

Pointer Telocation Ltd  
Form 20-F/A  
April 30, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 20-F/A**

**Amendment No. 1**

**..REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Or**

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

**For the fiscal year ended December 31, 2017**

**Or**

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

**Or**

**..SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report**

**For the transition period from**                      **to**

**Commission File number: 001-13128**

**POINTER TELOCATION LTD.**

**(Exact name of Registrant as specified in its charter)**

**N/A**                                      **ISRAEL**  
**(Translation of Registrant's (Jurisdiction of incorporation**  
**name into English)                      or organization)**

**14 Hamelacha Street,**

**Rosh Haayin 4809133, Israel**

**(Address of principal executive offices)**

**Yaniv Dorani, CFO**

**Telephone: + 972-3-572-3111, Facsimile: + 972-3-572-3100**

**14 Hamelacha Street, Rosh Haayin 4809133, Israel**

**(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)**

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

Title of each class	Name of each exchange on which registered
<b>Ordinary Shares, NIS 3.00 nominal value per share</b>	NASDAQ Capital Market

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

**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**8,059,094 Ordinary Shares, NIS 3.00 nominal value per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Note—Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, 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 which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Edgar Filing: Pointer Telocation Ltd - Form 20-F/A

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No  N/A

EXPLANATORY NOTE

This Amendment No. 1 on Form 20-F/A (this "Amendment") to the annual report on Form 20-F for the fiscal year ended December 31, 2017, as filed by Pointer Telocation Ltd. (the "Company" or "we") with the Securities and Exchange Commission (the "Commission") on March 27, 2018 (the "Form 20-F"), is being filed solely to correct an inadvertent omission of the audit report of Mazars Certified Public Accountants, the auditor of our POINTER SA (PTY) LTD. subsidiary, in the electronic version of the Form 20-F.

Therefore, we are filing this Amendment to our Form 20-F to include the audit report of Mazars Certified Public Accountants together with the consolidated financial statements included in Item 18 of our Form 20-F. In addition, we are (i) filing the amended consents of our auditors as Exhibits 14.1, 14.2, 14.3 and 14.4 and (ii) filing or furnishing, as indicated herein, as Exhibits 12.1, 12.2, 13.1 and 13.2, currently dated certifications.

This Amendment speaks as of the date of the initial filing of the Form 20-F and, other than as described above, this Amendment does not, and does not purport to, amend, update or restate any other information or disclosure included in the Form 20-F, and does not purport to, reflect any events that have occurred after the date of the initial filing of the Form 20-F.

ITEM 18.

FINANCIAL STATEMENTS

The Financial Statements required by this item are found at the end of this Annual Report on Form 20-F/A, beginning on page F-1.

ITEM 19.

EXHIBITS

12.1 Certification by Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002. \*

12.2 Certification by Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002. \*

13.1 Certification by Chief Executive Officer pursuant to 18 U.S.C., Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. \*

13.2 Certification by the Chief Financial Officer pursuant to 18 U.S.C., Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. \*

14.1 Consent of Kost, Forer, Gabbay & Kasierer Certified Public Accountants (Israel). \*

14.2 Consent of Grant Thornton Argentina S.C. Certified Public Accountants (Pointer Argentina S.A.). \*

14.3 Consent of Baker Tilly Brasil Norte SS Auditores Independentes (Pointer do Brasil Comercial Ltda.). \*

14.4 Consent of Mazars Certified Public Accountants (Pointer SA (PTY) Ltd). \*

101.INS\* XBRL Instance Document

101.SCH\* XBRL Taxonomy Extension Schema Document

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document

Edgar Filing: Pointer Telocation Ltd - Form 20-F/A

101.LAB\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herein

3



SIGNATURE

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this Amendment No. 1 on its behalf.

POINTER TELOCATION LIMITED

By: /s/ Yossi Ben Shalom  
Yossi Ben Shalom  
Chairman of the Board of Directors

April 30, 2018

POINTER TELOCATION LTD. AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2017**

**IN U.S. DOLLARS**

**INDEX**

	<b>Page</b>
<b><u>Reports of Independent Registered Public Accounting Firms</u></b>	<b><u>F-2 - F-6</u></b>
<b><u>Consolidated Balance Sheets</u></b>	<b><u>F-7 - F-8</u></b>
<b><u>Consolidated Statements of Comprehensive Income</u></b>	<b><u>F-9 - F-10</u></b>
<b><u>Consolidated Statements of Changes in Equity</u></b>	<b><u>F-11</u></b>
<b><u>Consolidated Statements of Cash Flows</u></b>	<b><u>F-12 - F-14</u></b>
<b><u>Notes to Consolidated Financial Statements</u></b>	<b><u>F-15 - F-53</u></b>

-----

F-1

**Kost Forer Gabbay & Kasierer** Tel: +972-3-6232525

144 Menachem Begin Road, Building A Fax: +972-3-5622555

Tel-Aviv 6492102, Israel ey.com

## **Report of Independent Registered Public Accounting Firm**

**To the Shareholders and Board of Directors of**

**POINTER TELOCATION LTD.**

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Pointer Telocation Ltd. and subsidiaries (“the Company”) as of December 31, 2017 and 2016, the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We did not audit the financial statements of Pointer Argentina S.A, Pointer Do Brasil Comercial Ltda. and Pointer SA (PTY) Ltd., (the “Subsidiaries”), whose financial statements reflect total assets constituting 18% and 22.4% as of December 31, 2017 and 2016, respectively, and total revenues constituting 29.5%, 27% and 15.2% of the related consolidated revenues for the years ended December 31, 2017, 2016 and 2015, respectively. The financial statements of the Subsidiaries were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for the Subsidiaries, is based solely on the reports of the other auditors.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's 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 financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

**Kost Forer Gabbay & Kasierer** Tel: +972-3-6232525

144 Menachem Begin Road, Building A Fax: +972-3-5622555

Tel-Aviv 6492102, Israel ey.com

Our audits included performing procedures to assess the risks of material misstatement of the 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 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 financial statements. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

/s/ KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

We have served as the Company's auditor since 1995.

Tel-Aviv, Israel

March 27, 2018

F-3

## AUDITOR'S REPORT

To the Shareholders and Board of Directors of Pointer do Brasil Comercial S.A.

### **Opinion on the Financial Statements**

We have audited the consolidated balance sheets of Pointer do Brasil Comercial S.A. as of December 31, 2017 and 2016, the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and 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 Entity at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

### **Basis for Opinion**

These financial statements are the responsibility of the Entity's management. Our responsibility is to express an opinion on the Entity's 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 financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Baker Tilly Brasil Norte SS Auditores Independentes – EPP

**Baker Tilly Brasil Norte SS Auditores Independentes – EPP**

We have served as the Company's auditor since 2016.

Barueri, São Paulo, Brazil

February 09, 2018

F-4

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders  
Pointer Argentina S.A.

Grant Thornton Argentina  
Av. Corrientes 327 Piso 3°  
C1043AAD – Buenos Aires  
Argentina

T +54 11 4105 0000  
F +54 11 4105 0100  
E post@ar.gt.com  
www.grantthornton.com.ar

**Opinion on the financial statements**

We have audited the accompanying balance sheets of Pointer Argentina S.A. (the “Company”) as of December 31, 2017 and 2016, the related statements of comprehensive income (loss), changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

**Basis for opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s 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 financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the 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 supporting the amounts and disclosures in the 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Adler, Hasenclever & Asociados Sociedad de Responsabilidad Limitada**

We have served as the Company's auditor since 2009.

Buenos Aires, Argentina  
February 8, 2018

F-5

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders and the board of directors of Pointer SA Proprietary Limited

### **Opinion on the Financial Statements**

We have audited the accompanying balance sheets of Pointer SA Proprietary Limited (the “Company”) as of December 31, 2017 and 2016, the related statements of comprehensive income, changes in equity, and cash flows, for each of the years ended December 31, 2017 and 2016, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s 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 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 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company’s auditor since 2007.

**Mazars**

**Partner: Andries Batt**

**Registered Auditor**

**26 March 2018**

**Cape Town**

F-6

**POINTER TELOCATION LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****U.S. dollars in thousands**

	December 31,	
	2017	2016
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	7,375	6,066
Trade receivables (net of allowance for doubtful accounts of \$ 1,127 and \$ 1,281 at December 31, 2017 and 2016, respectively)	13,660	11,464
Other accounts receivable and prepaid expenses (Note 3)	2,865	2,504
Inventories (Note 4)	6,551	5,242
Total current assets	30,451	25,276
<b>LONG-TERM ASSETS:</b>		
Long-term loan to related party	973	831
Long-term accounts receivable	1,116	564
Severance pay fund (Note 2r)	3,546	2,878
Property and equipment, net (Note 5)	5,848	5,614
Other intangible assets, net (Note 6)	1,935	2,178
Goodwill (Note 7)	41,010	38,107
Deferred tax asset (Note 15)	9,585	1,433
Total long-term assets	64,013	51,605
Total assets	94,464	76,881

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

**POINTER TELOCATION LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****U.S. dollars in thousands (except share and per share data)**

	December 31, 2017	2016
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term bank credit and current maturities of long-term loans (Note 8)	5,101	4,836
Trade payables	6,204	7,116
Deferred revenues and customer advances	777	1,037
Other accounts payable and accrued expenses (Note 9)	9,117	6,839
<b><u>Total</u> current liabilities</b>	<b>21,199</b>	<b>19,828</b>
<b>LONG-TERM LIABILITIES:</b>		
Long-term loans from banks (Note 10)	5,015	10,182
Deferred taxes and other long-term liabilities (Note 11)	838	976
Accrued severance pay (Note 2r)	3,996	3,206
<b><u>Total</u> long term liabilities</b>	<b>9,849</b>	<b>14,364</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 12)</b>		
<b>EQUITY:</b>		

