

Pointer Telocation Ltd
Form 20-F
April 08, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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 1934

For the fiscal year ended December 31, 2007

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:

POINTER TELOCATION LIMITED

(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant's
name into English)

ISRAEL
(Jurisdiction of incorporation
or organization)

14 Hamelacha Street,
Rosh Haayin 48091, Israel

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(Address of principal executive offices)

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
Ordinary Shares, NIS 3.00 nominal value per share	The NASDAQ Stock Market LLC

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

None
(Title of Class)

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

None
(Title of Class)

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.

Ordinary Shares, NIS 3.00 nominal value per share 4,612,875

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

Introduction

This Annual Report on Form 20-F contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The use of the words projects, expects, may, plans or intends, or words of similar import, identifies a statement as forward-looking. The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties. These forward-looking statements are based on the assumption that Pointer Telocation Limited (we or the Company or Pointer) will not lose a significant customer or customers or experience increased fluctuations of demand or rescheduling of purchase orders, that our markets will grow, that our products will remain accepted within their respective markets and will not be replaced by new technology, that competitive conditions within our markets will not change materially or adversely, that we will retain key technical and management personnel, that our forecasts will accurately anticipate market demand, and that there will be no material adverse change in our operations or business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. In addition, our business and operations are subject to substantial risks which increase the uncertainty inherent in the forward-looking statements. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives or plans will be achieved. Factors that could cause actual results to differ from our expectations or projections include the risks and uncertainties relating to our business described in this annual report at Item 3 Risk Factors.

On August 10, 2005 a 100 to 1 reverse stock split of our ordinary shares was effected. As a result of the reverse stock split, each one hundred shares of our ordinary shares with par value NIS 0.03 were converted into one ordinary share NIS 3.00. All share numbers in this annual report reflect this reverse split.

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PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The selected financial data is incorporated by reference to Item 5 of this annual report and should be read in conjunction with our consolidated financial statements and the notes thereto, which are set forth in Item 18 **Financial Statements** and are incorporated by reference, and the other financial information appearing in Item 5 of this annual report.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Our business, operating results and financial condition could be seriously harmed due to any of the following risks, among others. If we do not successfully address the risks to which we are subject, we could experience a material adverse effect on our business, results of operations and financial condition and our share price may decline. We cannot assure you that we will successfully address any of these risks.

General Risks Factors Relating to Our Company

This annual report 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. 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.

We have a history of net losses.

With the exception of the years 2006 and 2003, we have incurred a net loss in each year of our existence, including in 2007. Our net profits in 2006 were \$1.2 million and were principally from continuing operations of \$0.3 million and other income of \$1.3 million off-set by impairment of long lived assets of \$0.4 million. Our net profits in 2003 of \$5.3 million resulted from a one-time non-cash capital gain of \$8.5 million from the disposal of discontinued operations and were offset by a \$3.3 million loss from continuing operations. Prior to 2004, our majority owned subsidiary, Shagrir Systems Ltd. (formerly Shagrir Motor Vehicle Systems Ltd.), or Shagrir, had never recorded net profits but has recorded shareholders' equity surplus for the first time in 2006. Although Shagrir is currently profitable we may continue to sustain net losses for the foreseeable future, for several reasons, including resulting from increases in working capital deficiency (see Item 5 **Liquidity and Capital Resources**) and costs associated with other business initiatives in Israel and abroad. As a part of our strategy, we are focusing on the development of new businesses and services, both in the territories in which we currently operate as well as in new territories. Investing in such new businesses may result in an increase in short term losses. If we continue to sustain prolonged net losses or losses from continuing operations, we may have to cease our operations.

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The majority of our business operations are based in Israel.

