NEXUS TELOCATION SYSTEMS LTD
Form F-3/A
April 19, 2004

As filed with the Securities and Exchange Commission on April 19 , 2004

Registration No. 333-111019

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 2 TO

FORM F-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

NEXUS TELOCATION SYSTEMS LTD.

(Exact name of Registrant as specified in its charter)

Israel	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Korazin Street
Givatayim 53583 Israel
972-3-572-3111
(Address and telephone number of Registrant s principal executive offices)

Nexus America 1998, Inc.
1701 W. Northwest Highway
Grapevine, Texas 76051
(817) 329 8066

(Name, address and telephone number of agent for service)

Copies of all Correspondence to:

ORLY TSIONI, ADV.	**STEVEN J. GLUSBAND, ESQ.**
Yigal Arnon & Co.	Carter, Ledyard & Milburn
1 Azrieli Center	2 Wall Street
Tel Aviv, 67021 Israel	New York, NY 10005
Tel: 972-3-608-7851	Tel: 212-732-3200

Approximate date of commencement of proposed sale to the public**:** From time to time after the effective date of this registration statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box: o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box: x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted

SUBJECT TO COMPLETION
Dated April 19, 2004

PROSPECTUS

Nexus Telocation Systems Ltd.
168,836,818 Ordinary Shares

This prospectus relates to the resale, from time to time, by the selling shareholders named in this prospectus of up to 168,836,818 ordinary shares (including 65,197,275 ordinary shares issuable upon the exercise of currently exercisable warrants. The registration of these shares does not necessarily mean that any of the selling shareholders will offer or sell their shares.

The selling shareholders may be offered by the selling shareholders from time to time in (i) open market transactions in the over-the-counter market through the OTC Bulletin Board; (ii) in privately negotiated transactions or otherwise; (iii) directly to purchasers or through agents, brokers, dealers or underwriters; (iv) at market prices prevailing at the time of sale, at prices related to such prevailing market prices, or at negotiated prices; or (v) or any other means described in the section entitled Plan of Distribution.

The Company will not receive any of the proceeds from the sale of the ordinary shares offered hereby. We will pay the costs of registering these shares under the prospectus, including legal fees.

Our ordinary shares currently trade on the OTC Bulletin Board under the symbol NXUS.OB On February 10, 2004, the last reported sale prices of our ordinary shares were $0.41.

SEE RISK FACTORS BEGINNING ON PAGE 14 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE SECURITIES OFFERED HEREBY.

This prospectus does not offer to sell or solicit an offer to buy any security other than the ordinary shares offered by this prospectus. In addition, this prospectus does not offer to sell or solicit any offer to buy any securities to or from any person in a jurisdiction where it is unlawful to make this offer or solicit an offer from a person in that jurisdiction.

NONE OF THE U.S. SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION HAVE APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is __________, 2004.

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When you are deciding whether to purchase the securities being offered by this prospectus, you should rely only on the information incorporated by reference or provided in this prospectus or any supplement. We have not authorized anyone to provide you with different information. We are not making any offer of the securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or any supplement is accurate as of any date other than the date on the front of those documents.

Our financial statements are prepared in accordance with generally accepted accounting principles in Israel. As applicable to our consolidated financial statements, the accounting principles in Israel and the United States are different in certain respects. All references to dollars or $ in this prospectus are to United States dollars, and references to NIS are to New Israeli Shekels.

When you are deciding whether to purchase the ordinary shares being offered by this prospectus, you should rely only on the information incorporated by reference or provided in this prospectus or any supplement. We have not authorized anyone to provide you with different information. We are not making any offer of the ordinary shares in any state where the offer is not permitted. You should not assume that the information in this prospectus or any supplement is accurate as of any date other than the date on the front of those documents.

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PROSPECTUS SUMMARY

Our Business

We develop, manufacture and market low energy and cost effective wireless communications and location based information systems through the application of digital spread spectrum technologies. Our security and safety services business is predominantly performed through our business partners in Israel and Latin America.

Our business is focused on specific applications including stolen vehicles recovery services utilizing our automatic vehicle location architecture and remote mobile end-unit devices, remote monitoring and control of commercial assets through our industrial monitoring and control end-user devices. We believe that our proprietary technology will generally provide a cost-effective alternative for security, safety, asset location based management services offering increased operational reliability and lower operational costs. In February 2003, we sold of our wholly-owned U.S. subsidiary, NexusData, Inc. and exited from the automated meter reading industry.

Recent Developments

In March 2003, DBSI Investments Ltd. acquired a controlling stake in our company pursuant to a share purchase agreement with us. The March 2003 share purchase agreement with DBSI and certain other investors provided for additional investments in our company through September 2003. Pursuant to such agreement, DBSI and the other investors who invested in our company following the closing of the share purchase agreement in March 2003, invested approximately $3.82 million. In consideration for their investment they acquired 86,804,543 ordinary shares and warrants to purchase 60,763,183 ordinary shares at a purchase price of $0.044 per share. Each investor was issued a warrant to purchase seven ordinary shares for every 10 shares purchased under the agreement. Pursuant to this agreement, DBSI is entitled to designate four of the seven members of our Board of Directors.