Pointer Telocation Ltd's shareholders' equity:		
Share capital (Note 13)		
Ordinary shares of NIS 3 par value -		
Authorized: 16,000,000 shares at December 31, 2017 and 2016; Issued and outstanding: 8,059,094 and 7,873,919 shares at December 31, 2017 and 2016, respectively	5,995	5,837
Additional paid-in capital	129,076	128,438
Accumulated other comprehensive loss	(2,340 )	(5,633 )
Accumulated deficit	(69,597 )	(86,115 )
Total Pointer Telocation Ltd's shareholders' equity	63,134	42,527
Non-controlling interest	282	162
Total equity	63,416	42,689
Total liabilities and equity	94,464	76,881

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

**POINTER TELOCATION LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****U.S. dollars in thousands (except per share data)**

	<b>Year ended</b>		
	<b>December 31,</b>		
	2017	2016	2015
Revenues (Note 17c):			
Products	26,182	22,784	22,266
Services	51,973	41,569	38,301
<u>Total</u> revenues	78,155	64,353	60,567
Cost of revenues:			
Products	16,073	13,904	13,435
Services	21,914	18,672	17,879
Total cost of revenues	37,987	32,576	31,314
Gross profit	40,168	31,777	29,253
Operating expenses:			
Research and development	4,051	3,669	3,409
Selling and marketing	14,038	11,774	10,468
General and administrative	11,275	9,004	8,580
Amortization of intangible assets	463	473	538
Acquisition related costs	32	609	-
Impairment of intangible and tangible assets	-	-	917
Total operating expenses	29,859	25,529	23,912
Operating income	10,309	6,248	5,341
Financial expenses, net (Note 19)	1,004	1,046	729
Other expenses, net	5	9	10
Income before taxes on income	9,300	5,193	4,602
Tax expenses (income), (Note 15)	(7,221 )	1,845	1,131
Income from continuing operations	16,521	3,348	3,471
Income from discontinued operation, net (Note 18)	-	154	327

Edgar Filing: Pointer Telocation Ltd - Form 20-F/A

Net income	16,521	3,502	3,798
Other comprehensive income:			
Currency translation adjustments of foreign operations	3,293	1,311	(3,423 )
Total comprehensive income	19,814	4,813	375
Profit (loss) from continuing operations attributable to:			
Pointer Telocation Ltd's shareholders	16,518	3,324	3,546
Non-controlling interests	3	24	(75 )
	16,521	3,348	3,471

F-9



**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**U.S. dollars in thousands (except per share data)**

	<b>Year ended December 31,</b>		
	2017	2016	2015
Profit (loss) from discontinued operations attributable to:			
Pointer Telocation Ltd's shareholders	-	120	399
Non-controlling interests	-	34	(72 )
	-	154	327
Earnings per share attributable to Pointer Telocation Ltd's Shareholders (Note 14):			
Basic net earnings:			
Earnings from continuing operations	2.07	0.43	0.46
Earnings from discontinued operations	-	0.02	0.05
	2.07	0.45	0.51
Diluted net earnings:			
Earnings from continuing operations	2.03	0.43	0.44
Earnings from discontinued operations	-	0.02	0.06
	2.03	0.45	0.50

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

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**CONSOLOIDATED STATEMENTS OF CHANGES IN EQUITY**

**U.S. dollars in thousands (except share data)**

	Number of shares	Pointer Telocation Ltd's Shareholders Accumulated				Non- controlling interest	Total equity
		Share capital	Additional paid-in capital	Other comprehensive income	Accumulated deficit		
Balance as of January 1, 2015	7,688,564	5,705	129,618	(2,909 )	(75,767 )	(2,851 )	53,796
Issuance of shares in respect of Stock-based compensation	14,999	3	11	-	-	-	14
Stock-based compensation expenses	-	-	309	-	-	-	309
Acquisition of non-controlling interests	81,081	62	(1,528 )	-	-	2,007	541
Other comprehensive income	-	-	-	(3,345 )	-	(78 )	(3,423 )
Net loss attributable to Non- -controlling interest	-	-	-	-	-	(147 )	(147 )
Net income attributable to Pointer shareholders	-	-	-	-	3,945	-	3,945
Balance as of December 31, 2015	7,784,644	5,770	128,410	(6,254 )	(71,822 )	(1,069 )	55,035
Issuance of shares in respect of Stock-based compensation	89,275	67	31	-	-	-	98
Stock-based compensation expenses	-	-	320	-	-	-	320
Exercise of options in subsidiary	-	-	(323 )	323	-	-	-
Distribution of a subsidiary as a divided in kind	-	-	-	(213 )	(17,737 )	373	(17,577)
Other comprehensive income	-	-	-	511	-	800	1,311
Net income attributable to Non- -controlling interest	-	-	-	-	-	58	58
Net income attributable to Pointer shareholders	-	-	-	-	3,444	-	3,444
Balance as of December 31, 2016	7,873,919	5,837	128,438	(5,633 )	(86,115 )	162	42,689
Issuance of shares in respect of Stock-based compensation	185,175	158	237	-	-	-	395

Edgar Filing: Pointer Telocation Ltd - Form 20-F/A

Stock-based compensation expenses	-	-	401	-	-	117	518
Other comprehensive income	-	-	-	3,293	-	-	3,293
Net income attributable to Non-controlling interest	-	-	-	-	-	3	3
Net income attributable to Pointer shareholders	-	-	-	-	16,518	-	16,518
Balance as of December 31, 2017	8,059,094	5,995	129,076	(2,340 )	(69,597 )	282	63,416

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

F-11

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**U.S. dollars in thousands**

	<b>Year ended</b>		
	<b>December 31,</b>		
	2017	2016	2015
Cash flows from operating activities:			
Net income	16,521	3,502	3,798
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,924	3,258	3,959
Impairment of tangible and intangible assets	-	-	917
Accrued interest and exchange rate changes of debenture and long-term loans	52	29	(888 )
Accrued severance pay, net	93	20	17
Gain from sale of property and equipment, net	(113 )	(232 )	(143 )
Stock-based compensation	380	320	309
Decrease in restricted cash	-	-	62
Increase in trade receivables, net	(1,616 )	(3,489 )	(236 )
Increase in other accounts receivable and prepaid expenses	(206 )	(942 )	(469 )
Decrease (increase) in inventories	(1,170 )	(1,063 )	658
Decrease (increase) deferred income taxes	(8,018 )	1,774	1,080
Decrease (increase) in long-term accounts receivable	165	99	(91 )
Increase (decrease) in trade payables	(1,597 )	3,346	1,277
Increase (decrease) in other accounts payable and accrued expenses	2,285	2,455	(1,448)
Net cash provided by operating activities	9,700	9,077	8,802
Cash flows from investing activities:			
Purchase of property and equipment	(3,033 )	(4,129 )	(3,616)
Purchase of other intangible assets	(233 )	(115 )	-
Proceeds from sale of property and equipment	114	648	1,266
Acquisition of subsidiary (a)	-	(8,531 )	-
Net cash used in investing activities	(3,152 )	(12,127)	(2,350)

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

F-12

**POINTER TELOCATION LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****U.S. dollars in thousands**

	<b>Year ended</b>		
	<b>December 31,</b>		
	2017	2016	2015
Cash flows from financing activities:			
Receipt of long-term loans from banks	-	6,263	14,934
Repayment of long-term loans from banks	(4,875)	(4,976)	(19,503)
Proceeds from issuance of shares and exercise of options, net of issuance costs	395	98	15
Distribution as a dividend in kind of previously consolidated subsidiary (b)	-	(1,870)	-
Short-term bank credit, net	(231 )	716	(915 )
Net cash provided (used) in financing activities	(4,711)	231	(5,469 )
Effect of exchange rate on cash and cash equivalents	(528 )	(462 )	(193 )
Increase (decrease) in cash and cash equivalents	1,309	(3,281)	790
Cash and cash equivalents at the beginning of the year	6,066	9,347	8,557
Cash and cash equivalents at the end of the period- continuing operations	7,375	6,066	7,252
Cash and cash equivalents at the end of the period- discontinued operation	-	-	2,095
Cash and cash equivalents at the end of the year	7,375	6,066	9,347
(a) <u>Acquisition of subsidiary:</u>			
Working capital (Cash and cash equivalent excluded)	-	(334 )	-
Property and equipment	-	(1,239)	-
Intangible assets	-	(2,098)	-
Goodwill	-	(6,070)	-
Deferred taxes	-	714	-
Payables for acquisition of investments in subsidiaries	-	496	-
	-	(8,531)	-

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

F-13

**POINTER TELOCATION LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****U.S. dollars in thousands**

	<b>Year ended</b>		
	<b>December 31,</b>		
	2017	2016	2015
(b) <u>Distribution as a dividend in kind of previously consolidated subsidiary:</u>			
The subsidiaries' assets and liabilities at date of distribution:			
Working capital (excluding cash and cash equivalents)	-	(5,443 )	-
Property and equipment	-	7,048	-
Goodwill and other intangible assets	-	15,883	-
Other long term liabilities	-	(1,781 )	-
Non-controlling interest	-	373	-
Accumulated other comprehensive loss	-	(213 )	-
Dividend in kind	-	(17,737)	-
	-	(1,870 )	-
(c) <u>Non-cash investing activity:</u>			
Purchase of property and equipment	61	48	378
(d) <u>Supplemental disclosure of cash flow activity:</u>			
Cash paid during the year for:			
Interest	224	567	640
Income taxes	540	20	27

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



## POINTER TELOCATION LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### U.S. dollars in thousands (except share and per share data)

#### NOTE 1:- GENERAL

- Pointer Telocation Ltd. (“the Company”) was incorporated in Israel and commenced operations in July 1991. The Company conducts its operations through two main segments. Through its Cellocator segment, the Company designs, develops and produces leading mobile resource management products, including asset management, fleet management, and security products, for sale to third party operators providing mobile resource management services and to our MRM segment. Through its MRM segment, the Company acts as an operator by bundling its products together with a range of services, including fleet management services, asset management services and stolen vehicle retrieval services.
- a.