Due to our purchase of Shagrir in 2004, the acquisition of the business activities of Shagrir Towing Services acquired by Shagrir in February 2005 and the acquisition of the assets and activities of Cellocator Ltd. and Matan Y. Communication Tracking Systems Ltd., or Cellocator, a private Israeli company, in 2007, the majority of our operations are located in Israel. The Shagrir and Cellocator businesses account

Not applicable.

for the majority of our revenues. Consequently, certain events in Israel which may or may not be directly connected with our business may have a disproportionate effect on our operations. As related to Shagrir for instance, major public transportation projects, changes in vehicle related taxes, a proposed increase in the imputed value of vehicles provided as a part of employee compensation and other macroeconomic changes in Israel may reduce the number of vehicle owners. Although to date we have not seen a drop in private vehicle users as a result of such factors, current projects including high-speed rail systems could lead to such a drop in the future, thereby reducing the volume of our operations in Israel. We also rely on the renewal and retention of several operating licenses issued by certain Israeli regulatory authorities. Should such authorities fail to renew any of these licenses, suspend existing licenses, or require additional licenses, we may be forced to suspend or cease certain services that we provide. As related to our stolen vehicle retrieval services business, activity in such business depends on Israeli insurance companies mandating subscription to a service such as ours. If insurers will not require such subscription, customers might elect not to purchase yearly subscriptions.

Additionally, a sustained downturn in the Israeli economy could have a significant impact on our business.

The manufacture of products in our technology and products division, including our Cellocator products, is highly complex, and an interruption or delay by our supplier or a failure to deliver by our subcontractors or vendors could adversely affect our business, financial condition or results of operations.

The products in our technology and products division, including our Cellocator products, that we market, distribute and sell are either manufactured at our own manufacturing facilities in Israel or, in certain cases, through supply agreements with third party subcontractors. Many of our products are the result of complex manufacturing processes, and are sometimes dependent on raw materials with a limited source of supply. As a result, we can provide no assurances that supply sources will not be interrupted from time to time. In addition, our subcontractors or vendors may fail to obtain supply components and fail to deliver our products. As a result, a failure to deliver by our subcontractors or vendors can result in decreased revenues. Such interruption or delay of our suppliers to deliver components or interruption or delay of our vendors or subcontractors to deliver our products could affect our business, financial condition or results of operations.

Our future operations depend on our ability to obtain additional financing.

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. However, we cannot assure 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, and if we are able to raise financing through the issuance of shares, this may result in the dilution of the interests of our current shareholders. In a series of investments, since March 2003 to date, we raised \$41 million from investors, and in February 2005 our subsidiary Shagrir received approximately \$44 million in loans and convertible debt as part of Shagrir's acquisition of the road-side assistance and towing services of Shagrir Towing Services. In June 2004, as part of the purchase of all of the securities of Shagrir not already held by our Company at such time, we issued further shares and warrants to purchase our shares (for further information regarding agreements relating to the acquisition of the road-side assistance and towing services of Shagrir Towing Services, see Item 4 **Recent Developments** and Item 10 **Material Contracts**). We have registered for resale securities issued and issuable in connection with these transactions (for further information regarding the private placement transactions see Item 10 **Material Contracts**). In May 2007 our registration statement on Form F-3 was declared effective, pursuant to an investment with a group of U.S. institutional investors consummated in April 2007, covering 1,207,500 of our ordinary shares (including 402,500 ordinary shares issuable upon the exercise of warrants issued in connection with that transaction). As a result of the registration statements that we currently have outstanding and are currently filing, many or all of our investors who recently purchased our securities may elect to sell some or all of our securities. Should such sales be significant in volume or take place over a short period of time, our share price may decline significantly, and we may find it difficult to raise additional funding through the issuance of equity or convertible debt securities. In September 2007 we received \$7 million credit facility from Bank HaPoalim, B.M. to finance part of Cellocator acquisition. In addition, in January 2008 we received credit facilities from Israel Discount Bank in favor of working capital. 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.

Over recent years, the securities markets in general have experienced increased volatility, which has particularly affected the securities and operations of many 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 may affect our ability to obtain additional financing at favorable terms.

Both, our subsidiary Shagrir and the company have significant loans which we are required to repay in accordance with strict schedules that we may not be able to meet or that limit our operating and financial flexibility.

