Pointer Telocation Ltd
Form 20-F
March 31, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

Or

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

For the fiscal year ended December 31, 2008

Or

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

Or

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

Date of event requiring this shell company report

For the transition period from to

Commission File number: 001-13128

POINTER TELOCATION 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
(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	NASDAQ Stock Market LLC

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

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

Ordinary Shares, NIS 3.00 nominal value per share .4,752,931

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

Yes o No x

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 o No x

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 x No o

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 o Accelerated filer o Non-accelerated filer x

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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

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

Item 17 o Item 18 o

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 o No x

INTRODUCTION

As used in this Annual Report on Form 20-F, the terms we, us, our and the Company mean Pointer Telocation Limited and its subsidiaries, unless otherwise indicated. We operate in two business segments, our Pointer segment and our Cellocator segment. Our Pointer segment is comprised of services to the automotive and insurance industries, road-side assistance and towing services, stolen vehicle retrieval services and fleet management services. Our Cellocator segment is a producer of leading automatic vehicle location products, including asset tracking products, fleet management products having location, tracking, event driven reporting, logging and security capabilities, and GSM-based security products. See Item 4 Information on the Company.

This Annual Report on Form 20-F, including, without limitation, information appearing under Item 4 Information on the Company and Item 5 Operating and Financial Review and Prospects , 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 will not lose a significant customer or customers or experience increased fluctuations of demand or rescheduling of purchase orders, that our markets will be maintained in a manner consistent with our historical experience, 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. Except as required by applicable law, including the securities laws of the United States, we do not intend to update or revised any forward-looking statements, whether as a result of new information, future events or otherwise.

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.

Cellocator is a trademark owned by us. References in this annual report to dollars, U.S. dollars and $ are to United States Dollars and references to shekels and NIS are to New Israeli Shekels, the Israeli currency.

PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS
Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE
Not applicable.

ITEM 3. KEY INFORMATION
A. SELECTED FINANCIAL DATA

The selected financial data is incorporated by reference to Item 5A **Operating Results** **Selected Financial Data** 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. We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States.

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 losses*.**

With the exception of the years 2008, 2006 and 2003, we have incurred a loss in each year of our existence. Our net income in 2008 was $2.3 million and principally resulted from the contribution of a full year of results from our Cellocator segment. Our net income in 2006 was $1.2 million and was 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 income 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 was offset by a $3.3 million loss from continuing operations. Prior to 2004, our majority owned subsidiary, Shagrir 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 and we were profitable in 2008 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, products and services, 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 may continue to sustain prolonged losses or losses from continuing operations although we had net income in 2008, we may have to cease our operations.

Conditions and changes in the global economic environment may adversely affect our business and financial results.

The worldwide economy has recently been adversely affected by stock market volatility, tightening of credit markets, concerns of inflation and deflation, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns and business insolvencies. These events and related uncertainty about future economic conditions could negatively impact our customers and, among other things, postpone their decision-making, decrease their spending and jeopardize or delay their ability or willingness to make payment obligations, any of which could adversely affect our business. Uncertainty about current global economic conditions could also cause volatility of our stock price. We cannot predict the timing, strength or duration of this global economic downturn or subsequent recovery.

In addition, the automotive industries are cyclical in nature and are currently experiencing a significant downturn, particularly in the United States. Although we do not currently operate in the United States and although our business is not solely dependent on new car sales, the industry as a whole has been adversely affected by many factors, including the current global downturn, efforts by insurance and leasing companies to reduce their spending and increased competition. These factors, among other things, could limit our ability to maintain or increase our sales or recognize revenue from committed contracts and in turn adversely affect our business, operating results and financial condition.

If the general economy and the automobile services sector does not improve, our business, financial condition and results of operations could be harmed.

A decline in sales of consumer or commercial vehicles in the markets in which we operate could result in reduced demand for our stolen vehicle retrieval services and products.

Our stolen vehicle retrieval services, or SVR services, and location based services are primarily installed before or immediately after the initial sale of consumer or commercial vehicles. Consequently, a reduction in sales of new vehicles could reduce our applicable market for SVR services and location based services. New vehicle sales may decline for various reasons, including an increase in new vehicle tariffs, taxes or gas prices, or an increased difficulty in obtaining credit or financing in the applicable local or global economy. A decline in sales of new vehicles in the markets in which our Pointer segment provides our SVR or location based services and Cellocator segment provides location based products could result in reduced demand for such services.

The majority of our business operations are based in Israel, and as a result events in Israel may have a disproportionate effect on our operations.

The majority of the business activities of Shagrir and the majority of our manufacturing operations for Cellocator are based in Israel. The Shagrir and Cellocator businesses account 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, revenues may be adversely affected if fewer vehicles are used as a result of an economic downturn in Israel, an increase in use of mass transportation, an increase in vehicle related taxes, an increase in the imputed value of vehicles provided as a part of employee compensation or other macroeconomic changes affecting the use of vehicles. Although to date we have not seen a drop in private vehicle users as a result of such factors, Shagrir has witnessed fewer new installations of its stolen vehicle retrieval systems in Israel since the fourth quarter of 2008 due to the economic environment. In addition, our stolen vehicle retrieval services business significantly depends on Israeli insurance companies mandating subscription to a service such as ours. If Israeli insurance companies cease to require such subscriptions, our business could be significantly adversely affected. 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 Cellocator segment, our manufacturing operations are principally based in Israel. Any interruption or curtailment of trade between Israel and its present trading partners could adversely affect our operations. Since our manufacturing facilities are located mainly in Israel, we could experience disruption of our manufacturing due to acts of terrorism or any other hostilities involving or threatening Israel.

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

The manufacture of products in our Cellocator segment is highly complex, and an interruption or delay by our suppliers 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 Cellocator segment 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, loans 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 $42 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 a $1 million credit facility from Israel Discount Bank in favor of working capital, which currently is not drawn down. 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 in 2005, Shagrir received loans of approximately $23 million from Bank Hapoalim B.M., a loan of approximately $9 million from Shagrir Towing Services, a loan of approximately $11.5 million from a group of investors led by Gandyr Investments Ltd. and Egged Holdings Ltd. and a loan of approximately $2 million from the Company.

Shagrir repaid all of these loans, other than the amounts held by Bank Hapoalim, prior to the end of 2008, by means of available funds and through funds provided by additional loans from Bank Hapoalim. These loans provided by Bank Hapoalim to Shagrir are in NIS currency and the interest rate is 7%-7.75%. As of December 31, 2008 the outstanding balances of these loans were $6 million and $ 1.7 million. As a result, as of December 31, 2008, Shagrir has in the aggregate approximately $22.2 million in outstanding loans, which are all entered into with Bank Hapoalim. Although Shagrir has repaid and recapitalized a significant amount of its debts, Shagrir still has substantial outstanding loans. 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.

