note 13 - 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, 2019, 2018 and 2017, are comprised as follows:

	Year ended December 31		
	2019	**2018**	**2017**
Balance at beginning of year	$ 45,689	$ 46,024	$ 46,450
Additions during the year from Continuing operations	1,233	122	413
Changes due to amendments to tax laws and applicable future tax rates, see Note 13A(3)	-	-	(518)
Discontinued operations - see Note 1B	164	(5)	(239)
Tax from previous years	(169)	(310)	(312)
Exchange rate differences on carryforward losses	13	(20)	244
Adjustments to beginning-of-the-year balance due to utilization of carryforward losses in certain subsidiaries	-	-	(16)
Deferred intercompany transactions	(44)	(122)	-
Other changes	(18)	-	2
Balance at end of year	$ 46,868	$ 45,689	$ 46,024

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, 2019, the operating loss carry-forwards and capital loss carryforwards relating to Israeli companies amounted to $159,815 and $37,375, 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 13A(1)), tax loss carry-forwards are denominated in U.S. dollars.

Net operating carry-forward losses relating to non-Israeli companies aggregate $3,347, which will expire as follows: 2027 - $2,814 and 2028- $533.

E. The Company has not recognized a deferred tax liability for the undistributed earnings of its foreign subsidiaries that arose in 2019 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, 2019, the undistributed earnings of these foreign subsidiaries were $4,594. It is impracticable to determine the additional taxes payable when these earnings are remitted.

In thousands, except share and per share data

Note 13 - Income Taxes (cont'd)

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

	Year ended December 31		
	2019	2018	2017
Current income tax expenses	$ (96)	$ (161)	$ (14)
Current income tax benefits (expenses) from previous years	128	(15)	(13)
Deferred tax benefit	25	477	165
Income tax benefit, net	$ 57	$ 301	$ 138

Income tax expenses included in discontinued operations expenses are $515 and $212 for the years ended December 31, 2018 and 2017. The net loss from discontinued operations for the year ended December 31, 2019, does not include income tax expenses.

Reported income tax expense for the years ended December 31, 2019, 2018 and 2017 differed from the amounts that would result from applying the Israeli statutory tax rates of 23%, 23% and 24%, respectively, to loss from continuing operations before taxes on income, as a result of the following:

	Year ended December 31		
	2019	2018	2017
Computed "expected" income tax benefit	$ 1,203	$ 503	$ 606
Decrease in income tax benefit resulting from:			
Change in valuation allowance, net	(1,233)	(122)	(413)
Nondeductible stock-based compensation related to options issued to employees	(29)	(53)	(61)
Other nondeductible expenses	(19)	(3)	(22)
Tax from previous years	128	(15)	(13)
Other	7	(9)	41
Reported income tax benefit	$ 57	$ 301	$ 138

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

	Year ended December 31		
	2019	2018	2017
Israel	$ (5,526)	$ (2,765)	$ (2,906)
Non-Israel	294	576	383
	$ (5,232)	$ (2,189)	$ (2,523)

In thousands, except share and per share data

Note 13 - Income Taxes (cont'd)

H. Unrecognized tax benefits

As of December 31, 2019, 2018 and 2017, 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, 2019, 2018 and 2017, 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 2014.

Note 14 - Discontinued operations

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

Set forth below are the results of the discontinued operations:

	Year ended December 31		
	2019	**2018**	**2017**
Revenues	$ -	$ 1,722	$ 1,509
Expenses	(232)	(1,381)	(1,068)
Other (loss) income, net	(*)(482)	(**)1,284	(*)1,346
Net (loss) income from discontinued operations	$ (714)	$ 1,625	$ 1,787

(*) 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 January 26, 2020, subsequent to the balance sheet date, Harel and the Company agreed to the offer of the Israeli Supreme Court, as made by way of settlement in which the Company will pay back to Harel the sum of NIS 1,907 (approximately $553) in three monthly equal installments starting February 26, 2020. The consolidated financial statements as of December 31, 2019, include provision in the amount of $553, out of which $482 is presented as 'other income, net' within the net loss from discontinued operations and $71 is presented as 'general and administrative expenses' within the net loss from continuing 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 together with the expense in the amount of $1,355 that derives from a loss contingency, as mentioned in Note 9E(1), are included in 'other income, net' within the net income from discontinued operations.