In order to finance Shagrir's acquisition of the road-side assistance and towing services of Shagrir Towing Services, it received an approximately \$23 million credit facility from Bank Hapoalim B. M., an approximately \$9 million loan from Shagrir Towing Services and approximately \$11.5 million loan from a group of investors led by Gandy Investments Ltd. and Egged Holdings Ltd., of which approximately \$23 million as of March 31, 2008 remained payable. Nevertheless, Shagrir still has substantial outstanding loans and, despite the fact that we are cash positive, should Shagrir fail to repay the loans in accordance with the repayment schedule pertaining to each loan or should a lender refuse to amend the relevant repayment schedule, such lender may realize certain liens that were created in its favor by Shagrir. This could result in Shagrir having to divest itself of parts of its business and may result in the cessation of its operations.

The acquisition of the business of Cellocator required financing amounts in excess of what we had in cash reserves on September 18, 2007 (the date of acquisition). For this requirement we received a credit facility of \$7 million from Bank Hapoalim. In addition, according to the acquisition agreement with the sellers of Cellocator, an additional amount of approximately \$0.9 million is outstanding, due to balance settlement ensuing from the asset calculations. This amount has been calculated and agreed upon during March 2008. As part of Cellocator consideration we issued a convertible debenture to the seller in the amount of \$1.9 million which the seller elected in January 2008 not to convert to shares. The debenture is due and payable in September 2010. While Pointer is expected to be cash-positive, should we fail to repay the credit facilities and loans in accordance with the repayment schedule pertaining to the lender or if the lender refuses to amend the relevant repayment schedule, such lender may realize certain liens that were created in its favor. Non repayment of any of the above mentioned credit facility or loans may have a material adverse affect on our financial condition.

These credit facilities and loans further contain a number of restrictive covenants that limit our operating and financial flexibility. Our ability to continue to comply with these and other obligations depends in part on the future performance of our business. There can be no assurance that such obligations will not materially adversely affect our ability to finance our future operations or the manner in which we operate our business. In particular, any noncompliance with performance-related covenants and other undertakings of our credit facilities could result in an acceleration of our outstanding debt under our credit facilities and restrict our ability to obtain additional funds, which could have a material adverse effect on our business, financial condition and results of operations.

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For further information on these loans, see Item 4 **Recent Developments**, Item 5 **Liquidity and Capital Resources** and Item 10 **Material Contracts**.

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

We face intense competition in the markets in which we operate.

In Israel, our primary competitors are Drachim Road Side & Towing Services Ltd., Femi Premium Ltd. and Shlomo-SIXT Road Side Services & Garages Ltd., all of which mainly compete with us in providing road-side assistance and towing services although we currently are the leading road-side assistance and towing service provider in Israel. Ituran Location & Control Ltd. is our main direct competitor in the stolen vehicle retrieval services market in Israel and Argentina. LoJack Car Security S.A. and LoJack de Mexico, S. de RL de CV are our main competitors in Argentina and Mexico, respectively.

In Europe, Latin America and Asia we sell mostly GPS/GPRS based vehicle devices and Radio Frequency based vehicle devices. In the GPS/GPRS field there is strong competition with many manufacturers introducing vehicle devices with competitive prices and various performance features. These devices are offered to operators of Fleet Management and Stolen Vehicle Recovery services and competition is on different aspects such as price, performance parameters, etc.

In other countries in which we intend to provide road-side assistance, towing and other services, our main competition is from local companies as well as large international corporations with local operations. Our primary competitors in the other geographical markets in which we currently provide our location based services are mainly LoJack globally, Ituran in Argentina and other local service providers in each country. Such competitors use different technologies such as radio technologies, cellular and other technologies.

Should any of our competitors in Israel or globally successfully provide a broader, more efficient or attractive combination of services to insurance companies and automobile owners, our business results could be materially adversely affected.

Should any of our competitors successfully provide a broader range of products, with competitive pricing, our business results could be materially adversely affected.

Not applicable.

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Many of our competitors have substantially greater capital resources and significant research and development staffs, facilities, marketing and distribution networks, name recognition and extensive customer bases. While we plan to continue to improve our technology, products, services and maintain our marketing efforts, we cannot guarantee that we will grow or even maintain our customer base or we may need to invest more in our efforts to do so.

The business of our technology and products division, including our Cellocator business, depends on limited sources for components, and if we are unable to obtain these components when needed, we will experience delays in manufacturing our products and our financial results may be adversely affected.