Pointer s 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, of which approximately $4.6 million remains outstanding as of December 31, 2008. In addition, we have outstanding a convertible debenture in the amount of $1.9 million, which we issued to the seller as part of the consideration for the acquisition of Cellocator and which in January 2008 the seller determined in writing not to convert. The debenture is due and payable in September 2010, and as of December 31, 2008 the debenture has an amount outstanding of approximately $2.1 million. 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 on Pointer and Shagrir 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.

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 also our main competitors in Argentina and Mexico, respectively in Stolen Vehicle Recovery. In Fleet Management there are various companies who compete with us in Argentina and Mexico.

In Europe, Latin America and Asia our Cellocator segment sells 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.

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.

Due to the significant penetration of stolen vehicle retrieval services and location based services in Israel, and moderate overall growth of these markets in Israel and Argentina, our prospects for growth in such market may be limited.

Our ability to increase demand for our stolen vehicle retrieval services, or SVR services, and revenues from sales of our location based services is limited by the number of potential vehicles in which our products can be installed in each relevant market. In Israel and Argentina, we anticipate that revenues from sales of our SVR services and location based services will not increase significantly due to the already significant high penetration of such services and moderate overall growth of the markets for such services in Israel and Argentina, which could adversely affect our prospects for growth in such markets.

Our 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 Cellocator segment, and some products used in our Pointer segment, 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.

The growth of our business depends on the successful execution of our growth strategies.

Our growth depends on the continued success of existing products, as well as the successful design and introduction of new products. Our ability to create new products and to sustain existing products is affected by whether we can successfully anticipate and respond to consumer preferences and business trends. The failure to develop and launch successful new products could hinder the growth of our business. Also, we may have to invest more in development than original planned, time to market can be longer than expected and there is no assurance of successful development and the returns from a potential market can be lower than expected. The additional investment in development, delay in time to market may adversely affect our business.

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 sold or used in our business, 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.

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 Shagrir 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. As a result of our acquisition of Cellocator the customers which account for a major of Cellocator revenues are operators located in Europe and Latin America. Although in 2008 none of our customers 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 most cases, we demand financial guarantees such as a Letter of Credit, export credit facilities 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 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, of our Pointer segment are sold through annually or monthly 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.

Part of our revenues from SVR services in Israel are linked to the U.S. 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 U.S. dollar. Since it is difficult to predict future exchange rates our fixed price contracts may not adequately cover our future outlays and reduce profit margins.

Most of our Cellocator segment products prices are linked to the U.S. dollar while operational expenses in Israel such as labor costs and rental are 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 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**).

Our Cellocator segment relies 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 a 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
- the loss of time, when attempting to switch from one assembly-manufacturer to another, thereby disrupting deliveries to customers.

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. In addition, the majority of our sales of our Cellocator segment occur outside of Israel. 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:

- longer sales cycles, especially upon entry into a new geographic market;
- foreign exchange controls and licenses;
- trade restrictions;
- changes in tariffs;
- currency fluctuations;
- economic or political instability;
- international tax aspects;
- greater difficulty in safeguarding intellectual property; and
- difficulty in managing overseas subsidiaries, branches or international operations.

As an example of currency fluctuations, 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 U.S. dollars. As an example of foreign exchange controls, 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.

We may encounter significant difficulties in connection with the sale of our products by the sales of Cellocator segment in international markets as a result of one or more of these factors. In particular, the significant revaluation of the U.S. dollar vis–à–vis the NIS during 2008 had and may continue to have an adverse effect on our operations, as we derive most of our revenues in U.S. dollars while we incur most of our expenses in NIS.

We may be required to record a significant charge to earnings if our goodwill or amortizable assets become impaired.

Under accounting principles generally accepted in the United States, we review our goodwill and amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually and potentially more frequently depending upon actual events and circumstances. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include a sustained decline in our stock price, market capitalization or future cash flows, slower growth rates in our industry, termination of contracts assumed in connection with a merger or acquisition and obsolescence of acquired technology. In particular, the severity of the current worldwide economic downturn and the potential impact of this downturn on our business and our stock price could require us to record a significant charge to earnings in our financial statements due to impairment of our goodwill or amortizable intangible assets. If that happens, then our results of operations will be negatively impacted for the period in which such determination was made.

The Argentine government may enact or enforce measures to preempt or respond to social unrest or economic turmoil which may adversely affect our business in Argentina.

Our PLA subsidiary operates in Argentina, where government has historically exercised significant influence over the country s economy. In 2008, Argentina faced nationwide strikes and protests from farmers due to increased export taxes on agricultural products, which disrupted economic activity and have heightened political tension. Future government policies to preempt, or in response to, social unrest may include expropriation, nationalization, forced renegotiation or modification of existing contracts, suspension of the enforcement of creditors rights, new taxation policies, including royalty and tax increases and retroactive tax claims, and changes in laws and policies affecting foreign trade and investment. Such policies could destabilize the country and adversely and materially affect the economy, and thereby our business. In addition, agreements with unions in Argentina may increase the minimum wages and salaries or impose other conditions which could adversely effect PLA s business.

Any inability to comply with Section 404 of the Sarbanes−Oxley Act of 2002 regarding internal control attestation may negatively impact the report on our financial statements to be provided by our independent auditors.

We are subject to the reporting requirements of the United States Securities and Exchange Commission, or the SEC. The SEC, as directed by Section 404 of the United States Sarbanes−Oxley Act of 2002, adopted rules requiring public companies to include a report of management on the Company s internal control over financial reporting in its annual report on Form 20−F that contains an assessment by management of the effectiveness of the Company s internal control over financial reporting. Our management may not conclude that our internal controls over financial reporting are effective. Moreover, even if our management does conclude that our internal controls over financial reporting are effective, if the independent accountants are not satisfied with our internal controls, the level at which our controls are documented, designed, operated or reviewed, or if the independent accountants interpret the requirements, rules or regulations differently from us, they may issue an adverse opinion on our internal control over financial reporting at such time applicable rules require our accountants to provide such an opinion. Any of these possible outcomes could result in a loss of investor confidence in the reliability of our financial statements, which could negatively impact the market price of our shares.

As a non−accelerated filer, we must now comply with the annual disclosure requirements of Section 404 regarding management s report on internal control over financial reporting. Pursuant to Section 404(b), under the current rules we will be required to provide an independent auditor s attestation in the 2009 annual report, i.e., for the year ended December 31, 2009.

If we determine that we are not in compliance with Section 404, we may be required to implement new internal control procedures and re−evaluate our financial reporting. We may experience higher than anticipated operating expenses as well as outside auditor fees during the implementation of these changes and thereafter. Further, we may need to hire additional qualified personnel in order for us to be compliant with Section 404. If we are unable to implement these changes effectively or efficiently, it could harm our operations, financial reporting or financial results and could result in our conclusion that our internal controls over financial reporting are not effective.