The Company provides services, for the most part, in Israel, Argentina, Mexico, South Africa and Brazil, through its local subsidiaries and affiliates. The Company sells its products worldwide through direct sell, its local subsidiaries and affiliates to independent operators provide similar services in Latin America, Europe, India and other countries utilizing the Company’s technology and operational know-how. The Company’s shares are traded on the NASDAQ Capital Market.

The company recorded tax income in the amount of \$9.2 million due to decrease in valuation allowance related to carry forward losses of the company and other temporary differences that are more likely than not to be offset against future income.

- On June 8, 2016 Pointer spun off its Israeli subsidiary, Shagrir Group Vehicle Services Ltd., through which Pointer carried out its road side assistance (RSA) activities and listed Shagrir’s shares for trade on the Tel Aviv Stock Exchange. The results of Shagrir until that date are included in Pointer’s results as discontinued operations. See also Note 18.
- b.

- The Company holds 93% of the share capital of Argentina SA’s (formerly: Tracsat S.A.) (“Pointer Argentina”). Pointer Argentina is the operator of the Company’s systems and products that provides fleet management and stolen vehicle recovery services in Buenos Aires, Argentina.
- c.

Edgar Filing: Pointer Telocation Ltd - Form 20-F/A

The Company holds 100% of the share capital of Pointer Recuperation de Mexico S.A. de C.V. (“Pointer Mexico”). After the company completed in 2015 the acquisition of Pointer Mexico by acquiring the 26% of the issued share d. capital of Pointer Mexico that the company did not previously own, from Pointer Recuperacion de Mexico, S. de R.L. de C.V. (the “Pointer Mexico Sellers”), in consideration for the issuance of 81,081 of the company ordinary shares to the Pointer Mexico Sellers.

Pointer Mexico provides fleet management and stolen vehicle recovery services to its customers in Mexico as well as distributing the Company’s products.

In August 2008 the Company incorporated a company in Brazil by the name of Pointer do Brasil Comercial S.A. e.(“Pointer Brazil”). Pointer Brazil provides location, tracking and fleet management vehicles services to its customers in Brazil. As of October 13, 2013 Company held 48.8% of the share capital in Pointer Brazil.

In March 2014, Pointer Brazil changed its legal form from corporation to Limited Liability Company (LLC), and its trading name from Pointer do Brasil Comercial S.A. to Pointer do Brasil Comercial Ltda., according to its article of association duly registered and properly approved by its shareholders.

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

NOTE 1:- GENERAL (Cont.)

In July 2013, the Company incorporated a wholly-owned subsidiary in Brazil at the name of Pointer do Brasil Participações Ltda. (“Pointer Brazil Holdings”).

On October 14, 2013, the Company acquired the remaining 51.2% of the issued share capital of Pointer Brazil from Bracco do Brasil Empreendimentos e Participações Ltda. (“Bracco”) through Pointer Brazil Holdings. Following the completion of the transaction, the Company holds 100% of the issued share capital of Pointer Brazil.

In May 2014, Pointer Brazil was merged with Pointer Brazil Holdings . As a result of this merger, The Company holds directly 100% of the issued share capital of Pointer Brazil.

f. In October 2008, the Company established a wholly-owned subsidiary in the United States, Pointer Telocation Inc.

g. On September 9, 2014, the Company acquired 100% interest in Global Telematics S.A. Proprietary Limited (“Global Telematics”), a provider of commercial fleet management and vehicle tracking solutions in South Africa.

On October 2, 2017, the Company sold 2,519,544 ordinary shares of Pointer South Africa, representing approximately 12% of Pointer South Africa’s issued and outstanding share capital as of the date thereof, to Ms. Preshnee Moodley, who serves on Pointer South Africa’s Board of Directors, in exchange for her services. Following the consummation of the transaction, we now hold 88% of the issued share capital of Pointer South Africa.

h. In May 2012, the Company established a wholly-owned subsidiary in India, Pointer Telocation India Private Limited.

On October 6, 2016, a shareholders meeting of the Company approved a compensation Policy for the Company's directors and officers. The Compensation Policy includes, among other issues prescribed by the Israeli Companies Law, a framework for establishing the terms of office and employment of the office

- i. holders, and guidelines with respect to the structure of the variable pay of office holders. The Compensation Policy includes a compensation, bonus and benefits strategy for office holders which is designed in order to reward performance, maintain a reasonable wage structure throughout the organization and to reinforce a culture in order to promote the long-term success of the Company.

j. On October 7, 2016, the Brazilian subsidiary acquired 100% interest in Cielo Telecom Ltd. ("Cielo"), a fleet management services company based in South Brazil.

The acquisition-date fair value of the consideration transferred totaled to \$ 8.5 million in cash.

The acquisition was accounted for under the purchase method of accounting as determined by ASC Topic 805, "Business Combinations". Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition.

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

NOTE 1:- GENERAL (Cont.)

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date:

Working capital, net	334
Property and equipment	1,239
Other intangible assets	2,100
Goodwill	6,068
Deferred taxes	(714 )
Payables for acquisition of investments in subsidiaries	(496 )
	\$8,531

Unaudited pro forma condensed results of operations:

The following represents the unaudited pro forma condensed results of operations for the years ended December 31, 2015 and 2016, assuming that the acquisitions of Cielo occurred on January 1, 2015. The pro forma information is not necessarily indicative of the results of operations that would have actually occurred had the acquisitions been consummated on those dates, nor does it purport to represent the results of operations for future periods.

	<b>Year ended</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2016</b>	<b>2015</b>
	<b>Unaudited</b>	
Revenues	\$67,468	\$64,516
Net income attributable to Pointer shareholders' from continuing operations	\$3,820	\$4,206

Basic income per share	\$0.49	\$0.55
Diluted income per share	\$0.48	\$0.53

F-17

## **POINTER TELOCATION LTD. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **U.S. dollars in thousands (except share and per share data)**

#### **NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”).

##### **a. Use of estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant assumptions are employed in estimates used in determining values of intangible assets, tax assets and tax liabilities, warranty costs and stock-based compensation costs. Actual results could differ from those estimates.

##### **b. Financial statements in U.S. dollars:**

The Company’s reporting currency is the US dollar.

The majority of the revenues of the Company’s Cellocator business are generated in U.S. dollars (“dollar”) or linked to the dollar. In addition, a substantial portion of the Company’s Cellocator business’ costs are incurred in dollars. The Company’s management believes that the dollar is the primary currency of the economic environment of the Cellocator business and thus its functional currency.

The majority of the revenues of the Company’s MRM business are generated in Israeli NIS (“NIS”) or linked to the NIS. In addition, a substantial portion of the Company’s MRM business’ costs are incurred in NIS. The Company’s management believes that the NIS is the primary currency of the economic environment of the MRM business and thus its functional currency.

For those subsidiaries whose functional currency has been determined to be their local currency (For Pointer Argentina- the Argentinean peso; for Pointer Mexico- the Mexican peso; for Pointer Inc. the dollar; for Pointer do Brazil Comercial Ltda., for Pointer Brazil Holdings and Cielo Telecom Ltda. the Brazilian Real), assets and liabilities are translated at year-end exchange rates and statement of operations items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded as a separate component, other comprehensive income (loss), in shareholders' equity (deficiency).

Transactions and balances of the Company and certain subsidiaries, which are denominated in other currencies, have been remeasured into dollars in accordance with principles set forth in ASC 830, "Foreign Currency Matters". Foreign currency assets and liabilities are remeasured into U.S. dollars at the end-of-period exchange rates except for non-monetary assets and liabilities, which are remeasured at historical exchange rates. Expenses are remeasured at the exchange rate in effect on the day the transaction occurred, except for those expenses related to non-monetary assets and liabilities, which are remeasured at historical exchange rates. All exchange gains and losses from the remeasurements mentioned above, are reflected in the statement of operations as financial expenses or income, as appropriate.



**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**c. Principles of consolidation:**

The consolidated financial statements include the accounts of the Company and its subsidiaries.

Intercompany transactions and balances including profits from intercompany sales not yet realized outside the Company have been eliminated upon consolidation.

Changes in the parent's ownership interest in a subsidiary with no change of control are treated as equity transactions, rather than step acquisitions or dilution gains or losses. Losses of partially owned consolidated subsidiaries shall be continued to be allocated to the non-controlling interests even when their investment was already reduced to zero.

**d. Cash equivalents:**

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less at the date acquired.

**e. Inventories:**

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the "moving average" cost method. Inventory consists of raw materials, work in process and finished products. Inventory write-offs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, and for market prices lower than cost. In 2017, 2016 and 2015, the Company and its subsidiaries wrote-off approximately net amount of \$129, \$147 and \$113, respectively. The net write-offs are included in cost of revenues.

f. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Installed products	20-33
Computers and electronic equipment	10 - 33 (mainly 33)
Office furniture and equipment	6 - 15
Motor vehicles	15 - 20 (mainly 20)
Network installation	10 - 33
Buildings	6.67
Leasehold improvements	Over the term of the lease, including the option term or the useful lives of the assets, whichever is shorter

## **POINTER TELOCATION LTD. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **U.S. dollars in thousands (except share and per share data)**

#### **NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

##### **g. Goodwill:**

Goodwill reflects the excess of the purchase price of the acquired activities over the fair value of net assets acquired. Pursuant to ASC 350, “Intangibles - Goodwill and Other”, goodwill is not amortized but rather tested for impairment at least annually, at the reporting unit level.

The Company identified several reporting units based on the guidance of ASC 350. ASC 350 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment, while the second phase (if necessary) measures impairment.

Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. In such case, the second phase is then performed, and the Company measures impairment by comparing the carrying amount of the reporting unit’s goodwill to the implied fair value of that goodwill. An impairment loss is recognized in an amount equal to the excess.

In September 2011, the FASB amended the guidance on the annual testing of goodwill for impairment. The amended guidance will allow companies to assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. The company didn’t apply the qualitative option.