In connection with the share purchase agreement, we reached an agreement with AMS Electronics Ltd., the primary manufacturer of our end products. Pursuant to this agreement, AMS converted $723,000 of convertible debentures issued to it on January 15, 2002 into 16,431,818 ordinary shares at a conversion price of $0.044 per share, and was paid approximately $300,000.AMS also executed a proxy in favor of DBSI with respect to its ownership interest in our company. As a result of receiving this proxy DBSI has voting control over 65.8% of our outstanding shares.

As part of the share purchase agreement, we also reached certain agreements with Bank Hapoalim, our bank, regarding new terms for long term and short term loans, overdraft and bank guarantees and issued Bank Hapoalim a warrant exercisable into 3,409,091 ordinary shares of our company at an exercise price of $0.044 per share.

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Under the share purchase agreements of January 15, 2002 and March 13, 2003, and ancillary documents thereto, DBSI and the other investors, AMS, and Bank Hapoalim were granted certain registration rights, pursuant to which we are registering for resale their ordinary shares, including those ordinary shares underlying the currently exercisable warrants issued to DBSI and the investors, AMS and Bank Hapoalim.

In addition, 860,000 of our ordinary shares which are subject to options granted to Yaron Sheinman in July 2003, our former Chairman, having an exercise price of $0.044 per share, are being registered hereunder. The options were granted to Mr. Sheinman in consideration for consulting services he provided.

Corporate Information

Our company was founded in 1991 by BVR Technologies Ltd. At that time, we began developing specialized long-range wireless solutions for location and messaging applications, using Frequency Hopping Spread Spectrum technology. Our legal and commercial name is Nexus Telocation Systems Ltd., and through December 1997 we operated under the name Nexus Telecommunication Systems, Ltd. Our shares are publicly traded on the Over-The-Counter Bulletin Board under the symbol NXUS.OB. Our executive offices and research and development main facilities are located in 1 Korazin Street, Givatayim, 53583, Israel, telephone number 972-3-572-3111. The headquarters of our subsidiary, Tracsat S.A., are located in Buenos Aires, Argentina. Our Web site is www.nexus.telocation.com. Information on our web site is not incorporated by reference in this prospectus.

FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated in it by reference contain forward-looking statements which involve known and unknown risks and uncertainties. We include this notice for the express purpose of permitting us to obtain the protections of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to all such forward-looking statements. Examples of forward-looking statements include: projections of capital expenditures, competitive pressures, revenues, growth prospects, product development, financial resources and other financial matters. You can identify these and other forward-looking statements by the use of words such as may, will, should, plans, anticipates, believes, estimates, predicts, intends, potential or the negative of such terms, or other comparable termin

Our ability to predict the results of our operations or the effects of various events on our operating results is inherently uncertain. Therefore, we caution you to consider carefully the matters described under the caption Risk Factors and certain other matters discussed in this prospectus, the documents incorporated by reference in this prospectus, and other publicly available sources. Such factors and many other factors beyond the control of our management could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied

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Any forward-looking statement speaks only as of the date on which that statement is made. We will not update any forward-looking statement to reflect events or circumstances that occur after the date on which such statement is made.

THE OFFERING

Securities offered by the selling shareholders	168,836,818
Ordinary securities outstanding as of December 1, 2003	188,999,410 ordinary shares
OTC Bulletin Board Exchange Symbol	NXUS.OB
Use of Proceeds	We will not receive any of the proceeds from the sale of ordinary shares by the selling shareholders.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of ordinary shares by our selling shareholders. We have agreed to bear all expenses relating to the registration of the ordinary shares registered pursuant to the registration statement, of which this prospectus is a part. In the event any of the warrants or options are exercised we would receive the gross proceeds from such exercise and such proceeds will be used for general corporate purposes including working capital.

CAPITALIZATION

The following table sets forth our short-term debt, long-term debt, convertible debentures and capitalization as of June 30, 2003 in U.S. dollars on an actual basis:

	June 30, 2003
	(in thousands)
	Unaudited
Short-term debt	$ 3,931
Long term debt	3,720
Total shareholders' equity	384

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<u>MARKET PRICE DATA</u>

Our ordinary shares have traded on the Nasdaq Bulletin Board under the symbol NXUS.OB. since August 2002 and previously traded on the Nasdaq SmallCap Market. The following table sets forth, for the periods indicated, the range of high and low sales prices of our ordinary shares .