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 available in the market. 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 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 by us or by our customers, 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 38% of our issued and outstanding shares, or 32% 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:

- changes in the global financial markets and U.S. and Israeli stock markets relating to turbulence amid stock market volatility, tightening of credit markets, concerns of inflation and deflation, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and general liquidity concerns;
- 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, 2009 to February 28, 2009, on the NASDAQ Capital Market was 1,972 shares and on the TASE was 1,326 shares. The high and low bid price of our ordinary shares for since January 1, 2009 to February 28, 2009, has been $4.06 and $3.00, respectively on the NASDAQ Capital Market and between NIS 16.5 (approximately $4.3) and NIS 12.9 (approximately $3.4) 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 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

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, development resources and the products manufacturing, the operations of Shagrir and Cellocator, 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. The hostilities with Hamas in the Gaza Strip further significantly escalated in December of 2008 and January of 2009.

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. Since our manufacturing facilities are located mainly in Israel, we could experience disruption of our manufacturing due to acts of terrorism or any other hostilities involving or threatening Israel. 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 revenues and 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, 2006 and 2007 the NIS appreciated in value in relation to the dollar by 7.6% 1.6%, 8.2% and 9%, respectively. In 2008 the rate of the revaluation of the NIS against the dollar was 1.1% while the fluctuation during 2008 was between 16% revaluation and 13% devaluation.

A majority of our revenues are denominated in NIS because our Shagrir subsidiary whose revenues are mainly in NIS, account for approximately 70% of our revenues in 2008. A portion of our loans and credit facilities, the amount of approximately $26 million, approximately 74% out of our total loans and credit facilities, is also denominated in NIS. A portion of our expenses, primarily labor expenses in Israel of Cellocator and Shagrir operation, 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 and Argentinean pesos. A portion of our loans and credit facilities, consisting of approximately $9.3 million as of December 31, 2008, 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 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. We may utilize partial hedging to manage currency risk. For example, in 2008 we entered into a foreign currency hedging transaction to partial manage risk related to salary expenses in 2009. Therefore, to the extent our currency risk is not hedged or sufficient hedged, we may experience exchange rate losses which could significantly and negatively affect our business and results of operations.

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, 2008, we had total loans borrowed linked to Israeli CPI of approximately $6.9 million. Therefore, we 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. Our Web site is www.pointer.com. Information on our web site is not part of, nor incorporated by reference into, this annual report.

We are a leading provider of advanced command and control technologies for the automotive and insurance industries. During 2008, as a result of our Cellocator acquisition in September 2007, the Company began to present its operating results in two discrete business units, the Cellocator segment and the Pointer segment, following a determination by the Company s management to control and manage the results of the Company s business according to the above mentioned segments.

Our Pointer segment sells products and provides a range of services to automotive and insurance companies, and to a lesser extent to other corporate and individual customers. The range of services are comprised of 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, Mexico and Romania through our local subsidiaries.

Our Cellocator segment is a producer of leading automatic vehicle location products, including asset tracking products, fleet management products having location, tracking, event driven reporting, logging and security capabilities, and GSM-based security products. The Cellocator segment produces Cellular/GPS and Radio Monitoring Units fleet management software and mobile resource management software used for fleet command and control centers. We develop, manufacture and distribute or sell these products to our Pointer segment and to independent operators in 25 countries.

For a description of our business segments, see Item 4.B **Business Overview.**

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 subsidiaries in Mexico and Romania.

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 other security value-added services mainly for vehicle owners through a communication network based on our technology. We currently own approximately 56.56% of the Shagrir, following the conversion on November 30, 2005 of a loan convertible into shares of Shagrir which was issued to Gandyr Investments Ltd. in connection with the acquisition of Shagrir.

In June 2004, we also incorporated a Mexican company, Pointer Recuperacion de Mexico, SA de CV, or PRM, to serve as our local Mexican operator and service provider, which would provide stolen vehicle retrieval and fleet management services for vehicle owners using a communication network based on our technology.

In February 2005, our subsidiary, Shagrir, purchased the assets and activities of Shagrir Towing Services, an Israeli company which provided road-side assistance and towing services, in Israel.

In August 2005, we effected a 100 to 1 reverse stock split of our ordinary shares. As a result of the reverse stock split, each one hundred shares of the Company s ordinary shares with par value of NIS 0.03 each were converted into one ordinary share of NIS 3.00 par value.

On November 16, 2005, our ordinary shares resumed trading on the NASDAQ Capital Market under the symbol NXUS, from where they had been trading on OTC Bulletin Board. Please see Item 9 **The Offer and Listing** for further information about the trading of our ordinary shares. On February 21, 2006 our shares began trading under a new symbol, PNTR.

On December 19, 2006, our ordinary shares began trading on the Tel Aviv Stock Exchange in Israel, or TASE, also under the symbol PNTR, and we became a dual listed company.

In September 2007, we purchased the assets and activities of Cellocator, a developer and manufacturer of GPS/GPRS based vehicle devices. See **Recent Developments** below for further information regarding the Cellocator acquisition.

In July 2008, Shagrir, together with a Romanian citizen, incorporated a Romanian company, S.C. Pointer S.R.L., or Pointer Romania, to provide road-side assistance and towing services in Romania. Each of Shagrir and the Romanian citizen owns 50% of the issued share capital of Pointer Romania. Shagrir also has the right to acquire an additional 1% of the share capital held by the Romanian holder.

We also incorporated subsidiaries in Brazil in August 2008 and the United States in October 2008, without significant operations. See **Recent Developments** below for further information regarding the subsidiaries.

As a result of the implementation of our strategy, we currently provide technology (devices and command & control software) to independent operators of mobile resource management solutions as well as our existing range of services to automobile owners and insurance companies.

As a result of the acquisitions we made in Israel, the Shagrir operations and technology manufacturing of Cellocator are currently the most significant operations we have, and are expected to account for the majority of our business and revenues in the foreseeable future. In Israel we currently provide the full range of our services.

In addition to our company s principal place of business described above, the headquarters of our subsidiary, Shagrir, are located in Holon, Israel. The headquarters of our subsidiary, PLA, are located in Buenos Aires, Argentina. The headquarters of our subsidiary, PRM, are located in Mexico City, Mexico. The headquarters of our subsidiary, Pointer Romania, are located in Bucharest, Romania.

In January 2005 our subsidiary, Pointer (Eden Telecom Group) Ltd., was renamed Shagrir Motor Vehicle Systems Ltd and in March 2007 was renamed Shagrir Systems Ltd.

For as discussion of our capital expenditures and divestitures, see Item 5.B. **Operating and Financial Review and Prospects Liquidity and Capital Resources.**

Recent Developments

Since January 1, 2008, the following important events have occurred to us:

Acquisition of Cellocator Ltd.