In 2015, following the annual goodwill impairment test in accordance with ASC 350 “Intangibles - Goodwill and Others”, the Company impaired the goodwill attributed to Brazil at the amount of \$ 758. These amounts were recorded in the 2015 Consolidated Statement of Operation under the captions “Impairment of intangible and tangible assets”. The material assumptions used for the income approach for 2015 were 5 years of projected net cash flows, a discount rate of 25% and a long-term growth rate of 7.1%. During 2017 and 2016 there was no impairment.

h. Identifiable intangible assets:

Intangible assets consist of the following: a brand name, customers' related intangibles, developed technology and acquired patents. Intangible assets are amortized over their useful life using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up. Intangible assets are stated at amortized cost.

The customers' related intangibles are amortized over a five- to nine-year period.

Backlog is amortized over a three-year period.

Non-competition agreement is amortized over a three-year period.

Brand name is amortized over a ten-year period.

Customer related intangibles are amortized based on the accelerated method. For customer related intangibles in respect with the Brazil transaction during 2013 and the transaction during 2016, the Company used the straight line method, the differences from the accelerated method were immaterial.

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The other intangibles are amortized based on straight line method over the periods above mentioned.

In 2015, following the annual goodwill impairment test in accordance with ASC 350 “Intangibles - Goodwill and Others”, the Company impaired intangible assets attributed to Brazil at the amount of \$ 159. These amounts were recorded in the 2015 Consolidated Statement of Operation under the captions “Impairment of intangible and tangible assets”. The material assumptions used for the income approach for 2015 were 5 years of projected net cash flows, a discount rate of 25% and a long-term growth rate of 7.1%. During 2017 and 2016 there was no impairment.

i. Impairment of long-lived assets:

The Company’s long lived assets are reviewed for impairment in accordance with ASC 360-10-35, “Property, Plant, and Equipment- Subsequent Measurement” whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

No impairment losses were identified in 2017, 2016 and 2015.

j. Provision for warranty:

The Company and its subsidiaries generally grant a one-year to three-year warranty for their products. The Company and its subsidiaries estimate the costs that may be incurred under its basic limited warranty and records a liability in

the amount of such costs at the time which product revenue is recognized. Factors that affect the warranty liability include the number of installed units, historical and anticipated rates of warranty claims and cost per claim. The Company and its subsidiaries periodically assess the adequacy of its recorded warranty liabilities and adjust the amounts as necessary. Changes in the Company's and its subsidiaries' product liabilities (which are included in other accounts payable and accrued expenses and other long term liabilities' captions in the Balance Sheet) during 2017 and 2016 are as follows:

	<b>Year ended</b>	
	<b>December 31,</b>	
	2017	2016
Balance, beginning of the year	604	544
Warranties issued during the year	468	422
Settlements made during the year	(145 )	(182 )
Expirations	(360 )	(180 )
Balance end of year	567	604

F-21

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Revenue recognition:

The Company and its subsidiaries generate revenues from the provision of services, subscriber fees and sales of systems and products, mainly in respect of asset management services, fleet management services, stolen vehicle recovery services and other value added services. To a lesser extent, revenues are also derived from technical support services. The Company and its subsidiaries sell the systems primarily through their direct sales force and indirectly through resellers. Sales consummated by the Company's sales forces and sales to resellers are considered sales to end-users. Revenues from the sale of systems and products are recognized in accordance with Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" ("SAB No. 104"), when delivery has occurred, persuasive evidence of an agreement exists, the vendor's fee is fixed or determinable, no further obligation exists and collectability is reasonably assured. Service revenues including subscriber fees are recognized as services are performed, over the term of the agreement.

Revenues from the sale of systems and products are recognized in accordance with Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" ("SAB No. 104"), when delivery has occurred, persuasive evidence of an agreement exists, the vendor's fee is fixed or determinable, no further obligation exists and collectability is reasonably assured. Service revenues including subscriber fees are recognized as services are performed, over the term of the agreement.

Deferred revenue includes amounts received under maintenance and support contracts, and amounts received from customers but not yet recognized as revenues.

In accordance with ASC 605-25, "Multiple-Element Arrangements", revenue from certain arrangements may include multiple elements within a single contract. The Company's accounting policy complies with the requirements set forth in ASC 605-25, relating to the separation of multiple deliverables into individual accounting units with determinable fair values. The Company considers the sale of products and subscriber fees to be separate units of accounting.

When a sales arrangement contains multiple elements, such as hardware and services, the Company allocates revenue to each element based on a selling price hierarchy. The selling price for each deliverable is based on its vendor specific objective evidence (“VSOE”), if available, third party evidence (“TPE”) if VSOE is not available, or estimated selling price (“ESP”) if neither VSOE nor TPE is available.

The company uses ESP to allocate the elements.

Revenues generated from technical support services, installation and de-installation are recognized when such services are rendered.

Generally, the Company does not grant rights of return. The Company follows ASC 605-15-25 “sales of product when right of return exists”. Based on the Company’s experience, no provision for returns was recorded.

1. Research and development costs:

Research and development costs are charged to expenses as incurred.



**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Advertising expenses:

Advertising expenses are charged to the statement of operations as incurred. Advertising expenses for the years ended December 31, 2017, 2016 and 2015 were \$1,459, \$1,337 and \$1,214, respectively.

n. Income taxes:

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes." This ASC prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

The Company adopted an amendment to ASC 740, "Income Taxes". The amendment clarifies the accounting for uncertainties in income taxes by establishing minimum standards for the recognition and measurement of tax positions taken or expected to be taken in a tax return. Under the requirements of ASC 740, the Company must review all of its tax positions and make a determination as to whether its position is more-likely-than-not to be sustained upon examination by regulatory authorities. If a tax position meets the more-likely-than-not standard, then the related tax benefit is measured based on a cumulative probability analysis of the amount that is more-likely-than-not to be realized upon ultimate settlement or disposition of the underlying issue.

In the years ended December 31, 2017, 2016 and 2015, the Company recorded tax expenses (income) in connection to uncertainties in income taxes of \$ 127, \$ 0 and \$ 0 respectively.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (ASU 2015-17) "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes." ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. The Company had early adopted this standard in the fourth quarter of 2015 on a retrospective basis. Prior years have been retrospectively adjusted.

o. Basic and diluted net earnings per share:

Basic and diluted net earnings per share are computed based on the weighted average number of ordinary shares outstanding during the year. Diluted net earnings (loss) per share further include the dilutive effect of stock options outstanding during the year, in accordance with ASC 260, "Earnings Per Share". Part of the Company's outstanding stock options and warrants has been excluded from the calculation of the diluted earnings (loss) per share because such securities are anti-dilutive. The total weighted average number of pointer shares related to the outstanding options and warrants excluded from the calculations of diluted earnings (loss) per share was 20,125, 202,000 and 64,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

p. Accounting for stock-based compensation:

The Company applies ASC 718, “Compensation - Stock Compensation”. In accordance with ASC 718, all grants of employee equity based stock options are recognized in the financial statements based on their grant date fair values. The fair value of graded vesting options, as measured at the date of grant, is charged to expenses, based on the accelerated attribution method over the requisite service period of each of the awards, net of estimated forfeitures.

Effective as of January 1, 2017, the Company adopted Accounting Standards Update 2016-09, “Compensation-Stock Compensation (Topic 718)” (“ASU2016-09”) on a modified, retrospective basis. ASU 2016-09 permits entities to make an accounting policy election related to how forfeitures will impact the recognition of compensation cost for stock - based compensation: to estimate the total number of awards for which the requisite service period will not be rendered or to account for forfeitures as they occur. Upon adoption of ASU 2016-09, the Company elected to change its accounting policy to account for forfeitures as they occur. Upon the adoption in the first quarter of 2017, the effect of the adoption on the Company’s retained earnings was immaterial.

During the years ended December 31, 2017, 2016 and 2015, the Company recognized stock-based compensation expenses related to employee stock options in the amounts of \$380, \$320 and \$309, respectively.

According to ASC 718, a change in any of the terms or conditions of the Company’s stock options is accounted for as a modification. Therefore, if the terms of an award are modified, the Company calculates incremental compensation costs as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors existing at the modification date. For vested options, the Company recognizes any incremental compensation cost immediately in the period the modification occurs, whereas for unvested options, the Company recognizes, over the new requisite service period, any incremental compensation cost due to the modification and any remaining unrecognized compensation cost for the original award over its term.

F-24

**POINTER TELOCATION LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

## q. Data related to options to purchase the Company shares:

The fair value of the Company's stock options granted to employees and directors for the years ended December 31, 1.2017, 2016 and 2015 was estimated using the Black-Scholes-Merton option-pricing model, with the following weighted average assumptions:

	<b>Year ended</b>		
	<b>December 31,</b>		
	2017	2016	2015
Risk free interest rate	0.86%-1.39%	0.8%-1.00%	1.29%-1.62%
Dividend yield	0%	0%	0%
Expected volatility	52.25%-57.73%	55.81%-60.84%	51.47%-49.78%
Expected term (in years)	4.00-5.50	4.00-5.50	4.00-5.50
Forfeiture rate	-	2%	2%

The Black-Scholes-Merton option-pricing model requires a number of assumptions, of which the most significant are expected stock price volatility and the expected option term. Expected volatility was calculated based upon actual historical stock price movements. The expected option term represents the period that the Company's stock options are expected to be outstanding and was determined for plain vanilla options, based on the simplified method permitted by SAB 107 and extended by SAB 110 as the average of the vesting period and the contractual term.

The Company adopted SAB 110 and continues to apply the simplified method until enough historical experience is available to provide a reasonable estimate of the expected term for stock option grants. In a few limited cases the Company did not use the simplified method in measuring the fair value of modified awards, either when the options were deeply out of the money immediately before the modification or when the Company accelerated the vesting and extended the exercise period after an employee's resignation. Since in both instances the entire remaining contractual term of the options was relatively short, we assumed that the expected life to be the entire remaining contractual term.

The risk-free interest rate is based on the yield from U.S. Treasury bill with accordance to the expected term of the options.

The Company has historically not paid dividends and has no foreseeable plans to pay dividends and therefore uses an expected dividend yield of zero in the option pricing model. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest.