We acquire most of the components utilized in the products in our technology and products division, including Cellocator, and certain services from a limited number of suppliers and subcontractors. We may not be able to obtain such items from these suppliers and subcontractors on satisfactory terms in the future. Temporary disruptions of our manufacturing operations would result if we were required to obtain materials from alternative sources, which may have an adverse effect on our financial results.

Undetected defects in our products may increase our costs and impair the market acceptance of our products.

The development, enhancement and implementation of our complex fleet management and command and control systems, and the products in our technology and products division, entail substantial risks of product defects or failures. Despite testing by us and our customers, errors may be found in existing or new products, resulting in delay or loss of revenues, warranty expense, loss of market share or failure to achieve market acceptance, or otherwise adversely affecting our business, financial condition and results of operations. Moreover, the complexities involved in implementing our systems entail additional risks of performance failures. We may encounter substantial delays or other difficulties due to such complexities. Any such occurrence could have a material adverse effect upon our business, financial condition and results of operations. In addition, the potential harm to our reputation that may result from product defects or implementation errors could be damaging to us.

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We depend on a small number of customers.

We depend on a small number of customers located mainly in Israel, Latin America and Europe for a significant part of our revenues, and our future depends on our ability to maintain our existing customers and attract new customers. As a result of our acquisition of the activities of Shagrir Towing Services, the customers which account for a major part of our revenues in future years are Israeli insurance companies, which offer our road-side assistance and towing services as part of their vehicle insurance policy packages which they sell to their customers. Since our business model relies on a relatively low number of customers and in 2007 one customer comprised over 10% of our revenues, the loss of even a small number of customers could materially affect our financial condition.

If the creditworthiness or the financial strength of the customers were to decline, there could be an adverse effect on our operating results and cash flows. Should geopolitical situations change in the countries where our customers operate, there could be additional credit risks.

In cases where our customer is the operator or distributor (not owned by us), we use several methods in order to assure collectibility. In cases, we demand financial guarantees such as a Letter of Credit or payments before delivery. To a lesser extent we assess collectibility by assessing the credit history for each customer on a case-by-case basis. However, we cannot be certain that our estimations will prove correct as to any one of our customers.

We rely on operators to provide services for our location based solution systems and to market and deliver our Cellocator and other products.

In certain countries where our subsidiaries conduct activities, we rely on subcontractors and police forces to provide our stolen vehicle retrieval services. This requires us to maintain good relationships with these third party operators and governmental entities to ensure that they continue to work with us and provide a good service to our customers. Since we do not own these subcontractors, we have little or no control over their effectiveness or methods of operation.

In countries where third party operators conduct stolen vehicle recovery and fleet management services, the implementation of the operators' business plans depends mainly on factors unrelated to our interests such as their marketing strategies, their financial stability and the specific requirements and circumstances in their territories. Our consecutive end unit sales, future system upgrades, future infrastructure extensions and revenues from other sources, where applicable, from such territories is dependent on their penetration rate and successful sale growth as well as on the operators' continuous success and their continuous decision to offer these services and products in their respective territories. Should we fail to maintain relationships with these third party operators, or these operators fail to successfully market and service our

products, our business would be adversely affected.

We use fixed price contracts with our customers.

Our road-side services in Israel and most of our stolen vehicle retrieval services, or SVR services, in Argentina are sold through annual fixed price contracts, according to which we are paid a fixed price by insurance companies for each of their customers who subscribe to receive our services. Should operational expenses rise due to factors such as a rise in the price of gasoline, labor costs or any other materials necessary for our operations, our profit margins could suffer as a result. Since it is often difficult to predict future price rises in the cost of raw materials or labor costs, our fixed price contracts may not adequately cover our future outlays. Additionally, the frequency by which vehicle users may take advantage of our road-side services can vary unpredictably. Sustained adverse weather conditions, increased regional hostilities or acts of terrorism, poor road maintenance or increased theft ratio may increase customer usage of our services in any given year, thus reducing profit margins.