In September 2007, we acquired the assets and activities of Cellocator Ltd. and Matan Y. Communication Tracking Systems Ltd., or Cellocator, a private Israeli company active in the field of cellular location-based services and technology. The consideration for the acquisition consisted of (i) $16.7 million in cash, (ii) 160,000 ordinary shares of the Company, and (iii) a non-tradable debenture with a fair value of $ 1,951,000, which was convertible into 160,000 ordinary shares of the Company.

In January 2008, the seller decided not to convert the debenture, and as a result Cellocator and/or its shareholders hold, in the aggregate, approximately 3.4% of our issued and outstanding share capital. As part of the acquisition, we agreed to continue to fulfill specified conditions allowing Cellocator to meet particular existing tax benefit qualifications under Israeli law.

Allocation of Shares in Argentinean Subsidiary

In March 2007, we executed a Memorandum of Understanding, or MOU, with SOS, a leading provider of road side assistance in Argentina, or the Argentinean Provider, to cooperate in offering location based services and stolen vehicle retrieval services in Argentina. In June 2008 the Company allocated 5% of the shares in our Argentinean subsidiary, PLA, to the Argentinean Provider. Both sides have an option to repurchase or return the 5% shares until March 1, 2010 for the higher of an agreed amount or a formula based on the EBITDA of PLA. The closing of the transaction referenced in the MOU is subject to the success of the Argentinean Provider in reaching an agreement with a leading automotive manufacturer in Argentina and other factors. As of December 31, 2008, the closing had not yet taken place.

In connection with the above MOU, we also entered into a non-binding Letter of Intent to acquire controlling ownership of the Argentinean Provider discussed above, in consideration for $9 million. A due diligence process relating to the Letter of Intent will commence only if the Argentinean Provider has undergone a specified restructuring process, and to date a number of required steps in this process remain pending.

Loan to Hungarian automotive service provider

On January 8, 2008, we entered into a loan agreement with a Hungarian automotive service provider, pursuant to which we loaned them 290,000 Euros (approximately $450,000), of which up to 240,000 Euros are subject to repayment.

Private Placement with Israeli Institutional Investor

On July 18, 2008, we consummated a private placement of 140,056 of our ordinary shares to DBSI Investments Ltd., our principal shareholder, for an aggregate price of $1,000,000 at a price per share of $7.14 per share, which was 10% above to the average closing price of our ordinary shares between the date of our board s approval of the private placement on May 27, 2008 until July 10, 2008.

Repayment and Recapitalization by Shagrir of Outstanding Debt; Entry into New Loan Agreement

Shagrir funded its acquisition of Shagrir Towing Services in February 2005 through a credit line of approximately $23 million, made available by Bank Hapoalim B.M., and loans of approximately $22.5 million from a group of investors, including a loan of approximately $9 million provided by Shagrir Towing Services, a loan of approximately $11.5 million provided by a group of investors led by Gandyr Investments Ltd. and Egged Holdings Ltd., or Egged, and a loan of approximately $2 million provided by the Company.

During 2006 and 2008, Shagrir repaid all of these loans, other than the amounts held by Bank Hapoalim, by means of available funds and through funds provided by additional loans from Bank Hapoalim. In 2008 Shagrir entered into new loans agreements with Bank Hapoalim. The loans provided by Bank Hapoalim to Shagrir are in NIS currency and the interest rate is 7%-7.75%. As of December 31, 2008 the outstanding balances of the loans were $6 million and $ 1.7 million. As a result, as of December 31, 2008, Shagrir has in the aggregate approximately $22.2 million in outstanding loans, which are all entered into with Bank Hapoalim. For further information, see Note 10c of our consolidated financial statements. See **Item 10 Material Contracts Loan Agreements.**

Settlement of Legal Claim

In February 2008 we finalized the settlements of outstanding litigation with China National Electronics Import & Export Beijing Co., or CEIEC, regarding the alleged breach of agreements regarding CEIEC customer Sino Telocation Ltd. s purchase of a car localization system. Pursuant to the settlement both parties withdrew the claims against each other and against the bank, Bank Hapoalim B.M., used in connection with the agreement.

Options

On August 13, 2008 our board of directors resolved to issue options to one of our suppliers to purchase 3,000 of our ordinary shares, pursuant to our 2003 Employee Share Option Plan, which will vest immediately at an exercise price of $6.91 per share.

In July 2008 our shareholders resolved to issue to three of our directors options to purchase 9,000 of our ordinary shares, pursuant to our 2003 Employee Share Option Plan, which will vest in three equal annual installments over a period of three years, commencing as of the date of the grant, at an exercise price of $5.71 per share.

On February 25, 2009 our board of directors resolved to issue to our employees options to purchase 15,000 of our ordinary shares, pursuant to our 2003 Employee Share Option Plan, which will vest in four equal annual installments over a period of four years, commencing as of the date of the grant, at an exercise price of $3.14 per share.

On February 25, 2009 our board of directors resolved to modify the price of 166,750 options granted to our employees between the period of May 2005 and December 2007 to purchase 166,750 of our ordinary shares, pursuant to our 2003 Employee Share Option Plan, to be reduced to an exercise price of $3.14 per share.

Establishment of Subsidiaries in Romania, Brazil and the United States

In July 2008, Shagrir, together with a Romanian citizen, incorporated a Romanian company, S.C. Pointer S.R.L., or Pointer Romania, to provide road-side assistance and towing services in Romania. Each of Shagrir and the Romanian citizens owns 50% of the issued share capital of Pointer Romania. Shagrir also has the right to acquire an additional 1% of the share capital held by the Romanian holder. Pointer Romania signed an agreement to provide roadside assistance services in Romania starting October 1, 2008 for over a period of two years, to a large Romanian-based petrol company, which in turn will offer the services to its customers.

In August 2008, we established a subsidiary in Brazil, Cellocator Comercial S.A., which has 60% of its share capital held by us and the remaining amount held by Brazilian shareholders, and inuring October 2008 we established a wholly-owned subsidiary in the United States, Pointer Telocation Inc. Neither of these subsidiaries currently has any significant operations.

B. BUSINESS OVERVIEW

A. General

We are a leading provider of advanced command and control technologies for the automotive and insurance industries. We operate in two segments, our Pointer segment and our Cellocator segment. Our Pointer segment sells products and provides a range of services to automotive and insurance companies, and to a lesser extent to other corporate and individual customers. The range of services are comprised of road-side assistance and towing services, stolen vehicle retrieval services and fleet management services. We provide these services, for the most part, in Israel, through our subsidiary Shagrir Systems Ltd., or Shagrir, and in Argentina, Mexico and Romania through our subsidiaries Pointer Localisation y Assitencia S.A, which we refer to as PLA, Pointer Recuperacion Mexico SA, which we refer to as PRM, and S.C. Pointer S.R.L, which we refer to as Pointer Romania, respectively.