2002		
First Quarter	2.49	1.38
Second Quarter	1.57	0.90
Third Quarter	1.30	0.10
Fourth Quarter	0.35	0.16
2003		
First Quarter	0.24	0.06
Second Quarter	0.28	0.12
Third Quarter	0.32	0.14
Fourth Quarter	0.34	0.14
2004		
First Quarter (through February 9, 2004)	0.20	0.58

RISK FACTORS

An investment in our securities is speculative and involves a high degree of risk. Therefore, you should not invest in our securities unless you are able to bear a loss of your entire investment. You should carefully consider the following factors as well as the other information contained in this prospectus before deciding to invest in our ordinary shares. Factors that could cause actual results to differ from our expectations, statements or projections include the risks and uncertainties relating to our business described below. This prospectus and statements that we may make from time to time may contain forward-looking information. There can be no assurance that actual results will not differ materially from our expectations, statements or projections. The information in this prospectus is complete and accurate as of this date, but the information may change after the date of this prospectus. We undertake no obligation to revise or update any forward-looking statements to reflect any event or circumstance that may arise or develop after the date of this prospectus.

Risk Factors Relating to our Company

Sale of all of the shares offered hereunder could significantly affect the market for our shares and could significantlyaffect the control and operation of the Company.

The shares offered hereunder (including shares issuable upon the exercise of outstanding warrants and options) constitute, as of October 26, 2003 approximately 89% of the issued share capital of our company, on a fully diluted basis, of which 53.2% is held by DBSI, our controlling shareholder. The shares held by DBSI, an affiliate of the Company, are not generally considered to be included in the public float of our tradable shares. While neither DBSI nor any of the other selling shareholders have informed us of their immediate intention to sell any of our shares, the market price for all of our shares could drop significantly were the shares registered hereunder sold, or if the market perceives a sale is imminent.

We have a history of operating losses.

We have incurred a net loss in each year of our existence. In December 2002, our accumulated deficit was approximately $86.1 million. We have incurred net losses of $20.5 million in 2000 (of which $13.0 million resulted from a one-time, asset write-off), $8.5 million in 2001, $7.6 million in 2002 and a gain of $7.7 million in the first half of 2003 (including a gain of $8.5 million from the disposal of discontinued operations). We suffered substantial losses in the past from our formerly owned subsidiary, NexusData. Although we discontinued the operations of NexusData in the third quarter of 2002, sold that subsidiary in February 2003 and are in the process of reducing of our operational on-going expenses, we may not be able achieve sufficient revenues to operate profitably in the future. If we continue to sustain prolonged operating losses, we may have to cease our operations.

We may be unable to obtain additional financing in the future.

We have historically financed our operations through public and private placements of equity and debt securities, cash generated from the sales of our systems, grants for research and development projects and bank credit lines. We believe that our current assets, together with anticipated cash generated from operations and outstanding bank credit lines, will sufficiently allow us to continue our operations as a going concern for the foreseeable future. We cannot assure you that if we are required to raise additional financing in the future that we will be able to obtain such financing on satisfactory terms, if at all. If we issue any equity or convertible debt securities, this may substantially dilute the interests of our current shareholders. If our future capital requirements are greater than the cash we obtain from our business and available financing, if any, we may, among other things, be required to significantly reduce our research, development, product commercialization, marketing or other activities or even cease operations.

Due to the recent downturn in the world economy, the securities markets in general have recently experienced increased volatility, which has particularly affected the securities and operations of many high-technology companies, including companies that have a significant presence in Israel. Although the volatility of these companies securities has often been unrelated to the operating performance of these companies, they may experience difficulties in raising additional financing required to effectively operate and grow their businesses. Such failure and the volatility of the securities markets in general have affected our ability to realize investments at favorable terms. The cessation of operations of Ubinet, our Chilean investee, as a result of the failure of the local majority partners to continue raising money for our technology operations, reflects this risk. Our operations in Miami, funded by the same partners from Chile, among others, were similarly terminated in 2002 due to their inability to meet their financing obligations. In addition, our Argentinean subsidiary, Tracsat, is experiencing difficulties in obtaining bank credit lines and attracting investments from local partners despite its business achievements, primarily due to the economic and political conditions in Argentina.

We depend on a small number of customers and business partners.

We depend on a small number of customers and business partners and our future depends on our ability to maintain our existing customers and business partners and attract new customers and business partners. In each of the twelve month period ended December 31, 2002 and the first six months of 2003, three of our customers accounted for approximately 80% and 95.5% of our revenues, respectively. In light of our sale of NexusData, we no longer engage in the automated meter reading industry and our operations are concentrated on our location based systems, or LBS, activities. Furthermore, the commercialization of our LBS operations in the United States, China, and Chile were halted principally as a result of our partners inability to finance their operations. In addition, our customer in Venezuela has ceased issuing purchase orders to us. Which is mainly due to the prevailing foreign currency restrictions imposed by the Venezuelan government. Therefore, our current operations are generated mainly from the continued sales of our products and services in Israel and in Argentina through our Argentinean subsidiary, Tracsat S.A.

Our operations are primarily concentrated on one industry and in one territory.