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Part of our SVR services in Israel are linked to the US Dollar while operational expenses, like salary, are linked to NIS. Our profit margins could suffer as a result of revaluation of the NIS against the US Dollar. Since it is often difficult to predict future exchange rates our fixed price contracts may not adequately cover our future outlays and reduce profit margins

Most of our products prices are linked to the US Dollar while operational expenses such as labor costs linked indirectly to the NIS account for an important portion of technology costs (both devices and software). Our profit margins could suffer as a result of inflation, where labor costs and other will rise without compensation, where foreign currency payments by customers will not offset the increase. Since it is often difficult to predict future exchange rates our fixed price contracts may not adequately cover our future outlays and reduce profit margins (for further information on exchange rate risk see Item 5 **Impact of Exchange Rate Fluctuations on Results of Operations, Liabilities and Assets**).

We rely on limited suppliers to manufacture end units for our Locations Based Solution systems.

While we have commenced diversifying our product base, offering some customers radio frequency devices and others cellular units together with GPS devices, we are still principally reliant on devices and components which we do not manufacture ourselves. Most of our raw material components for our Location Based Solution end unit devices are manufactured for us by independent manufacturers abroad. Surface mounting on printed circuit boards is done by 2 sub-contractors. Assembly is done by us and by subcontractor located in Israel. There is no certainty that these subcontractors will be able to continue to provide us with manufacturing and assembly services in the future. 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 quantity changes;

transportation delays;

political and economic disruptions;

the imposition of tariffs and export controls on such products;

work stoppages;

changes in government policies;

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

thus loss of time, when attempting to switch from one assembly-manufacturer to another, thereby disrupting deliveries to customers.

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Our agreements and understandings 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 or even to change the design of our products. 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 impairing our sales in the interim period.

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

Systems based on our products and systems are currently installed in Israel, Latin America, Europe and Asia. 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 to be imposed, the above business could be negatively impacted. Moreover, certain of these international operations have experienced the following difficulties:

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A severe and rapid currency devaluation in Argentina adversely affected the U.S. dollar results during 2002 of our subsidiary, Pointer Localizacion Y Asistencia S.A., or PLA. This was mainly due to PLA's inability to increase its Argentinian Peso-denominated prices to its customers, while its major costs of inventory and infrastructure are denominated in US dollars.

Venezuela has in recent years imposed foreign exchange controls, for example in 2003, Venezuela's foreign exchange controls effectively led to the cessation of purchase orders of our SVR products and services from our main customer in Venezuela. Additionally there is currently discussion by the Venezuelan government regarding the institution of a nationalization program, which could further adversely affect our operations there.

The technology and standards in the stolen vehicle retrieval and the location based services industry in which we operate change rapidly and the introduction of products using new 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, WiMax, personal communications services, specialized mobile radio and mobile satellite services which have been or may be implemented in the future for applications competitive with the applications we provide. Future implementation and technological improvements could lead to the production of systems which are competitive with, or superior to ours.

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

We may be unable to adequately protect our proprietary rights, which may limit our ability to compete effectively.

Our success and our ability to compete, particularly in software licensing and sales of Cellocator products depend on our proprietary technology. We rely on a combination of proprietary technology, know-how and trade secret laws, together with non-disclosure agreements and licensing arrangements to establish and protect proprietary rights in our products. We were granted certain patents in the United States and elsewhere with respect to our RF (radio frequency) 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;

unauthorized third parties may attempt to copy or obtain and use the technology that we regard as proprietary;

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; 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 proprietary Location Based Solution systems is subject to international regulations.

While the use of our Cellular Monitoring Units and services does not require regulatory approvals, the use of our traditional Location Based Services 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, to the extent required for sale in the U.S. Our operators typically must obtain authorization from 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.

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.

Our major shareholder has a controlling stake in our company and affiliated with three members of our board of directors.

Pursuant to a series of investments in our company since March 2003, and the exercise of certain warrants, DBSI Investments Ltd., or DBSI, currently owns approximately 24% of our issued and outstanding shares, or 20% on a fully diluted basis. As a result, DBSI has the ability to control material decisions requiring the approval of our shareholders.

Our board of directors currently consists of 6 members, of which three are affiliated with DBSI. As a result, DBSI has the ability to affect the decisions made by our full board of directors.