Our Cellocator segment is a producer of leading automatic vehicle location products, including asset tracking products, fleet management products having location, tracking, event driven reporting, logging and security capabilities, and GSM-based security products. The Cellocator segment produces Cellular/GPS and radio monitoring units, fleet management software and mobile resource management software used for fleet command and control centers. We develop, manufacture and distribute or sell these products to our Pointer segment and to third party local operators in Europe, Latin America, Asia and Israel who use our products and / or software and through which they provide location based and security services.

<u>Pointer Segment</u>

Our Pointer segment currently provides the following range of services to insurance companies and, to a lesser extent, other corporate and individual customers:

(i) Road-side assistance and towing services our road-side assistance services include towing services, mobile automobile repair services, vehicle replacement services, sales of spare-parts and services connecting the driver to other service providers. We provide our road-side assistance service through our Shagrir subsidiary, which currently operates in Israel. In order to provide such services, we use our own fleet and employees as well as sub-contractors.

(ii) Stolen vehicle retrieval services - we are operators and providers of services directly targeted to stolen and missing vehicle retrieval, which we refer to as our SVR services. SVR services includes in some cases both preventing vehicles from being stolen as well as retrieving them in co-operation with law enforcement and private security agencies. The services incorporate both a spread spectrum technology (SPSP) in the ISM frequency band, intended for self-deployed wide area networks (WAN) and Cellular / GPS technology communication system in order to offer a total remote vehicle monitoring and retrieval solution.

(iii) Fleet management services we provide an array of services to enhance our customers fleet management capabilities in order to ensure better utilization of vehicles and other mobile resources and operation cost savings, mainly in fuel savings. We provide end units for after market in-vehicle installations, to monitor online the operating parameters of a vehicle fleet and to report the results to the fleet owners and managers, through web-based or OS-based monitoring and management location applications. Our end-unit products can retrieve data from various sensors in the vehicle utilizing RS-232, CAN bus driver and controller, standard One-wire (Dallas) serial communication standards, or by analog and discrete ports.

(iv) Other services In 2007 our Shagrir subsidiary established an operation to provide household services to insurance companies relating to insurance coverage.

i. Road-side Assistance and Towing Services

Our Pointer segment provides road-side assistance and towing services mainly in Israel through our subsidiary Shagrir. We believe Shagrir is a leader in Israel in providing road-side assistance and towing services. Shagrir provides services to its subscribers throughout Israel and its fleet of vehicles includes approximately 100 service cars, mobile garages and towing vehicles, which are dispatched by the control center to the vehicle requiring assistance, through a sophisticated management and monitoring software application, connected via remote terminals used in the service cars, mobile garages and towing vehicles.

Subscribers for road side assistance and towing services are mainly referred to Shagrir by Israeli insurance companies, which are our customers. To a lesser extent, additional subscribers are comprised of fleet vehicle customers and private customers. A subscription entitles a subscriber during the subscription period (which is usually one year), to certain of our road-side assistance services, which are usually available to the subscriber twenty-four hours a day, every day of the year depending on the type of insurance policy purchased and the service contract with Shagrir.

A subscription is personal and non-transferable. A subscriber may, however, change the vehicle that is the subject of the subscription at any time. The price of a subscription is based, among other things, on the type of subscription and the type of vehicle (private or commercial).

Under the service contracts, Shagrir is responsible for a vehicle from the time Shagrir begins rendering services and until such time as the vehicle is delivered to its destination. Similarly, Shagrir undertakes to compensate the subscriber for any direct damage caused to his/her car as a result of the provision of the services, subject to the rules of the Israeli Civil Wrongs Ordinance.

Road-side Assistance -- Equipment, Subcontractors and Supplies

As of January 2009, Shagrir owned approximately 100 service cars, mobile garages and towing vehicles and owned approximately 100 replacement vehicles.

The general policy of Shagrir is to replace its towing vehicles, towing equipment and mobile garages approximately every five years, all depending on prevailing economic conditions.

The majority of the road-side assistance and towing services are carried out by employees of Shagrir. During peak demand periods, Shagrir calls on the services of certain independent contractors who render road-side assistance and towing services on behalf of Shagrir. Shagrir has entered into agreements with these independent contractors. Independent contractors are also often used in the provision of services by Shagrir as per operating requirements in peak and non-peak periods.

Most of the replacement vehicles are rented from various rental companies in Israel and about 25% performed by Shagrir s own fleet. Shagrir purchases the spare parts it uses in the provision of road-side assistance from various suppliers in Israel.

ii. Stolen Vehicle Retrieval (SVR) Services

Pointer operates SVR services in Israel through our Shagrir subsidiary and in Argentina and Mexico through our subsidiaries, PLA and PRM, respectively. Our services are provided based on spread spectrum technology (SPSP) intended for wide area networks (WAN) or Cellular / GPS technology. In Israel, Argentina and Mexico we provide location based services for vehicles using our command and control centre, radio frequency products and infrastructure, cellular network and other sophisticated systems for the protection and location of vehicles.

If a vehicle is stolen, our system may be alerted by sensors located in the vehicle as well as by the vehicle owner. The sensors maintain alert as to the progress of a theft by the transmission of information to our twenty-four hour manned command and control center. Once received by the center, the necessary steps to recover the vehicle are taken. In addition, our value added location based services include the provision of a distress button, using which a person can alert our command and control center, which locates the vehicle and immediately sends the required service as well as the location of vehicles through the Internet, by inserting a personal code, at any given time.

Remote Monitoring & Control Security

Our SVR services (and our larger fleet management package of services) offer a remote monitoring and control solution. Our system is comprised of three major parts:

- Command & Control Center (CCC)
  The CCC includes databases, as well as other software modules required for the execution of our operations. It also includes monitors on which location and other data collected from the end units is displayed and analyzed in order to determine the location of the end unit. Commands can be down-linked to the end units from the CCC using either a commercial paging system (while using the Pointerware network) or through cellular networks.

- Mobile / Vehicle Unit Installation A unit which may be installed on the vehicle, and which generally consists of a transceiver (radio frequency or cellular modem communication) with inputs and outputs capability, which is installed in a vehicle or any remote object to be monitored. The end-unit s inputs are connected to sensors in the vehicle or object or to the vehicle computer (mostly called CAN Bus), while the outputs send commands (which they receive from the CCC) to the object. Location of the vehicle is achieved either by triangulation measurements from several base stations installed by the operator or by means of GPS device in the vehicle unit.

- Communication Infrastructure
Communication is accomplished by either the cellular network in each territory of operations or radio frequency infrastructure with base stations. These stations are dispersed throughout a specific territory and connected to an existing communications infrastructure. Each base station is equipped with antennae which receive the end-unit s signal and measure the angle from which the signal arrived for the purpose of locating the vehicle. These measurements, together with additional data received from the end-units, are then converted into digital data and sent to the Command & Control Center.