Since the change in ownership and management of our company in April 2003 we have decided to focus our marketing efforts on the sale of Stolen Vehicle Recovery , or SVR, products and services in Latin America. Consequently, there will be fewer outlets for us to generate revenues in the future. While our SVR operations have been our most significant source of revenue, we no longer offer a diversified array of products and solutions. The concentration of our operations on one facet of the location-based systems industry exposes us to considerable risk were this business line to undergo a downturn.

We depend on others to manufacture our systems and we rely on a single-source supplier for the manufacture of our end units.

We do not have manufacturing facilities for our end unit devices. Most of the components of our systems are manufactured for us by independent manufacturers abroad and are assembled by a turn-key subcontractor located in Israel, and there is no certainty that this subcontractor will be able to continue to provide us with manufacturing and assembly services in the future in light of its current financial position. Our reliance on independent contractors, especially those located in foreign countries, involves a number of risks, including:

- reduced control over delivery schedules, quality assurance, manufacturing yields and cost;
- reduced manufacturing flexibility due to last moment quantities changes;

- transportation delays and political and economic disruptions;
- the imposition of tariffs and export controls on our products;

work stoppages;

changes in government policies; and

the loss of molds and tooling in the event of a dispute with a manufacturer.

Our agreements with our suppliers are generally short-term in nature and may be terminated with little or no notice. If a supplier of ours were to terminate its relationship with us, we may be compelled to seek additional sources to manufacture certain of the components of our systems. Although we believe that most of the components of our systems may be readily acquired from numerous suppliers, we cannot assure you that we would be successful in entering into arrangements with other suitable independent manufacturers without significantly affecting our sales in the interim period.

We may not be able to adapt to evolving industry standards, customer preferences and new technologies.

The market for wireless communications systems has been characterized by rapid technological developments and evolving industry standards. Our ability to increase revenue in the future depends on the commercial success of our SVR systems and on our ability to adapt to changing technologies, industry standards and customer preferences in a timely and cost-effective manner. We have focused our development on our location based security and management services in the area of SVR systems, and we have discontinued our research and development and marketing efforts of our two-way paging systems due to overall market considerations.

We rely on operators of existing paging networks to provide our Location Based Solutions systems.

One of the benefits of our automatic vehicle location (AVL) and Industrial and Monitoring Control (IMU) systems is that they utilize existing one-way paging networks, as their down link interface, and therefore, do not require a relatively large initial investment in infrastructure. In order for us to take advantage of this benefit, then we, our domestic customers and operators will need to enter into and maintain strategic relationships with wireless communications companies that control existing paging infrastructure or already provide one-way paging services to large numbers of customers.

We may not be able to successfully compete in the extremely competitive markets for our products.

We face intense competition in the markets in which we operate. Among our main competitors in the markets in which we currently operate, are Lo-Jack and Ituran, which to the best of our knowledge, currently offer vehicle location systems utilizing land-based radio networks in limited areas, that resemble our solutions. Some offer a similar solution to Nexus and others, like Lo-Jack, use VHF based messaging unit without a wide area network, which is sold to customers and is connected via radio to local law enforcement communication networks.

In addition, some primary competitors in the market for automatic vehicle location systems such as, OmniTracks, @Track, Onstar, Satellite Security (Global Guard), Trackvehicle and others are employing a combination of GPS (satellite-based location technology) over cellular-like systems. Systems offered by these companies use satellite-based technologies which usually require the use of tracking receivers installed in vehicles that work in conjunction with map display and fleet management software, position reporting formats, and other communications hardware and components.

Some of our other competitors offer location based services, which conform with the recent FCC ruling, requiring mobile phones to be equipped with 911 capabilities, such as True Position, Xypoint, CPS and SnapTrack. In the industrial monitoring market, our main competitor is Motorola (MOSCAD systems).

Most of our competitors have substantially greater capital resources and larger research and development staffs, facilities, marketing and distribution networks, name recognition and more extensive customer bases than us. While we plan to continue to improve our products and provide greater functionality than our products currently provide, we cannot guarantee that we will successfully differentiate our products from those of our competitors or that the marketplace will consider our products superior to alternative products. In addition, our competitors may develop products that render our products obsolete or less competitive.

We are subject to several risks as a result of our international sales

To date, we have sold our products and systems in Venezuela, U.S.A, Israel, the Netherlands, Russia and Argentina. We are subject to the risks inherent in international business activities, including changes in the political and economic environment, unexpected changes in regulatory requirements, foreign exchange controls, tariffs and other trade barriers and burdens of complying with a wide variety of foreign laws and regulations. In addition, if for any reason exchange, price controls or other restrictions on conversion of foreign currencies were imposed, our business could be negatively impacted. Moreover, certain of our international affiliates have experienced the following difficulties:

A severe and rapid currency devaluation in Argentina adversely affected Tracsat s US dollar results. This was mainly due to Tracsat s inability to increase its peso-denominated prices to its customers, while its major costs of inventory and infrastructure are denominated in US dollars.