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 Israeli 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:

macro changes and changes in market share in the markets in which we provide services and products;

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 services rendered by us or our competitors;

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

events or announcements relating to our collaborative relationship with others;

economic, political and other external factors;

period-to-period fluctuations in our operating results; and

substantial sales by significant shareholders of our ordinary shares which are currently or are in the process of being registered.

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 may be affected by limited trading volume and may fluctuate significantly in price.

Our ordinary shares are traded on the NASDAQ Capital Market and the Tel Aviv Stock Exchange, or TASE. Trading in our ordinary shares has been limited and there can be no assurance that an active trading market for our ordinary shares will develop. As a result, this could adversely affect our shareholders' ability to sell our ordinary shares in short time periods, or possibly at all. Thinly traded ordinary shares can be more volatile than ordinary shares traded in an active public market. The average daily trading volume of our ordinary shares from January 1, 2008 to March 31, 2008, on the NASDAQ Capital Market was 20,960 shares and on the TASE was 9,399 shares. The high and low bid price of our ordinary shares for since January 1, 2008 to March 31, 2008, has been \$6.95 and \$4.23, respectively on the NASDAQ Capital Market and between NIS 27 (approximately \$7.7) and NIS 15 (approximately \$3.8) during the same period on the TASE. Our ordinary shares have experienced, and are likely to experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our ordinary shares without regard to our operating performance.

Our ordinary shares are listed for trading in more than one market and this may result in price variations.

Our ordinary shares are listed for trading on the NASDAQ Capital Market, and since December 19, 2006, on the TASE. Trading in our ordinary shares are traded on these markets in different currencies (U.S. dollars on the NASDAQ and New Israeli Shekels on the TASE), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). Actual trading volume on the TASE is expected to be lower compared to the trading volume on the NASDAQ Capital Market, and as such, could be subject to higher volatility. The trading prices of our ordinary shares on these two markets are expected to often differ, resulting from as a result of the factors described above, as well as in this paragraph, and because of differences in exchange rates. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

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

As a result of recent corporate governance scandals in the United States and the legislative and litigation environment resulting from those scandals, the costs of being a public company in general have increased and may continue to increase in the near future. Legislation, such as the Sarbanes-Oxley Act of 2002, has had and may continue to have the effect of increasing the burdens and potential liabilities of being a public reporting company. This and other proposed legislation may increase the costs of compliance with this legislation and our insurance premiums.

Risk Factors Relating to Our Operations in Israel

Not applicable.

Political and Military Conditions in Israel affect our operations.

We are incorporated under the laws of the State of Israel. Our headquarters, the headquarters of Shagrir, our operations and the products manufacturing and the operations of Shagrir, 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, 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 continued with varying levels of severity through 2004. Since the death of Yasser Arafat in 2004, low-level negotiations between Israel and Palestinian representatives have been renewed. Nevertheless, 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. In addition, recently there was an escalation in violence among Israel, Hamas, the Palestinian Authority and other groups, as well as extensive hostilities along Israel's northern border with Lebanon in the summer of 2006, and extensive hostilities along Israel's border with the Gaza Strip since June 2007 when the Hamas effectively took control of the Gaza Strip, which have intensified since February 2008.

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 and subcontractors are located in Israel, which could still face a renewal of 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 40, 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. In the past there have been significant call-ups 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.

We may be adversely affected by a change in the exchange rate of the New Israeli Shekel against the U.S. dollar.

Because exchange rates between the New Israeli Shekel, or NIS, and the U.S. dollar fluctuate continuously, exchange rate fluctuations, particularly larger periodic devaluations, may have an impact on our profitability and period-to-period comparisons of our results. In 2002 and 2005 the rate of devaluation of the NIS against the dollar was 7.3% and 6.8% respectively, while in 2003, 2004 and 2006 the NIS appreciated in value in relation to the dollar by 7.6%, 1.6% and 8.2%, respectively. In 2007 the rate of the revaluation of the NIS against the dollar was 9%.