The design of our system allows for seamless integration with existing infrastructures, low-cost expansion, development of multiple applications, and access to the internet and public switched telephone network gateways.

Our command and control monitoring center connects to the end-units via radio frequency or cellular communications. For SVR and location based services in Israel, our subsidiary Shagrir mainly uses our proprietary Pointerware SPSP (spread spectrum technology) system and products, and to a lesser but growing extent end units based on Cellular/GPS technology, mainly for fleet management applications.

In order to retrieve the stolen cars Shagrir uses its own personnel as well as law enforcement and various subcontractors.

In Israel, Argentina and Mexico, we also operate the command and control center from which we dispatch external security personnel subcontracted by us to retrieve the stolen vehicles or provide assistance as required by the driver. Installations and de-installations of end units in the vehicles are performed either by our in-house employees, or by subcontractors mainly in designated installation centers. Fleet Management services are provided to customers as web-based applications.

Our Argentinean subsidiary PLA provides mainly SVR services based on our proprietary Pointerware system and fleet management based on Cellular / GPS technology. This technology enables us also to extend services outside Buenos Aires.

Our Mexican subsidiary, PRM, provides SVR and fleet management services based on Cellular / GPS technology.

iii. Fleet Management Services (and other Monitoring Systems) and Value Added Location Based Services

Our subsidiary Shagrir is also a leading provider of fleet management services in Israel. The communication method for this service is predominantly cellular with location via GPS and connectivity to the vehicle either by CAN Bus or to sensors via inputs and outputs. Operators monitor vehicles using a web-based application with capabilities for monitoring the vehicle s location, speed and various inputs (if connected). Reports to operator s employees are provided automatically or upon request, via internet, GPRS or SMS. These reports may include parameters that enable monitoring performance

In our fleet management services, Cellular / GPS Units & Web-based application enable many fleet management capabilities, ensuring better utilization of vehicles and other mobile resources. The end-unit can connect to various sensors by RS-422 or RS-232 or CANbus standards, by analog or by discrete (on or off) wirelines. The sensors monitor various vehicle operating parameters, and the end unit will report the results to the fleet owners and managers.

In Argentina, PLA provides fleet management services based on Cellular / GPS technology and stolen vehicle retrieval services both based on Radio frequency and Cellular / GPS technologies and in Mexico our subsidiary, PRM, provides both fleet management and stolen vehicle retrieval services, based on Cellular / GPS technology.

iv. Other Services Household Insurance Services

In 2007 our Shagrir subsidiary established an operation to provide household services to insurance companies relating to insurance coverage, which operations were insignificant to our financial results as of the end of December 31, 2008.

Cellocator Segment

Our Cellocator segment is a producer of leading automatic vehicle location products, including asset tracking products, fleet management products having location, tracking, event driven reporting, logging and security capabilities, and GSM-based security products. The Cellocator segment produces cellular/GPS and radio monitoring units fleet management software and mobile resource management software used for fleet command and control centers. We develop, manufacture and distribute or sell these products to our Pointer business and to third party local operators in Europe, Latin America, Asia and Israel who use our products and / or software and through which they provide location based and security services.

Our Cellocator segment develops, manufactures and distributes the following products:

(i) Stolen Vehicles Recovery (SVR) - Both SPSP and cellular / global positioning system, or GPS, communication systems enable unique features for SVR solutions, including (i) communication & location facilities (ii) concealed terminal (iii) alarm system adaptability (iv) remote command (v) accuracy (vi) back-up power supply, and (vii) 24x7 redundant command and control center (CCC). The radio frequency monitoring devices use our proprietary Pointerware technology SPSP (spread spectrum technology) used for wide area networks. We still rely on third party suppliers to manufacture our Location Based Services systems which primarily consist of radio frequency devices.

As a result, in connection with our SVR services, we have used both cellular and radio frequency (Location Based Services) monitoring devices.

(ii) Cellular Monitoring Units; Location Based Services systems - Since the acquisition of Cellocator in 2007, we are manufacturing our own cellular units and are no longer reliant on third party suppliers. The Cellocator units enable us to provide versatile information as well as nationwide coverage, utilizing the cellular network in each territory. These units are specially designed to operate in harsh conditions installed in the vehicle; the design takes into consideration the metallic envelope that surrounds the unit, the temperature and vibration stress that are imposed on it, the limited and unstable power supply that characterizes the car power supplies generally, and specific installation requirements of the variety of cars available in the market. The design is intended to provide a high degree of reliability and flexibility.

(iii) Fleet Management Application Products In connection with our fleet management services, we provide cellular / GPS units & web-based application to enhance many fleet management capabilities, ensuring better utilization of vehicles and other mobile resources. The end-unit can connect to various sensors by RS-422 or RS-232 or CANbus standards, by analog or by discrete wirelines. The sensors monitor various vehicle operating parameters, and the end unit will report the results to the fleet owners and managers.

(iv) Mobile Resource Management/Command and Control Software We provide web access required for the execution of vehicular and fleet management operations. The product also includes monitors on which location and other data collected from the end units is displayed, tracked, analyzed and reported, in order to determine location, utilization and certain functionalities (e.g. vehicle status and some driving patterns such as speed).

Our Cellocator segment distributes and sells these products to our Pointer operations and to third party operators and distributors in 25 countries in Europe, Latin America and Asia.

Operators purchase either Cellular Monitoring Units or Location Based Services systems, including our Cellocator products, or Command & Control software or our fleet management application products or a combination of them and are responsible for the commercialization of their services, which are based on our systems and products in their designated territories and in their licensed coverage area. They control the sales and marketing of the end user devices as well as services to their final customers according to their business focus and business plans. In order to provide these services, our domestic operators purchase from us, and deploy, the Command and Control software and fleet management application products and, if they provide SVR services via our radio frequency solution, sufficient base stations to cover their respective territories.

B. Sales and Marketing

Pointer Segment

Israel

For the provision of its road-side assistance and towing services, Shagrir sales and marketing team directs its sales and marketing efforts to promoting its subscriptions mainly to Israeli insurance companies, and to lesser extent fleet vehicle customers. Our SVR services are marketed primarily through vehicle importers and to a lesser extent to fleet vehicle operators, leasing companies and private individuals. Other value added location based services are marketed directly to fleet vehicle operators and private individuals who have already installed our products. We employ an in house sales and marketing force and also direct the sale of our security products and car units for installation in the vehicles of private customers, business customers and vehicle fleets either directly or through our network of approximately 70 authorized installers across Israel.

In addition, the Shagrir sales team captures and analyzes sales data from various sources including insurance companies and agents, fleet vehicle customers and private customers which it then uses to formulate future sales and marketing strategies.