In thousands, except share and per share data

Note 15 - 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.

In thousands, except share and per share data

Note 15 - Operating segments (cont'd)

	Year ended December 31, 2019		
	Retail and Mass Transit Ticketing	**Petroleum**	**Consolidated**
Revenues	$ 11,509	$ 3,242	$ 14,751
Reportable segment gross profit *	6,583	1,501	8,084
Reconciliation of reportable segment gross profit to gross profit for the period			
Depreciation			(783)
Stock-based compensation			(5)
Gross profit for the period			**$ 7,296**

	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**

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

In thousands, except share and per share data

Note 16 - Geographic Information and Major Customers

The data is presented in accordance with ASC Topic 280, "*Segment reporting.*"

	Year ended December 31		
	2019	**2018**	**2017**
Revenues by geographical areas from external customers			
Americas	$ 3,625	$ 7,914	$ 7,167
Asia	1,074	3,122	3,421
Africa	2,087	2,447	2,814
Europe	7,965	8,395	7,295
Total export	14,751	21,878	20,697
Domestic (Israel)	-	-	176
	$ 14,751	$ 21,878	$ 20,873

	December 31 2019	December 31 2018
Long lived assets by geographical areas		
Domestic (Israel)	$ 1,846	$ 686
Poland	3,992	3,704
South Africa	496	884
America	19	-
	$ 6,353	$ 5,274

Major Customers

	Year ended December 31		
	2019	**2018**	**2017**
	%	**%**	**%**
Major Customers by percentage from total revenues			
Customer A	21%	15%	16%
Customer B	0%	9%	12%
Customer C	4%	11%	11%
Customer D	15%	7%	4%

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

Note 17 - Leases

The Company leases a limited number of assets, mainly offices and cars for use in its operations. The Company adopted the new accounting standard ASC 842, "Leases", and all the related amendments on January 1, 2019 and used the effective date as Company's date of initial application.

As of December 31, 2019, right-of-use assets due to operating leases are $2,134 (as of January 1, 2019 - $1,572) and the liabilities due to operating leases are $2,169 (as of January 1, 2019 - $1,572), out of which $1,483 are classified as long-term liabilities and $686 are classified as current liabilities (see Note 7).

The Company includes renewal options that it is reasonably certain to exercise in the measurement of the lease liabilities. The remaining operating lease periods of the leases range from less than one year to six years as of December 31, 2019. The weighted average remaining lease term is 1.7 years as of December 31, 2019.

In thousands, except share and per share data

Note 17 - Leases (cont'd)

The Company does not record right-of-use asset and operating lease liability regarding the building in Yokne'am (Israel), as mentioned in Note 9B, in its consolidated financial statements as of December 31, 2019, due to the fact that the commencement date of the lease period is in January 2020, subsequent to the balance sheet date. The Company expects an increase of approximately $1,800 in the right-of-use assets and in the lease liabilities on the first-time-recognition of this lease.

The following is a schedule of the maturities of operating lease liabilities for the next five years as of December 31, 2019, and thereafter, as were taken into account in the calculation of the operating lease liabilities as of December 31, 2019:

2020	$	821
2021		689
2022		496
2023		191
2024		118
Thereafter		29
Total leases payments		2,344
Less - discount		175
Operating lease liabilities	$	2,169

As of December 31, 2019, the weighted average discount rate of the operating leases is approximately 5.3%.

Operating lease costs and cash paid for amounts included in the measurement of the lease liabilities were approximately $900 during the year ended December 31, 2019. Operating lease costs include fixed payments and variable payments that depend on an index or rate. There are no other significant variable lease payments.

The Company does not have any material leases, individually or in the aggregate, classified as a finance leasing arrangement.

The following is a schedule of the maturities of operating lease liabilities for the next five years as of December 31, 2018, and thereafter, based on agreements that were signed as of December 31, 2018:

2019	$	523
2020		350
2021		277
2022		163
2023		140
Thereafter		156
Total leases payments	$	1,609

Note 18 - Subsequent events

Regarding the issuance of 1,040,000 ordinary shares for aggregate gross proceed of $208 in January 2020, please see Note 11A.