A majority of our revenues are denominated in NIS because our Shagrir subsidiary whose revenues are mainly in NIS, account for approximately 83% of our revenues in 2007. A portion of our loans and credit facilities, the amount of approximately \$28.5 million, approximately 82% out of our total loans and credit facilities, loaned to our subsidiary Shagrir is also denominated in NIS. A portion of our expenses, primarily labor expenses in Israel, is incurred in NIS. Additionally, certain assets, as well as a portion of our liabilities, are denominated in NIS. On the other hand, our exports, including our sales of Cellocator products, are denominated mainly in U.S. dollars and a significantly lesser portion in Euro. A portion of our loans, consisting of approximately \$5.5 million as of December 31, 2007, are denominated in U.S. dollars.

Our results may be adversely affected by the devaluation of the NIS in relation to the dollar (or if such devaluation is on a lagging basis), if our revenues in NIS are higher than our expenses in NIS and/or the amount of our assets in NIS are higher than our liabilities in NIS. Alternatively, our results may be adversely affected by appreciation of the NIS in relation to the dollar (or if such appreciation is on a lagging basis), if the amount of our expenses in NIS are higher than the amount of our revenues in NIS and/or the amount of our liabilities in NIS are higher than our assets in NIS.

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For further discussion of such fluctuation of the \$ to the NIS, see Item 5 **Impact of Exchange Rate Fluctuations on Results of Operations, Liabilities and Assets**, and Item 11 **Quantitative and Qualitative Disclosures About Market Risk**. There can be no assurance that we will not incur losses from such fluctuations in the future.

We may be adversely affected by a change of the Israeli Consumer Price Index.

Our exposure to market rate risk for changes in the Israeli Consumer Price Index, or Israeli CPI, relates primarily to loans borrowed by us from banks and other lenders. As of December 31, 2007, we had total loans borrowed linked to Israeli CPI of approximately \$18 million. We generally do not utilize hedging to manage currency risk and, therefore, are exposed to the risk that the rate of Israeli CPI, which measures inflation in Israel, will exceed the rate of devaluation of the NIS in relation to the dollar or that the timing of this devaluation lags behind inflation in Israel. This would have the effect of increasing the dollar cost of our borrowings.

We may not be eligible to receive grants or programs provided to us from our participation in research and development, investments and other programs or we may be restricted from manufacturing products or transferring our intellectual property outside of Israel.

We have received certain grants and programs from the Israeli Government. Some of these programs may restrict our right to manufacture products or transfer our intellectual property outside of Israel. If we do not meet certain conditions in the future, we may have to refund payments previously received under these programs or pay fines.

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 of 1933, as amended, or the Securities Act, and the Securities Exchange Act of 1934, as amended, or 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.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

The legal and commercial name of our company is Pointer Telocation Ltd. We were incorporated under the laws of the State of Israel in July 17, 1991 under the name Nexus Telecommunications Systems Ltd. We changed our name to Nexus Telocation Systems Ltd. in December 1997 and to Pointer Telocation Ltd. in January 2006. The principal legislation under which we operate is the Israeli Companies Law, 5759-1999, as amended.

Our principal place of business is located at 14 Hamelacha Street Afek Industrial Park, Rosh Haayin, Israel, and our telephone number is 972-3-572-3111.

We are a leading provider of services to the automotive industry, insurance companies and vehicle fleets, including road-side assistance and towing services, stolen vehicle retrieval services and fleet management services. We provide services, for the most part, in Israel, through our subsidiary Shagrir Systems Ltd., or Shagrir, and in Argentina and Mexico through our local subsidiaries. We also develop, manufacture, market and sell products relating to these types of services to independent operators in 25 countries, including cellular monitoring units, fleet management software and mobile resource management software used for fleet command and control centers.

For a description of our products and services, see Item 4.B **Business Overview**.

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Until 2003, our business focused primarily on the development, manufacture and sale of location based services and stolen vehicle retrieval services. In April 2003, our management decided to strategically focus on providing a range of additional services to automobile owners and insurance companies.

Our strategy was implemented through several acquisitions in Israel, Argentina and the establishment of a subsidiary in Mexico.

In June 2004 we purchased all of the outstanding and issued share capital of Shagrir not already held by us. Shagrir was our local Israeli operator and service provider, which mainly provided stolen vehicle retrieval and