Argentina and Mexico

In order to execute their sales and marketing initiatives, our Argentinean and Mexican subsidiaries, PLA and PRM, employ an in-house sales and marketing force and third party dealers whose efforts are focused on sales and marketing to insurance companies and vehicle agents, fleet operators directly, or indirectly through insurance agents, vehicle distributors and vehicle financing corporations in their respective designated territories.

Cellocator Segment

Our sales and marketing efforts to operators in other countries, mainly in respect of the products of our Cellocator segment, are executed by our internal marketing, sale force and customer support employees operate from Israel, focusing on sales of our technology and being attentive to needs of these customers, in order to provide them with the solutions they require.

C. Patent and Licenses; Government Regulation

In Israel, we are not dependent on any patent or licenses, which are material, to our business or profitability, with the exception of the following licenses:

- a business license to render towing and retrieval/extrication services under the Control of Commodities and Services (Vehicle Towing and Extrication) Order, 5734-1974, which is valid until December 31, 2009;
- a license for the operation of mobile garages under the Control of Commodities and Services (Vehicle Garages and Factories) Order, 5730-1970, which is valid until December 31, 2009; and
- a license to rent self-drive vehicles under the Control of Commodities and Services (Tour Transport, Special Transport and Vehicle Rental) Order, 5745-1995, which is valid until December 31, 2009.

The use of products incorporating our Pointerware technology in the State of Israel requires a license from the Israel Ministry of Communications. In May 1996, Shagrir was granted an operational license to operate our wireless messaging system over 2 MHz in the 966 to 968MHz radio spectrum band. Since 1999, this license has been renewed on a regular basis.

Our Argentinean subsidiary, PLA, is not dependent on any patent or licenses which is material to its business or profitability.

Most Latin American countries have dedicated a part of their radio spectrums for the ISM band for unlicensed services, however, the local operator is required to obtain a specific license for its operations. PLA has been required to obtain domestic licenses for the deployment of our systems in Argentina.

Regarding our Mexican subsidiary, PRM, since 2006 our services in Mexico through PRM are based entirely upon Cellular Monitoring Units and therefore require no specific governmental licenses. We are registered by the federal commission to provide services.

While the use of our Cellular Monitoring Units and services does not require regulatory approvals, the use of our radio frequency (Location Based 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 Federal Communications Commission in the United States for our vehicular end-unit device (RMU) and for our SVR services 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. See Item 3 **Risk Factors**.

D. Competition

Pointer Segment

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. In addition, other companies which provide assistance services through insurance companies may attempt to compete with us. Ituran is our main direct competitor in the stolen vehicle retrieval and fleet management services market.

Our primary competitors in the stolen vehicle retrieval services market in Argentina are LoJack and Ituran. In Mexico our prime competitor in the stolen vehicle retrieval services are LoJack and MISANTI.

Many additional competitors operate in both countries, however their positioning is not as strong as LoJack and Ituran.

In fleet management services market our prime competitors in Argentina are Megatrans and Sitrack while in Mexico Omnitrack and Inmosat. In fleet management services we have many competitors for the low-entry level services for monitoring vehicles. When management is required (analysis, reporting, diagnostics, driver-behavior patterns) fewer competitors operate in both countries however activities are intensive.

Some competitors in the stolen vehicle retrieval services market offer a similar solution to ours and others, like LoJack, use a 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, in these markets and also some other potential markets, some primary location based service providers who directly or indirectly compete with us employ other technologies, such as a combination of GPS (satellite-based location technology) over cellular-like systems. These systems use commonly existing infrastructure, which offer location based services, which conform with the recent FCC ruling, requiring mobile phones to be equipped with either relatively accurate 911 capabilities (using GPS or differential time of arrival technologies), or less accurate 911 capabilities (using cell-id, analog or paging technologies).

Cellocator Segment

Many companies manufacture vehicle devices based on GPS / Cellular technology. Our primary competitors in the vehicle devices (GPS/Cellular) product market in Argentina and Mexico include Skypatrol, Webtech, Trafficmaster, Octotelematics, Cobra, AirIQ and the modem manufacturer Enfora. Our competitors in Europe and Asia consist mainly of Enfora USA and European manufacturers such as Octotelematics, Trafficmaster, Falcom and Cobra.

Significant differences from one GPS / Cellular device to the other are mainly a result of proprietary firmware that enables applications (for monitoring, management and sensor-data inputs) and connectivity of products to their network, and only to a lesser extent by hardware and packaging.

E. Seasonality

Our Pointer segment is not significantly seasonal. In Israel, the demand for road-side assistance, towing services and replacement vehicles is moderately seasonal, as it is greatly impacted by weather conditions, with Shagrir usually receiving more service calls on winter and summer days and less service calls on spring and fall days. Furthermore, the demand for replacement vehicle services is greatly impacted by the number of vehicles being stolen in Israel at a given time, with Shagrir receiving more calls for replacement vehicles where the number of vehicles being stolen in Israel is high. The location based services market is not seasonal in Israel.

Our Pointer segment provided in Argentina and Mexico is not significantly seasonal.

Our Cellocator segment is not significantly seasonal.

***Principal Markets*:**

For the breakdown of our revenues by category of segments please see Item 5 ***Selected segment financial data*** **.** The following is a breakdown of our revenues by category of activity, including the percentage of our total consolidated sales for each period:

	2008		2007		2006	
	In thousands	**% of our total sales**	**In thousands**	**% of our total sales**	**In thousands**	**% of our total sales**
Services:	46,010	60	35,806	69	32,211	77
Products:	30,645	40	15,821	31	9,701	23
Total:	76,655	100	51,627	100	41,912	100

The following is a breakdown of our revenues by geographic region, including the percentage of our total consolidated sales for each period:

	2008		2007		2006	
	In thousands	**% of our total sales**	**In thousands**	**% of our total sales**	**In thousands**	**% of our total sales**
Israel	54,322	71	42,859	83	37,346	89
Latin America	7,923	10	4,647	9	3,424	8
Europe	12,826	17	3,836	7	1,077	3
Other	1,584	2	285	1	65	0
Total	**76,655**	**100**	**51,627**	**100**	**41,912**	**100**

C. ORGANIZATIONAL STRUCTURE

We are organized under the laws of the State of Israel. The following is a list of our currently active subsidiaries, their countries of incorporation and our ownership interest in each of them:

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
Pointer Localisacion y Assistencia S.A (1)	Argentina
Shagrir System Ltd.(2)	Israel
Pointer Recuperacion Mexico SA (3)	Mexico
S.C. Pointer S.R.L. (4)	Romania
Cellocator Comercial S.A.(5)	Brazil
Pointer Telocation Inc. (6)	USA

(1) We hold 88% of the issued and outstanding shares of PLA.
(2) We hold 56.56% of the issued and outstanding shares of Shagrir.
(3) We hold 74% of the issued and outstanding shares of PRM.
(4) Shagrir holds 50% of the issued and outstanding shares of S.C. Pointer S.R.L.
(5) We hold 60% of the issued and outstanding shares of Cellocator Comercial S.A.
(6) We hold 100% of the issued and outstanding shares of Pointer Telocation Inc.