Due to the current political instability in Venezuela, the Venezuelan government has imposed foreign exchange controls, which have effectively led to the cessation of purchase orders for our SVR products and services from our main customer in Venezuela.

The technology and standards in the industry in which we operate change rapidly and the introduction of products usingnew technology and the emergence of new industry standards and practices could negatively impact our business.

The wireless communications industry is characterized by rapid technological changes. The introduction of products using new technology and the emergence of new industry standards and practices could make our products less competitive and cause us to reduce the prices of our products. There are several wireless communications technologies, including cellular telephone, personal communications services, specialized mobile radio and mobile satellite services which may be implemented in the future for applications competitive with the applications we provide. Although these technologies are currently more expensive than ours, future implementation and technological improvements could lead to the production of systems which are competitive with, or superior to ours.

We cannot assure you that we will timely or successfully develop new or enhanced products, which will effectively compete with such potential new products. Our business will be negatively impacted if we do not develop technologically competitive products that respond to customer needs and are priced competitively.

Our products employ proprietary technology, which is difficult to protect and which may infringe on the intellectualproperty rights of third parties.

Our success and our ability to compete greatly depend on our proprietary technology. We rely on a combination of patent and trade secret laws, together with non-disclosure agreements and licensing arrangements to establish and protect proprietary rights in our products. We have been granted certain patents in the United States and elsewhere; however, we have not invested significant resources to constantly update and maintain our proprietary technology. We cannot assure you that these efforts will successfully protect our technology because:

the laws of some foreign countries may not protect our proprietary rights as fully as do the laws of the United States;

if a competitor were to infringe on our proprietary rights, enforcing our rights may be time consuming and costly, diverting management's attention and our resources;

measures like entering into non-disclosure agreements afford only limited protection;

unauthorized parties may attempt to copy aspects of our products and develop similar products or to obtain and use information that we regard as proprietary; and

our competitors may independently develop or patent technologies that are substantially equivalent or superior to our technology, duplicate our technologies or design around our intellectual property rights.

In addition, others may assert infringement claims against us. The cost of responding to infringement claims could be significant, regardless of whether the claims are valid.

The use of our systems is subject to international regulations.

The use of our systems is subject to regulatory approvals of government agencies in each of the countries in which our systems are operated, including the State of Israel. We thus obtained in 2001 a regulatory acceptance from the FCC for our vehicular end-unit device (RMU) and for our SVR receiving base station. Our operators typically must obtain authorization for each country in which these systems are installed. While, in general, applicants have not experienced problems in obtaining regulatory approvals to date, the regulatory schemes in each country are different and may change from time to time. We cannot guarantee that approvals, which our operators have obtained, are or will remain sufficient in the view of regulatory authorities. In addition, we cannot assure you that operators of our systems will obtain licenses and approvals on a timely basis in all jurisdictions in which we wish to sell our systems or that restrictions on the use of our systems will not be unduly burdensome.

Our potential growth depends, to a great extent, on the success of our domestic business partners to commercialize ourtechnology and services.

The commercialization of our systems in each territory in which we operate is performed and controlled by the operators in each of these territories who license our technology, purchase our infrastructure, market our services and end units and provide technical support in their territories. With the exception of Tracsat, we do not control any operators. The implementation of the operators business plans depends mainly on their marketing strategies, their future financial stability and the specific requirements and circumstances in their territories. As we have not implemented a direct sales approach for the end units, our consecutive end unit sales Future system upgrades and future infrastructure extensions will be dependent on their penetration rate and successful sale growth. Our sales and royalties, where applicable, from such territories depend on our operators continuous success and their continuous decision to offer these services and products in their respective territories. To date, such operations are essentially limited to Israel, and if we were to experience any setbacks with our domestic business partners operating in these territories, this would have a material adverse effect on our business.

We may not be able to retain or attract key managerial, technical and research and development personnel that we need to succeed.

Our success has largely depended and will depend in the future on our skilled professional and technical employees, substantially all of whom have written employment agreements. The competition for these employees is intense. We may not be able to retain our present employees, or recruit additional qualified employees, as we require them.

High levels of inventory could adversely affect our gross margins.

Should we fail to meet sales forecasts or suffer cancellations of orders from customers, we may find ourselves with a higher level of inventory than we currently need. For the twelve months ended December 31, 2002, we incurred inventory write-offs of $324,000. As a result of this high level of inventory, we may be exposed to the risk of a decrease in the value of the inventory should the price of this inventory drop, causing our gross margins to be adversely affected. Furthermore, in the event that we maintain large amounts of inventory, certain products, if warehoused for too long, might be rendered obsolete due to modification and improvement of our products, which might cause us to continue to incur inventory write-offs.

Our major shareholder has a controlling stake in our company.