F-25

## POINTER TELOCATION LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### U.S. dollars in thousands (except share and per share data)

#### NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

On October 2, 2017, the Company sold 2,519,544 ordinary shares of Pointer South Africa, representing approximately 12% of Pointer South Africa's issued and outstanding share capital as of the date thereof, to Ms. Preshnee Moodley, who serves on Pointer South Africa's Board of Directors, in exchange to its services.

r.

Severance pay:

The liability of the Company and its subsidiaries in Israel for severance pay is calculated pursuant to Israel's Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment as of balance sheet date and are presented on an undiscounted basis (the "Shut Down Method"). Employees are entitled to one month's salary for each year of employment, or a portion thereof. The liability for the Company and its subsidiaries in Israel is fully provided by monthly deposits with insurance policies and by accrual. The value of these policies is recorded as an asset in the Company's balance sheet.

The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies, and includes profits or losses accumulated to balance sheet date.

Some of the company's employees are subject to Section 14 of the Severance Pay Law and the General Approval of the Labor Minister dated June 30, 1998, issued in accordance to the said Section 14, mandating that upon termination of such employees' employment, all the amounts accrued in their insurance policies shall be released to them. The severance pay liabilities and deposits covered by these plans are not reflected in the balance sheet as the severance pay risks have been irrevocably transferred to the severance funds.

Severance pay expenses for the years ended December 31, 2017, 2016 and 2015 were \$399, \$303 and \$292, respectively.

s. Concentrations of credit risk:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, trade receivables, trade payables and derivatives.

The Company's cash and cash equivalents are invested primarily in deposits with major banks worldwide, mainly in Israel. Generally, these deposits may be redeemed upon demand and, therefore, bear low risk. Management believes that the financial institutions that hold the Company's investments have a high credit rating.

The Company's trade receivables include amounts billed to clients located mainly in Israel, Latin America and Europe. Management periodically evaluates the collectability of its trade receivables to reflect the amounts estimated to be collectible. An allowance is determined in respect of specific debts whose collection, in management's opinion, is doubtful. In 2017, 2016 and 2015, the Company recorded expenses in respect of such debts in the amount of \$802, \$511 and \$98, respectively. As for major customers, see Note 17d.



**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Changes in the allowance for doubtful accounts during 2017 and 2016 are as follows:

	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Balance at beginning of the year	1,281	1,053
Deductions during the year	(992 )	(339 )
Charged to expenses	802	511
Foreign currency translation adjustment	36	56
Balance at end of year	1,127	1,281

F-27

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Fair value measurements:

The following methods and assumptions were used by the Company and its subsidiaries in estimating fair value disclosures for financial instruments:

The carrying amounts reported in the balance sheet for cash and cash equivalents, trade receivables, other accounts receivable, short-term bank credit, trade payables and other accounts payable approximate their fair values due to the short-term maturities of such instruments.

Amounts recorded for long-term loans approximate fair values. The fair value was estimated using discounted cash flow analysis, based on the Company's incremental borrowing rates for similar type of borrowing arrangements.

The Company accounts for certain assets and liabilities at fair value under ASC 820, "Fair Value Measurements and Disclosures". Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. 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 a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 - Significant other observable inputs based on market data obtained from sources independent of the reporting entity;

Level 3 Unobservable inputs which are supported by little or no market activity (for example cash flow modeling - inputs based on assumptions).

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company categorized each of its fair value measurements in one of these three levels of hierarchy.

Assets and Liabilities that are measured at Fair Value on a Nonrecurring Basis subsequent to their initial recognition.

F-28

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

During 2015, such measurements of fair value related solely to an impairment loss of goodwill reducing its carrying amount in \$758. The Company used an income approach for measuring the fair value of the goodwill. See Note 2g and 2i for significant assumptions. As the fair value was measured using significant unobservable assumptions, the goodwill was classified as level 3 in ASC 820 fair value hierarchy.

During 2017 and 2016, there were no impairment losses regarding goodwill.

u. Derivatives and hedging activities:

ASC 815, “Derivatives and Hedging” requires the Company to recognize all of its derivative instruments as either assets or liabilities on the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income and reclassified into earnings in the line item associated with the hedged transaction in the period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized immediately in financial income/expense in the statement of operations.

v. Equity affiliates

The Company recognizes investment in equity affiliates under ASC 323, “Investments – Equity Method and Joint Ventures”. The Company recognizes its proportionate share of the income of equity affiliates. Losses of equity affiliates are recognized to the extent of our investment, advances, financial guarantees and other commitments to provide financial support to the investee. Any losses in excess of this amount are deferred and reduce the amount of future earnings of the equity investee recognized by the Company.

w. Discontinued operations

Under ASC 205, “Presentation of Financial Statements - Discontinued Operation” when a component of an entity, as defined in ASC 205, has been disposed of or is classified as held for sale, the results of its operations, including the gain or loss on its disposal are classified as discontinued operations and the assets and liabilities of such component are classified as assets and liabilities attributed to discontinued operations; that is, provided that the operations, assets and liabilities and cash flows of the component have been eliminated from the Company’s consolidated operations and the Company will no longer have any significant continuing involvement in the operations of the component.

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- x. Accounting Standards still not effective:

In May 2014, the FASB issued Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU is effective for the Company in 2018 using either of two methods: (i) retrospective application of ASU 2014-09 to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective application of ASU 2014-09 with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09 (“Modified Retrospective Adoption Transition Method”).

The Company has established an implementation team to analyze the potential impact the standard will have on its consolidated financial statements and related disclosures as well as its business processes, systems and controls. This includes reviewing revenue contracts across all revenue streams and evaluating potential differences that would result from applying the requirements under the standard. The Company will adopt the new standard on January 1, 2018 using the Modified Retrospective Adoption Transition Method.

The Company has completed its evaluation of the Standard and expects a change relating to the application of the legacy contingent revenue “cash cap” guidance in ASC 605-25, Revenue Recognition – Multiple-Element Arrangements, that limited the amount of revenue recognized at contract inception. In addition, the Standard requires the deferral and amortization of “incremental” costs incurred to obtain a contract. The primary contract acquisition cost for the Company are sales commissions. Under current GAAP, the Company expenses sales commissions as incurred while under the Standard such costs will be classified as a contract asset and amortized over a period that approximates the timing of revenue recognition on the underlying contracts.

Upon initial application the company will record deferred revenues, assets and a cumulative effect to retained earnings in an immaterial amounts on the opening balance sheet at January 1, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). The new guidance requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. ASU 2016-02 also will require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018 including interim periods within those fiscal years, but early adoption is permitted. The ASU requires a modified retrospective transition approach and provides certain optional transition relief. The Company is currently evaluating when it will adopt this new standard and the expected impact on its consolidated financial statements and related disclosures.

F-30

## **POINTER TELOCATION LTD. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **U.S. dollars in thousands (except share and per share data)**

#### **NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). This new standard clarifies certain aspects of the statement of cash flows, including the classification of debt prepayment or debt extinguishment costs or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees and beneficial interests in securitization transactions. This new standard also clarifies that an entity should determine each separately identifiable source of use within the cash receipts and payments on the basis of the nature of the underlying cash flows. In situations in which cash receipts and payments have aspects of more than one class of cash flows and cannot be separated by source or use, the appropriate classification should depend on the activity that is likely to be the predominant source or use of cash flows for the item. ASU 2016-15 will generally be applied retrospectively and is effective for annual periods beginning after December 15, 2017. The Company does not expect that this new guidance will have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”), which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective for the Company in the first quarter of 2018 and early adoption is permitted. The Company does not expect that this new guidance will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment (“ASU 2017-04”). ASU 2017-04 eliminates Step 2 of the goodwill impairment test, which requires the calculation of the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Instead, an entity will compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently evaluating the expected impact of the standard on its consolidated financial statements.



In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which expands the activities that qualify for hedge accounting and simplifies the rules for reporting hedging transactions. The standard is effective for the Company beginning January 1, 2019. Early adoption is permitted. The Company does not expect that this new guidance will have a material impact on its consolidated financial statements.

F-31

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

**NOTE 3:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES**

	December 31,	
	2017	2016
Government authorities	517	583
Employees	30	35
Prepaid expenses	1,715	1,677
Others	603	209
	2,865	2,504

**NOTE 4:- INVENTORIES**

	December 31,	
	2017	2016
Raw materials	3,621	2,510
Work in process	149	89
Finished goods	2,781	2,643
	6,551	5,242

**POINTER TELOCATION LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)****NOTE 5:- PROPERTY AND EQUIPMENT**

	a.		Composition:
	December 31,		
	2017	2016	
Cost:			
Installed products	9,771	9,323	
Computers and electronic equipment	7,353	5,550	
Office furniture and equipment	1,397	1,205	
Motor vehicles	349	339	
Network installation	4,211	3,839	
Leasehold improvements	778	670	
	23,859	20,926	
Accumulated depreciation:			
Installed products	7,061	5,912	
Computers and electronic equipment	4,768	3,981	
Office furniture and equipment	1,290	994	
Motor vehicles	237	175	
Network installation	4,193	3,826	
Leasehold improvements	462	424	
	18,011	15,312	
Depreciated cost	5,848	5,614	

b. Depreciation expenses for the years ended December 31, 2017, 2016 and 2015 were \$2,461, \$2,133 and \$1,674, respectively.

- c. No Impairment losses recorded for the years ended December 31, 2017, 2016 and 2015.