Pursuant to the share purchase agreement of March 2003 wherein DBSI and other investors invested approximately $2.58 million in our company, and the investments completed in July and August 2003, wherein DBSI and other investors invested approximately $1.24 million, DBSI owns 53.2% (on a fully diluted basis) of our issued and outstanding shares, which gives DBSI a controlling interest in our company. Pursuant to an amendment to our manufacturing agreement with AMS that was concluded in March 2003, AMS was issued 8.7% of our issued and outstanding shares (on a fully diluted basis) and executed a proxy in favor of DBSI. As a result of receiving that proxy, DBSI currently controls 65.8% of our voting power and effectively has the ability to control matters requiring the approval of our shareholders. Furthermore, DBSI has the right to appoint four out of our seven directors on our Board of Directors, and thus effectively controls our Board of Directors.

Risk Factors Affecting Tracsat

We are dependant on the success of Tracsat, our subsidiary in Argentina

Revenues generated by Tracsat, our subsidiary in Argentina, have increased consistently since the beginning of 2002. We depend on the ability of Tracsat to maintain its growth and market penetration. We cannot assure you that Tracsat will be able to operate successfully in the future because its operations are dependent on many factors, many of which Tracsat does not control, such as:

General political and economic circumstances in Argentina as of 2002, Tracsat has been negatively affected by a severe and rapid currency devaluation in Argentina;.

Trends in the Argentinean insurance industry;

Rate of car theft, value of cars and other inherent factors related to the SVR business; and

Competition and consumer satisfaction.

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Tracsat depends on a small number of customers and business partners.

Tracsat depends on a small number of customers and business partners and its future depends on its ability to maintain existing customers and business partners and attract new customers and business partners. Revenues in Argentina are mainly generated from two customers. If any of our current customers cease to do business with us, or if we fail to attract new customers or business partners our operations could seriously be harmed or we may have to cease operations under certain circumstances.

The volatile exchange rate between the Argentinean Peso and the U.S. dollar may negatively impact the results of our operations.

Due to the increasing impact of the results of Tracsat on our consolidated financial results, and the fact that most of its revenues are not denominated in dollars, the significant devaluation in the Argentinean Peso and continuing economic instability in Argentina could have a severe negative effect on the business and overall profitability of Tracsat. Because we depend on the profitability of Tracsat, our business could also be severely damaged as a consequence. Under certain circumstances we may be forced to cease operations as a result.

The future operations of Tracsat may depend on its ability to obtain additional financing.

Although Tracsat has reached its operational stage through our effective management efforts, it still depends on our financial support, primarily due to economic conditions in Argentina. We cannot assure that we will have the ability to continue to finance Tracsat or to find other financing alternatives for Tracsat in a timely manner Tracsat s future operations may be materially affected if we do not continue to provide it with additional funding at the level currently being made by us.

Risk Factors Relating to our Ordinary Shares

We do not expect to distribute cash dividends.

We do not anticipate paying cash dividends in the foreseeable future. Our Board of Directors will decide whether to declare any cash dividends in the future based on the conditions then existing, including our earnings and financial condition. According to the Israeli Companies Law, a company may distribute dividends out of its profits, so long as the company reasonably believes that such dividend distribution will not prevent the company from paying all its current and future debts. Profits, for purposes of the Companies Law, means the greater of retained earnings or earnings accumulated during the preceding two years.

The market price of our ordinary shares has been, and may continue to be, very volatile.

The market prices of our ordinary shares have fluctuated widely. The following factors, among others, may significantly impact the market price of our ordinary shares:

announcements of technological innovations or new products by us or our competitors;

developments or disputes concerning patents or proprietary rights;

publicity regarding actual or potential results relating to products under development by us or our competitors;

regulatory development in the United States, Israel and other countries;

delays in our testing and development schedules;

events or announcements relating to our collaborative relationship with others;

economic, political and other external factors; and

period-to-period fluctuations in our operating results.

In addition, the securities markets in general have experienced volatility, which has particularly affected the market prices of equity securities of many companies and companies that have a significant presence in Israel. This volatility has often been unrelated to the operating performance of such companies.

Our ordinary shares have been delisted from the Nasdaq SmallCap Market and now trade on OTC Bulletin Board.

In August 2002, our shares were delisted from the Nasdaq SmallCap Market and are now traded on the OTC Bulletin Board because we failed to comply with the net tangible assets or stock holders equity requirements for continued listing set forth in the Market Place Rule 4310(c)(2)(B). Consequently, selling and buying our securities has become more difficult because of delays in the timing of transactions and obtaining accurate quotations. Furthermore, broker-dealers are subject to an SEC rule that imposes additional sales practice requirements on broker-dealers who sell low-priced securities to persons other than established customers and institutional accredited investors. For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser s written agreement to the transaction prior to sale. These factors may affect the ability of broker-dealers to sell our ordinary shares and of shareholders to sell our ordinary shares in the secondary market and in turn could result in lower prices and larger spreads in the bid and ask prices for our ordinary shares than might otherwise be obtained.

Corporate governance scandals and new legislation could increase the cost of our operations.

As a result of recent corporate governance scandals and the legislative and litigation environment resulting from those scandals, the costs of being a public company in general are expected to increase in the near future. New legislation, such as the Sarbanes-Oxley Act of 2002, will have the effect of increasing the burdens and potential liabilities of being a public reporting company. This and other proposed legislation may increase the fees of our professional advisors and our insurance premiums.

Risk Factors Relating to Our Operations in Israel

Conditions in Israel affect our operations.

We are incorporated under the laws of the State of Israel, and our headquarters are located in Israel. We are directly affected by the political, economic and military conditions affecting Israel. Any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could materially adversely affect our business, financial condition and results of operations. Israel s economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980 s, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. Since the establishment of the State of Israel in 1948, a state of hostility has existed, varying in degree and intensity, between Israel and the Arab countries. In addition, Israel and companies doing business with Israel have been subject to an economic boycott by the Arab countries. Although Israel has entered into agreements with some Arab countries and the Palestinian Authority, and various declarations have been signed in connection with efforts to resolve some of the economic and political problems in the Middle East, there has been a significant increase in violence since September 2000 which has continued with varying levels of severity through 2003, and negotiations between Israel and Palestinian representatives have ceased. The political and security situation in Israel may result in certain parties with whom we have contracts claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could adversely affect our operations and could make it more difficult for us to raise capital. Furthermore, many of our employees, R&D center and facility and those of many of our subcontractors are located in Israel, which is currently experiencing civil unrest, terrorist activity and military action. Since we do not have a detailed disaster recovery plan that would allow us to quickly resume business activity, we could experience serious disruptions if acts associated with this conflict result in any serious damage to our facilities. Our business interruption insurance may not adequately compensate us for losses that may occur and any losses or damages incurred by us could have a material adverse effect on our business. We cannot give any assurance that security and political conditions will not have such an effect in the future. Any future armed conflicts or political instability in the region would likely negatively affect business conditions and harm our results of operations.

Furthermore, all non-exempt male adult permanent residents of Israel especially under the age of 45, including some of our office holders and employees, are obligated to perform military reserve duty and may be called to active duty under emergency circumstances. Recently, there has been a significant call up of military reservists, and it is possible that there will be additional call-ups in the future. While we have operated effectively despite these conditions in the past, we cannot assess the impact these conditions may have on us in the future, particularly if emergency circumstances occur. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of our other employees due to military service. Any disruption in our operations would harm our business.

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The Israeli rate of inflation may negatively impact our costs if it exceeds the rate of devaluation of the New Israeli Shekel against the U.S. dollar.

A major part of our costs in Israel are not denominated in dollars and may be influenced from the rate of devaluation of the New Israeli Shekel,. This exposes us to market risk from changes in foreign exchange rates as against the U.S. dollar, as our dollar costs in Israel may increase if inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of such devaluation lags behind inflation in Israel. In the nine months ended September 30, 2003, the Israeli economy recorded negative inflation of approximately 1.5% whereas the U.S. dollar devalued against the NIS by approximately 7.5%. There can be no assurance that we will not incur losses from such fluctuations in the future.

We have been participating in research and development, marketing and other programs through which we received or may beentitled to grants and tax benefits.

We have received certain grants, programs and tax benefits from the Israeli Government, the European Union and the BIRD Foundation. To remain eligible for these grants, programs and tax benefits, we must comply with certain conditions. In addition, some of these programs may restrict our right to manufacture products or transfer our technology outside of Israel. If we do not meet these conditions in the future, the benefits we receive could be canceled and we may have to refund payments previously received under these programs. We cannot guarantee that these programs and tax benefits will be continued in the future, at their current levels or at all. During 2003, we received several letters from the Israel Investment Center asserting that we did not fully implement our approved investment program and as such, all of the benefits we received under this approved investment program may be cancelled**.** If these programs and tax benefits are ended, our business, financial condition and results of operations could be adversely affected.

We have been and may continue to be negatively affected by the aftermath of the September 11th events.

Terrorist attacks that occurred in New York and Washington, D.C. on September 11, 2001, the war in Iraq and other acts of violence or war have affected and may continue to materially affect the markets on which our securities trade, the markets in which we operate, our operations and profitability. In the aftermath of the September 11, 2001 terrorist attacks on the United States, the United States-led coalition of nations commenced a series of retaliatory military strikes in Afghanistan upon strategic installations of the Taliban regime, and governmental intelligence authorities issue from time to time warnings of the imminent threat of further attacks against civilian and military installations. On March 17, 2003, a coalition of countries led by the United States and the United Kingdom commenced large-scale military action against Iraq with the avowed purpose of effecting a change in the Iraqi regime. This conflict has now ended with the collapse of the regime of Saddam Hussein, although Iraq continues to suffer significant instability. These attacks and armed conflicts, as well as the uncertainty surrounding these issues, have had, and we expect will continue for the unforeseeable future to have, an adverse effect on the global economy, and could result in a disruption of our business or that of our customers. In addition, these events may discourage foreign travel to Israel, which could detrimentally affect our business.