F-33

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

**NOTE 6:- OTHER INTANGIBLE ASSETS, NET**

a.	Other intangible assets, net:	
	December 31, 2017	2016
Cost:		
Patents	639	639
Developed technology	4,978	4,978
Customer related intangible	8,114	7,891
Others	874	874
Brand name	2,816	2,793
	17,421	17,175
Accumulated amortization:		
Patents	639	639
Developed technology (see note 2h)	4,945	4,901
Customer related intangible	6,853	6,534
Others	696	650
Brand name	2,353	2,273
	15,486	14,997
Amortized cost	1,935	2,178

b. Amortization expenses for the years ended December 31, 2017, 2016 and 2015 were \$463, \$473 and \$538, respectively.

c. Estimated amortization expenses for the years ending:

December 31,

2018	487
2019	399
2020	368
2021	343
2022 and after	338
	1,935

F-34

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

**NOTE 7:- GOODWILL**

The changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2016 are as follows:

	December 31,	
	2017	2016
Goodwill, beginning of the year	38,107	31,388
Additions in respect of acquisitions	-	6,070
Foreign currency translation adjustments	2,903	649
Goodwill, end of year	41,010	38,107

The carrying value of goodwill by reporting unit as of 31 December, 2017 is as follows:

Reporting unit 2017

Cellocator	2,534
SVR (*)	30,245
Pointer brazil	2,338
Cielo brazil	5,893
	41,010

The carrying value of goodwill by reporting unit as of 31 December 2016 is as follows:

Reporting unit 2016

Cellocator	2,534
SVR (*)	27,219
Pointer brazil	2,373
Cielo brazil	5,981
	38,107

(\*) SVR in Israel.

The material assumptions used for the income approach for 2017 were:

	Cellocator		SVR		Pointer brazil		Cielo	
Discount rate	16	%	15	%	21	%	21	%
Growth rate	3	%	2	%	6	%	6	%
Years of projected cash flows	5		5		5		5	

F-35



**POINTER TELOCATION LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)****NOTE SHORT-TERM BANK CREDIT AND CURRENT MATURITIES OF LONG-TERM LOANS FROM  
8:- BANKS, SHAREHOLDERS AND OTHERS**

Classified by currency, linkage terms and annual interest rates, the credit and loans are as follows:

	Interest rate		December 31,	
	2017	2016	2017	2016
	%			
Current maturities of long-term loans from banks, shareholders and others:				
In, or linked to Dollars	Libor+2%	Libor+2%	4,856	4,497
In other currencies	10%-17%	10%-17%	245	339
			5,101	4,836
Unutilized credit lines			10,954	8,714

**NOTE 9:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

	December 31,	
	2017	2016
Employees and payroll accruals	4,260	3,477
Government authorities	1,858	817
Provision for warranty	369	391
Accrued expenses	2,561	2,100
Related party	53	53
Others	16	1
	9,117	6,839

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

**NOTE 10:- LONG-TERM LOANS FROM BANKS**

a. Composition:

	Interest rate		December 31,	
	2017	2016	2017	2016
	%			
In, or linked to Dollars (see c below )	3.71%	3.71%	9,871	14,356
In other currencies	10%-17%	10%-17%	245	662
			10,116	15,018
Less - current maturities			5,101	4,836
			5,015	10,182

b. As of December 31, 2017, the aggregate annual maturities of the long-term loans are as follows:

2018 (current maturities)	5,101
2019	2,341
2020	1,506
2021 and thereafter	1,168
	10,116

In respect of the bank loans provided to the Company for the purpose of funding the the acquisition of Pointer Brazil c.(see note 1e), the acquisition of Cielo Telecom Ltda. and utilize of credit facilities, the Company is required to meet certain financial covenants as follows:

<sup>1</sup> The ratio of the shareholders equity to the total consolidated assets will not be less than 20% and the shareholders equity will not be less than \$ 20,000, starting December 31, 2007.

2. The ratio of the Company and its subsidiaries' debt (debt to banks, convertible debenture and loans from others that are not subordinated to the bank less cash) to the annual EBITDA will not exceed 4 in 2010 and thereafter.

F-37

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

**NOTE 10:- LONG-TERM LOANS FROM BANKS (Cont.)**

The ratio of Pointer Telocation Ltd.'s debt (debt to banks, convertible debenture and loans from others was not 3.subordinated to the bank less cash) to the annual EBITDA will not exceed 4.2 in 2013-2014, 3.5 in 2015, 3 in 2016 and 2.5 in 2017 and thereafter.

As of December 31, 2017 the Company is in compliance with the financial covenants of its bank loans.

**NOTE 11:- DEFERRED TAXES AND OTHER LONG-TERM LIABILITIES**

	December 31,	
	2017	2016
Provision for warranty	199	213
Deferred tax	540	666
Deferred revenues	99	97
	838	976

**NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES**

a. Charges:

As collateral for its liabilities, the Company has recorded floating charges on all of its assets, including the intellectual property and equipment, in favor of banks.

b. Collateral:

The Company obtained bank guarantees in the amount of \$407 in favor of its lessor, customs and customers.

c.

Royalties:

The Company has undertaken to pay royalties to the BIRD Foundation (“BIRD”), at the rate of 5% on sales proceeds of products developed with the participation of BIRD up to the amount received, linked to the U.S. dollar. The contingent obligation as of December 31, 2017 is \$ 2,444. No royalties were accrued or paid during 2017, 2016 and 2015.

F-38

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

**NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

d. Lease commitments:

The Company and its subsidiaries have leased offices, motor vehicles and locations for periods through 2020. Minimum annual rental payments under non-cancelable operating leases are as follows:

2018	2,367
2019	1,848
2020	504
2021	271
	4,990

Rent expenses for the years ended December 31, 2017, 2016 and 2015, were \$2,325, \$2,327 and \$2,380, respectively.

e. Litigation:

As of December 31, 2017, several claims were filed against the Company, mainly by customers. The claims are in an amount aggregating to approximately \$46. The substance of the claims is the malfunction of the Company's products, which occurred during the ordinary course of business. The Company is defending this litigation at court and has recorded a provision of \$20.

In August 2014, Pointer Brazil received a notification of lack of payments of \$515 of VAT tax (Brazilian ICMS tax) plus \$2,161 of interest and penalty totaling \$2,676 of infraction, as of December 31, 2017. Company is defending this litigation at court and made a provision of \$79; The total timeframe of litigation is up to 14 years.

3. In July 2015, the company received a tax deficiency notice against Pointer Brazil, pursuant to which Pointer or Pointer Brazil is required to pay an aggregate amount of approximately US\$12.8 million. The claim is based on the argument that the services provided by Pointer Brazil should be classified as “Telecommunication Services”, and therefore subject to the State Value Added Tax. The Company based on the opinion of its legal counsel, in the opinion that no material costs will arise in respect to these claims and did not make any provision once this issue has two precedents that won the same type of litigation.

f.

Commitments:

1. The Company and DBSI Investment Ltd. (“DBSI”), an equity owner in the Company (see Note 16), have entered into a management services agreement pursuant to which DBSI shall provide management services in consideration of annual management fees of \$180 for a period of three years commencing on August 1, 2017.

F-39

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

**NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

2. Under the credit facility from the Bank, the Company are required to meet financial covenants (see Note 10c).

**NOTE 13:- EQUITY**

a. Ordinary shares:

Ordinary shares confer upon their holders voting rights, the right to receive cash dividends and the right to participate in the distribution of excess assets upon liquidation of the Company.

b. Issued and outstanding share capital:

On March 9 2014, the Company completed a round of financing for the aggregate amount of \$ 10.44 million, in consideration for 1.13 million of the Company's ordinary shares at a price per share of \$ 9.25.

c. Options:

In November 2003 the Company adopted an Employee Share Option Plan (2003) (the "2003 Plan"). The Board of Directors of the Company approves, from time to time, increases to the number of shares reserved under the 2003 Plan. To date, the options under the 2003 Plan are and have been granted in accordance with Section 102 to the Israeli Income Tax Ordinance in the Capital Gains Track, all subject to the provisions of the Israeli Income Tax Ordinance. The grant of options is subject to the approval of the Board of Directors of the Company. The exercise price of the options shall be determined by the Board of Directors in its discretion, provided that the price per share is not less than the nominal value of each share. The options usually vest over a period of four years and are valid for a period of five years from the date of grant. The 2003 Plan terminated at the end of November 2013.



On November 30, 2011, the Board of Directors approved an amendment to the 2003 Plan whereby in the event a cash dividend is paid out to the Company's shareholders, the Board of Directors may adjust the exercise price of any options granted prior to the record date of the dividend distribution but not exercised as of such date.

F-40

**POINTER TELOCATION LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

## NOTE 13:- EQUITY (Cont.)

In December 2013 the Company adopted an Employee Share Option Plan (2013) (the “2013 Plan”). The Board of Directors of the Company approved 376,712 of shares reserved under the 2013 Plan. To date, the options under the 2013 Plan are granted in accordance with Section 102 to the Israeli Income Tax Ordinance in the Capital Gains Track, all subject to the provisions of the Israeli Income Tax Ordinance. The grant of options is subject to the approval of the Board of Directors of the Company. The exercise price of the options shall be determined by the Board of Directors in its discretion, provided that the price per share is not less than the nominal value of each share, or to the extent required pursuant to applicable law or to qualify for favorable tax treatment, not less than 100% of the closing price of the share on the market on the date of grant or average of the closing price within a specific time frame prior to the grant as determined by the Board of Directors or a committee of the Board of Directors. Generally, options vest over a period of four years are valid for a period of seven years from the date of grant.

A summary of employee option activity under the Company’s Stock Option Plans and RSU’s as of December 31, 2017 and changes during the year ended December 31, 2017 are as follows:

	Number of options	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2017	556,134	\$ 5.15		
Granted	21,500	\$ 0.87		
Exercised	(185,675 )	\$ 2.10		
Forfeited	(52,500 )	\$ 5.79		
Outstanding at December 31, 2017	339,459	\$ 4.61		
Exercisable at December 31, 2017	131,509	\$ 3.49	2.79	\$ 1,987
Vested and expected to vest at December 31, 2017	335,300	\$ 4.67	4.44	\$ 1,566

The weighted-average grant-date fair value of options granted during the years ended December 31, 2017 and 2016 was \$ 7.8 and \$ 5.9, respectively. The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on the last trading day of the fourth quarter of fiscal 2017 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2017. This amount changes based on the fair market value of the Company's stock.

F-41

**POINTER TELOCATION LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

## NOTE 13:- EQUITY (Cont.)

As of December 31, 2017, there was approximately \$358 of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Company's stock option plans.