Provisions of Israeli law may delay, prevent or make difficult a merger or an acquisition of our company, which couldprevent a change of control and therefore depress the price of our ordinary shares.

Provisions of Israeli corporate and tax law may have the effect of delaying, preventing or making more difficult a merger or other acquisition of us. The Israeli Companies Law, 5739-1999, known as the Companies Law, generally requires that a merger be approved by a company s board of directors and by shareholder vote at a shareholders meeting that has been called on at least 21 days advance notice. Any creditor of a merging party may seek a court order blocking the merger if there is a reasonable concern that the surviving company will not be able to satisfy all of the obligations of any party to the merger. Moreover, a merger may not be completed until at least 70 days have passed from the time that the merger proposal was filed with the Israeli Registrar of Companies.

Other potential means of acquiring a public Israeli company might involve significant obstacles, such as a requirement for court approval for the acquisition. In addition, a body of case law has not yet developed with respect to the Companies Law. Until this happens, uncertainties will exist regarding its interpretation.

Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than do U.S. tax laws. For example, Israeli tax law may subject a shareholder who exchanges our ordinary shares for shares in another corporation to immediate taxation. These provisions of Israeli corporate and tax law and the uncertainties surrounding such law may delay, prevent or make more difficult a merger or acquisition involving our company. This could prevent a change of control in our company and limit a shareholder s ability to receive a premium in a change of control transaction.

Service and enforcement of legal process.

Service of process upon directors and officers of our company and the Israeli experts named herein, all of who reside outside the United States, may be difficult to effect within the United States. Furthermore, since the majority of our assets are located outside the United States, any judgment obtained against us in the United States may not be enforceable within the United States. We have been informed by our legal counsel in Israel, Yigal Arnon & Co., that there is doubt as to the enforceability of civil liabilities under the Securities Act and the Exchange Act in original actions instituted in Israel. However, subject to certain time limitations, Israeli courts may enforce United States final executory judgments for liquidated amounts in civil matters obtained after due trial before a court of competent jurisdiction (according to the rules of private international law currently prevailing in Israel) which enforces similar Israeli judgments, provided that: (i) due service of process has been effected; (ii) such judgments or the enforcement thereof are not contrary to the law, public policy, security or sovereignty of the State of Israel; (iii) such judgments were not obtained by fraud and do not conflict with any other valid judgment in the same matter between the same parties; and (iv) an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the foreign court.

SELECTED CONSOLIDATED FINANCIAL DATA

We have derived the following selected consolidated financial data as of December 31, 2001 and 2002 and for each of the years ended December 31, 2000, 2001 and 2002 from our consolidated financial statements which are prepared in accordance with Israeli. generally accepted accounting principles and have been audited in accordance with Israeli. generally accepted auditing standards by Kost, Forer & Gabbay an affiliate member of Ernst & Young International, report with respect to such consolidated financial statements appears in our Annual Report on Form 20-F for the year ended December 31, 2002 incorporated by reference herein. Selected consolidated financial data as of December 31, 1998, 1999 and 2000 and for each of the years ended December 31, 1998 and 1999 have been derived from other audited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles and generally accepted auditing standards.Pursuant to a purchase agreement entered into in February 2003, a third-party acquired 100% of the outstanding share capital of Nexus Data Inc., or ND, for US$ 1. According to the purchase agreement ND committed to pay up to $ 1,000,000 to our company in the event of ND recording four consecutive quarters of positive cash flow and net assets in the fourth of such quarters of at least $ 10,000,000. As a result of the sale of all our holdings in Nexus Data, the assets, liabilities, operating results and cash flows attributed to Nexus Data have been deemed to be discontinued operations; accordingly, our comparative financial data has been reclassified for all periods presented in this prospectus. The selected consolidated financial data set forth below should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto beginning on page F-2 of this Prospectus, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements with respect to the three years ended December 31, 2002 and as at December 31, 2001 and 2002 contained in our 2002 Annual Report on Form 20-F which is incorporated herein by reference.

						Six months ended June 30	
	1998	1999	2000	2001	2002	2003	2002
Statement of Income Data:							
Revenues							
Sales	$ 8,598	$ 3,810	$ 6,035	$ 12,375	$ 5,196	$ 1,357	$ 4,213
Services	--	--	--	108	1,165	1,263	224
Total Revenues	8,598	3,810	6,035	12,483	6,361	2,620	4,437
Cost of revenues							
Sales	6,863	5,325	4,498	9,355	3,528	880	2,304
Services	--	--	--	832	948	869	322
Total cost of revenues	6,863	5,325	4,498	10,187	4,476	1,749	2,626
Gross profit (loss)	1,735	(1,515)	1,537	2,296	1,885	871	1,811
Research and development costs, net							