That cost is expected to be recognized over a weighted-average period of 1.8 years. Total grant-date fair value of options that vested during the year ended December 31, 2017 was approximately \$ 278.

5. The following table summarizes information relating to employees' stock options and RSU's outstanding as of December 31, 2017, according to exercise prices:

<b>Options outstanding Number outstanding at December 31, 2017</b>	<b>Weighted average remaining contractual life Years</b>	<b>Weighted average exercise price</b>	<b>Options exercisable Number exercisable at December 31, 2017</b>	<b>Weighted average exercise price</b>
62,384	0.7	\$ 1.17	62,384	\$ 1.17
10,000	0.52	\$ 3.38	10,000	\$ 3.38
4,575	3.31	\$ 0.87	-	\$ 0.87
28,500	4.16	\$ 6.14	6,000	\$ 6.14
212,500	5.52	\$ 5.94	53,125	\$ 5.94
21,500	6.32	\$ 0.87	-	-
339,459	4.39	\$ 4.61	131,509	\$ 3.49

6.

In January 2011, the Board of Directors appointed the Company's new Chief Executive Officer (CEO) effective as of February 1, 2011. Under the terms of his employment, the new CEO was granted 246,984 options at an exercise price of \$7.00, in accordance with 2003 option plan, which will vest over a three year period, according to the vesting dates as stipulated in the employment agreement, commencing upon the effective date of his employment. The new CEO will also be entitled to an annual performance bonus of up to one year's salary which will be calculated in accordance with certain fixed criteria relating to the company's growth and profitability in the year preceding payment of the bonus.

In lieu of the above-mentioned options, on September 12, 2013 the Shareholders resolved to grant to the Company's Chief Executive Officer options to purchase 246,984 Ordinary Shares of the Company with an exercise price per share of \$3.38, reflecting the average closing price of the share during a 90 day period preceding the date on which the Board of Directors approved the Compensation Policy of the Company, July 8, 2013. The options shall vest over a period of two years, such that at the end of each three month period from the date of the Shareholders resolution, the Chief Executive Officer shall be entitled to one eighth of the options. The exercise price of the options shall be adjusted for stock dividend. The fair value of the new options measured at \$599 as of the grant day.

On August 31, 2011, the Board of Directors resolved to issue to the Company's Chief Financial Officer, options 7. exercisable to 10,000 of the company's ordinary shares, pursuant to the plan, which will vest in four equal annual installments over a period of four years, commencing as of date of the grant, at an exercise price of \$ 4.80 per share.

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

NOTE 13:- EQUITY (Cont.)

In lieu of the above-mentioned options, on July 8, 2013 the Board of Directors resolved to grant to the Company's Chief Finance Officer options to purchase 20,000 Ordinary Shares of the Company with an exercise price per share of \$3.38, reflecting the average closing price of the share during a 90 day period preceding the date on which the Board of Directors approved the Compensation Policy of the Company, July 8, 2013. The options shall vest over a period of two years, such that at the end of each three month period from the date of the Board of Directors resolution, the Chief Finance Officer shall be entitled to one eighth of the options. The fair value of the new options measured at \$31 as of the grant day.

On July 8, 2013, the Board of Directors resolved to issue to the Company's employees, options exercisable to 41,000 8. of the company's ordinary shares, pursuant to the plan, which will vest in four equal annual installments over a period of four years, commencing as of date of the grant, at an exercise price of \$ 3.38 per share.

In 2014, the Board of directors resolved to issue to the Company's employees and directors Restricted Stock Units 9. exercisable to 46,300 of the Company's ordinary shares, pursuant to the 2013 plan, which will vest in four equal installments over a period of four years, commencing as of March 27, 2014, at an exercise price of 3 NIS per share.

On February 26, 2015, the Board of Directors resolved to issue to certain of the Company's employees options 10. exercisable for 77,000 of the Company's ordinary shares pursuant to the 2013 Plan. These options vest in four equal annual installments over a period of four years, commencing as of the date of the grant, at an exercise price of \$8.35 per share.

On July 06, 2016, the Board of Directors resolved to issue to certain of the Company's employees options 11. exercisable for 250,000 of the Company's ordinary shares pursuant to the 2013 Plan. These options vest in four equal annual installments over a period of four years, commencing as of the date of the grant, at an exercise price of \$5.94 per share.

12. In April 2017, the Board of directors resolved to issue to the Company's directors Restricted Stock Units exercisable to 4,500 of the Company's ordinary shares, pursuant to the 2013 plan, which will vest in three equal

installments over a period of three years, at an exercise price of 3 NIS per share, commencing June 2017. In April 2017, the Board of directors resolved to issue to the Company's employees Restricted Stock Units exercisable to 17,000 of the Company's ordinary shares, pursuant to the 2013 plan, which will vest in four equal installments over a period of four years, at an exercise price of 3 NIS per share, commencing April 2017.

13. As of December 31, 2017, 346,662 options are available for future grant under the 2013 Plan.

**POINTER TELOCATION LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

## NOTE 13:- EQUITY (Cont.)

## d. Dividends:

Any dividend distributed by the Company will be declared and paid in dollars, subject to statutory limitations. The Company's policy is not to declare dividends out of tax exempt earnings.

## NOTE 14:- NET EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted net earnings per share:

	<b>Year ended</b>		
	<b>December 31,</b>		
	2017	2016	2015
Numerator:			
Numerator for basic net earnings per share - Net income	\$16,518	\$3,444	\$3,945
Numerator for diluted net earnings per share - Net income	\$16,518	\$3,444	\$3,945
Denominator:			
Denominator for basic net earnings per share - weighted-average number of shares outstanding (in thousands)	7,998	7,820	7,725
Denominator for diluted net earnings per share - adjusted weighted average shares and assumed exercises (in thousands)	8,131	7,938	7,938
Basic net earnings per share	\$2.07	\$0.45	\$0.51



Diluted net earnings per share	\$2.03	\$0.45	\$0.50
--------------------------------	--------	--------	--------

NOTE 15:- INCOME TAXES

a. Israeli taxation:

1. Corporate tax rate:

Taxable income of the Israeli companies is subject to the Israeli corporate tax at the rate as follows: 2015 - 26.5%, 2016 - 25% and 2017 – 24%.

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

NOTE 15:- INCOME TAXES (Cont.)

The deferred tax balances included as of December 31, 2015 were calculated according to a tax rate of 26.5%. Following the change in the tax rate in early 2016, the Company recorded a decrease of NIS 1,265 thousand in the balance of deferred tax liabilities and a decrease of NIS 729 thousand in the balance of deferred tax assets. In addition, expenses of NIS 536 thousand (138\$) was recorded in profit or loss, in taxes on income.

In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Achieving the Budget Targets for the 2017 and 2018 Budget Years), 2016 which reduces the corporate tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018.

The deferred tax balances included as of December 31, 2016 are calculated according to the updated tax rate. Following the change in the tax rate, the Company recorded an additional decrease of NIS 1,687 thousand in the balance of deferred tax liabilities and an additional decrease of NIS 1,046 thousand in the balance of deferred tax assets. Furthermore, additional expenses of NIS 640 thousand (166 \$) was recorded in profit or loss, in taxes on income.

2. Measurement of taxable income:

On February 26, 2008, the Israeli Parliament enacted the Income Tax Law (Inflationary Adjustments) (Amendment 20) (Restriction of Effective Period), 2008 (Inflationary Adjustments Amendment). In accordance with the Inflationary Adjustments Amendment, the effective period of the Inflationary Adjustments Law will cease at the end of the 2007 tax year, and as of the 2008 tax year, the provisions of the Law shall no longer apply, other than the transitional provisions intended at preventing distortions in the tax calculations. In accordance with the Inflationary Adjustments Amendment, commencing with the 2008 tax year, income for tax purposes will no longer be adjusted to a real (net of inflation) measurement basis. Furthermore, the depreciation of inflation immune assets and carried forward tax losses will no longer be linked to the Israeli Consumer Price Index.

In accordance with ASC 740, the Company has not provided deferred income taxes on the above difference between the reporting currency and the tax basis of assets and liabilities.

b. Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969:

The Company has the status of an “industrial company”, as defined by this law. According to this status and by virtue of regulations published thereunder, the Company is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Law. The Company is also entitled to amortize a patent or rights to use a patent or intellectual property that are used in the enterprise’s development or advancement, to deduct issuance expenses for shares listed for trading, and to file consolidated financial statements under certain conditions.

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

NOTE 15:- INCOME TAXES (Cont.)

c. The Law for the Encouragement of Capital Investments, 1959 (“the Law”):

On August 5, 2013, the “Knesset” issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 which consists of Amendment 71 to the Law for the Encouragement of Capital Investments (“The Amendment”). According to the Amendment, the tax rate on preferred income from a preferred enterprise in 2014 and thereafter will be 16% (in development area A - 9%). The Amendment also prescribes that any dividends distributed to individuals or foreign residents from the preferred enterprise’s earnings as above will be subject to tax at a rate of 20%.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law for the Encouragement of Capital Investments (“the Amendment”) was published. According to the Amendment, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

Income not eligible for Approved Enterprise benefits or Benefited Enterprise benefits is taxed at a regular rate, which was 24% in 2017, 25% in 2016 and 26.5% in 2015.

d. Non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed based on tax laws in their respective jurisdictions. The Corporate income tax rate of significant jurisdictions are as follows:

Tax rate

Mexico	30	%
Brazil	34	%
Argentina	35	%
United States (*)	35	%

(\*)

Federal.

e.

Income (loss) before taxes on income:

**Year ended**

**December 31,**

2017    2016    2015

Domestic	8,813	5,936	4,189
Foreign	487	(743 )	413
	9,300	5,193	4,602

F-46

**POINTER TELOCATION LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

## NOTE 15:- INCOME TAXES (Cont.)

f. Deferred taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and amounts used for income tax purposes. Significant components of the deferred tax liabilities and assets of the Company and its subsidiaries are as follows:

	December 31,	
	2017	2016
Reserves and accruals	392	985
Carryforward tax losses	23,950	23,271
Other temporary differences	666	423
Total deferred tax assets before valuation allowance	25,008	24,679
Valuation allowance (2)	(9,229 )	(17,621 )
Net deferred tax assets	15,779	7,058
Goodwill and other intangible assets	(6,696 )	(5,482 )
Other temporary differences	(38 )	(809 )
Total deferred tax liabilities	(6,734 )	(6,291 )
Total deferred tax Assets , net of deferred tax liabilities	9,045	767

The Company and its subsidiaries have provided valuation allowances in respect of deferred tax assets resulting from tax losses carryforward and other temporary differences for amounts that are more likely than not be realized in the foreseeable future.

F-47

**POINTER TELOCATION LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)****NOTE 15:- INCOME TAXES (Cont.)**

3. Reconciling items between the statutory tax rate of the Company and the effective tax rate:

	<b>Year ended</b>					
	<b>December 31,</b>					
	2017	2016	2015			
Income before taxes, as reported in the consolidated statements of operations	9,300	5,193	4,602			
Statutory tax rate	24	%	25	%	26.5	%
Theoretical tax expenses on the above amount at the Israeli statutory tax rate	2,232	1,298	1,219			
Tax adjustment in respect of different tax rates in subsidiaries and changes in tax rates	31	118	21			
Change in valuation allowance in respect of deferred taxes	(8,950)	-	-			
Operating carryforward losses for which a valuation allowance was provided	3	197	17			
Tax adjustment in respect of different tax rates due to approved enterprise	(567 )	-	-			
Realization of carryforward tax losses for which a valuation allowance was provided	(404 )	40	(191 )			
Provision for uncertain tax position	127	-	-			
Nondeductible expenses and other permanent differences	307	192	65			
	(7,221)	1,845	1,131			

- g. Carryforward tax losses and deductions:

Carryforward tax losses of the Company totaled approximately \$90,813 (including a capital loss in the amount of approximately \$44,625) as of December 31, 2017. The carryforward tax losses have no expiration date.

Carryforward tax losses of Pointer Argentina are approximately \$67 as of December 31, 2017. The carryforward tax losses will expire in 2020.



Carryforward tax losses of Pointer Mexico totaled approximately \$1,813 as of December 31, 2017. The carryforward tax losses will expire from 2018 to 2027.

Carryforward tax losses of Pointer Brazil totaled approximately \$3,249 as of December 31, 2017. The carryforward tax losses have no expiration date.

Carryforward tax losses of Pointer South Africa totaled approximately \$7,304 as of December 31, 2017. The carryforward tax losses have no expiration date.

F-48

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

**NOTE 15:- INCOME TAXES (Cont.)**

j. Final tax assessments:

Tax assessments for the Company are considered final as of the 2012 tax year.

Tax assessments for Pointer Mexico are considered final as of the 2008 tax year.

Tax assessments for Pointer Argentina are considered final as of the 2012 tax year.

h. Taxes on income (tax benefit) included in the consolidated statements of operations:

	<b>Year ended</b>		
	<b>December 31,</b>		
	2017	2016	2015
Current	927	501	348
Deferred	(8,148)	1,344	783
	(7,221)	1,845	1,131
Domestic	(7,674)	1,768	1,256
Foreign	453	77	(125 )
	(7,221)	1,845	1,131

i. Uncertain tax position:

As of December 31, 2017 and 2016 balances in respect to ASC 740, "Income Taxes" amounted to \$ 127 and \$ 0, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax positions is as follows:

	December 31,	
	2017	2016
Balance at the beginning of the year	\$ -	\$ -
Additions based on tax positions taken related to the current year	127	-
Reductions related to settlement of tax matters and limitation	-	-
Balance at the end of the year	\$ 127	\$ -

Substantially all the balance of unrecognized tax benefits, if recognized, would reduce the Company's annual effective tax rate

**POINTER TELOCATION LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands (except share and per share data)**

**NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

a. Balances with related parties:

	December 31,	
	2017	2016
Long Term Loan (*)	973	831
DBSI (see Note 12f(1))	(53 )	(53 )

(\*) On March 29, 2016 the board of directors approved to repay the Capital Note issued by Shagrir Group to the Company on December 2015, in the amount of NIS 8,000. In addition, the board of directors approved to convert NIS 4,100 to Shagrir Group equity and NIS 3,100 Shagrir group will issue as Capital Note for 5 years without any interest.

b. Transactions with related parties:

	Year ended		
	December 31,		
	2017	2016	2015
Management fees to DBSI (see Note 12f(1))	180	180	180
Sales to related parties	254	106	52
Purchase from related parties	682	847	145

**NOTE 17:- SEGMENT, CUSTOMER AND GEOGRAPHIC INFORMATION**

a. General:

Until December 31, 2015 the Company had three segments: Cellocator, MRM and RSA.

During 2016 Pointer spun off its Israeli subsidiary, Shagrir Group Vehicle Services Ltd, therefore Segments reporting was retroactively adjusted to reflect those adjustments. As of December 31, 2016 The Company has two reportable segments: the Cellocator segment and the MRM segment

The Company applies ASC 280, "Segment Reporting Disclosures". The Company evaluates performance and allocates resources based on operating profit or loss.

F-50

**POINTER TELOCATION LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

## NOTE 17:- SEGMENT, CUSTOMER AND GEOGRAPHIC INFORMATION (Cont.)

b. The following presents segment results of operations for the year ended December 31, 2017:

	Cellocator segment	MRM segment	Elimination	Total
Segments revenues	24,364	62,208	(8,417 )	78,155
Segments operating profit	2,742	7,569	(2 )	10,309
Segments tangible and intangible assets	9,026	37,799	1,968	48,793
Depreciation, amortization and impairment expenses	144	2,780	-	2,924
Expenditure for assets	197	3,069	-	3,266

The following presents segment results of operations for the year ended December 31, 2016:

	Cellocator segment	MRM segment	Elimination	Total
Segments revenues	22,707	49,620	(7,974 )	64,353
Segments operating profit	1,660	4,708	(120 )	6,248
Segments tangible and intangible assets	8,359	35,392	2,148	45,899
Depreciation, amortization and impairment expenses	321	2,295	-	2,616

Edgar Filing: Pointer Telocation Ltd - Form 20-F/A

Expenditure for assets	135	2,264	-	2,399
------------------------	-----	-------	---	-------

The following presents segment results of operations for the year ended December 31, 2015:

	Cellocator segment	MRM segment	<b>Elimination</b>	Total
Segments revenues	19,489	47,938	(6,860 )	60,567
Segments operating profit	1,000	3,848	493	5,341
Segments tangible and intangible assets	8,469	24,836	1,804	35,109
Depreciation, amortization and impairment expenses	338	3,067	-	3,405
Expenditure for assets	149	1,647	-	1,796

F-51

**POINTER TELOCATION LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

## NOTE 17:- SEGMENT, CUSTOMER AND GEOGRAPHIC INFORMATION (Cont.)

c. Summary information about geographical areas:

	<b>Year ended</b>		
	<b>December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
1. Revenues *):			
Israel	35,230	29,438	26,487
Latin America (mainly Mexico)	9,603	7,009	7,601
Brazil	14,248	9,142	7,173
Argentina	4,607	3,995	4,616
Europe	4,413	4,501	5,271
Other	10,054	10,268	9,419
	78,155	64,353	60,567

\*) Revenues are attributed to geographic areas based on the location of the end customers.

	<b>Year ended</b>		
	<b>December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
2. Long-lived assets:			
Israel	1,999	1,248	978
Argentina	614	627	539
Mexico	358	298	229
Brazil	2,398	2,949	1,090
South Africa	463	489	436
Other	16	3	6
	5,848	5,614	3,278



d. In 2017, 2016 and 2015, none of our customer accounted above 10% of the Company's revenues.

NOTE 18:- DISCONTINUED OPERATION

a. Below is data of the operating results attributed to the discontinued operation:

b.

	Year ended December 31,	
	2016	2015
Revenue from sales	18,248	40,498
Cost of sales	15,260	35,427
Gross profit	2,988	5,071
Selling, general and administrative expenses	2,531	4,345
Operating income	457	726
Financial expenses, net	54	139
Other income, net	-	(13 )
Taxes on income	249	273
Income from discontinued operation	154	327

F-52

**POINTER TELOCATION LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

## NOTE 18:- DISCONTINUED OPERATION (Cont.)

c. Below is data of the net cash flows provided by (used in) the discontinued operation:

	Year ended December 31,	
	2016	2015
Operating activities	116	(2,111 )
Investing activities	(1,187 )	746
Financing activities	251	(41 )

## NOTE 19:- SELECTED STATEMENTS OF OPERATIONS DATA

	Year ended		
	December 31,		
	2017	2016	2015
a. Financial expenses, net:			
Income:			
Interest on short-term bank deposits	8	1	78
Interest on long-term loans to affiliate	51	56	267
Foreign currency transaction adjustments	205	130	374
Other	47	37	9
	311	224	728
Expenses:			
Bank charges and interest expenses	1,223	985	942
Foreign currency transaction adjustments	-	194	166
Interest on long-term loans to others	92	70	318
Other	-	21	31
	1,315	1,270	1,457

1,004 1,046 729

NOTE 20:- SUBSEQUENT EVENTS

a. On February 27, 2018, the Board of Directors resolved to issue to certain of the Company's employees RSU's exercisable to 89,000 of the Company's ordinary shares, pursuant to the plan. The RSU's will vest in four equal annual installments over a period of four years, commencing as of date of the grant, at an exercise price of NIS 3.0 per share.

b. On March 27, 2018, the Board of Directors resolved to issue to the Company's CEO RSU's exercisable to 120,000 of the Company's ordinary shares, pursuant to the plan. The RSU's will vest in four equal annual installments over a period of four years, commencing as of date of the grant, at an exercise price of NIS 3.0 per share. The grant is subject to the approval of the general shareholders meeting.

-----