D. PROPERTY, PLANTS AND EQUIPMENT

Our executive offices, operational, research and development and laboratory facilities are located at 14 Hamelacha Street, Rosh Ha ayin 48091, Israel (a suburb of Tel Aviv) where we currently lease approximately 1,755 square meters with annual lease payments of approximately $286,000. PLA s offices and operations facility are located in Buenos Aires. PLA currently leases 2,033 square meters (including 1,313 square meters used by its installation centers) with an annual lease payment of $180,000. Shagrir s offices and main operations facility are located in Holon, Israel. Shagrir currently leases 5,820 square meters in Holon with annual rental fees of approximately $363,000. In addition, Shagrir purchased from Shagrir (1985) its Haifa property (2,100 square meters) for approximately $389,000; and leases an additional property in Jerusalem, Israel (approximately 606 square meters) with annual rental fees of approximately $46,000. PRM s offices and operations facility are located in Mexico City, Mexico. PRM currently leases 600 square meters with an annual lease payment of $54,000. Pointer Romania s offices and operations facility are located in Bucharest, Romania. PRM currently leases 150 square meters with an annual lease payment of $59,000. In February 2009 Pointer Telocation Inc. s leased offices in New Jersey, USA. Pointer Telocation Inc. currently leases 200 square meters with an annual lease payment of $100,000. For further information, see Note 11d of our consolidated financial statements.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS
A. OPERATING RESULTS

The following discussion of our results of operations and financial condition should be read in conjunction with our consolidated financial statements and the related notes thereto included elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth in Item 3.D. Key Information Risk Factors. The results of operations discussed herein include the operating results of Cellocator for the period from and including September 18, 2007 through December 31, 2008.

Overview

We are a leading provider of advanced command and control technologies for the automotive and insurance industries. We operate in two segments, our Pointer segment and our Cellocator segment. Our Pointer segment is comprised of services to the automotive and insurance industries, 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, Mexico and Romania through our local subsidiaries.

Our Cellocator segment is a producer of leading automatic vehicle location products, including asset tracking products, fleet management products having location, tracking, event driven reporting, logging and security capabilities, and GSM-based security products. The Cellocator segment produces Cellular/GPS and radio monitoring units fleet management software and mobile resource management software used for fleet command and control centers. We develop, manufacture and distribute or sell these products to our Pointer segment and to third party operators in 25 countries.

Our revenues are principally derived from (i) provision of services through our Pointer segment, including our road-side assistance services, subscriber fees, SVR services and fleet management services; and to a lesser extent, by technical support services that we provide, and (ii) sales of our systems and products through our Cellocator segment and to also through our Pointer segment, including sales of our Cellular/GPS and radio monitoring units, sales of our fleet management application products and command and control software and third party products.

We operate as service providers predominantly in Israel and Latin America (Argentina and Mexico), mainly to insurance companies and automobile owners. As technology and product developers, we sell our products in Latin America, Europe, Israel and Asia.

Since our acquisition of Shagrir in 2004 and certain of the activities and assets of Shagrir Towing Services in 2005, and the acquisition of Cellocator in 2007 we have expanded our operations and increased our revenues in Israel and internationally. Our revenues from customers in Israel in 2008 were $54 million and, approximately 71% of our revenues in 2008 were derived from the Israeli market in comparison to 83% in 2007. The increase of our international revenues in 2008 is primarily attributable to Cellocator products which were $19 million in 2008 to third party, while in 2007 these Cellocator revenues were only included only from the fourth quarter of 2007.

In 2006 we introduced a new line of products, Cellular Monitoring Units, into our SVR services and fleet management services businesses, which we purchased from third party subcontractor. In September 2007 we acquired Cellocator, a developer and manufacturer of cellular monitoring units, and this acquisition is assisting us in our objective to present new products to the market, improve our gross margin from cellular s products and to achieve vertical efficiencies of scale by manufacturing our own units without being required solely to use third party subcontractors. As a result of the Cellocator acquisition in the fourth quarter of 2007, Cellocator was organized into a separate segment in 2008, called our Cellocator segment, and is a significant contributor to our revenues with significant revenues derived from exports to customers in Latin America, Europe and Asia. In 2008 a majority of our revenues from sales of products were derived from sales of such units and from selling of other products under development to the vehicle location market. Thus, the portion of revenues from sales of our products out of our total revenues has been increased in 2008 and due to the uncertainty of the automotive market we expect that the portion of revenues from sales of our products out of our total revenues in 2009 will decrease.

As a result of these acquisitions we made in Israel, the Shagrir operations and the technology manufacturing by Cellocator are currently the most significant operations we have, and are expected to account for the majority of our business and revenues in the foreseeable future.

Since our acquisition of Cellocator in September 2007, we also expanded our sales of products and technology in Latin America, Europe and Asia.

Acquisitions and Initiatives

As part of our strategy, we have pursued and may continue to pursue acquisitions and other initiative in order to offer new products or services to enhance our market position, globalization and strength. Our acquisitions are either technology or operators that provide services. As a result of those acquisitions the total goodwill and other intangible assets in our balance sheets were $65 million and $69 million as of December 31, 2008 and 2007 respectively. See about our acquisitions in Item 4 **History and Development of the Company and Recent Developments.**

Research and Development

The research and development activities of our Cellocator segment involve the development of new products in respond to an identified market demand primarily of our internal products development, in conjunction with a customer requirement and may increase in order to meet those demands. Research and development expenditures were $2.5 million, $1.7 million and $1.2 million in the fiscal years ended December 31, 2008, 2007 and 2006 respectively, respecting 3.3%, 3.2% and 2.8% respectively, of our total revenues in these fiscal years while in respect of revenues from products only the percentages were 8.2%, 10.6% and 12 % in these fiscal years.

Business Challenges/ Areas of Focus

Our primary areas of focus and business include:

- Continuing the growth and revenues and profitability of our products and services by the subsidiaries;
- Enhancing the introduction and recognition of our new products, including the Cellocator products, into the markets;
- Penetrating into new markets, mainly Latin America and Europe through our Cellocator products, and strengthening our presence in existing markets by proposing full scope of services;
- Succeeding in selling diversify products in territories where we already activity, mainly in Latin America and Europe; and
- Achieving operating profitability of our Mexican subsidiary by increasing number of subscribers using our technology, and by expanding the revenue generated by our Romanian and Brazilian subsidiaries.

Certain Issues Affecting our Results of Operations

The results of operations discussed herein include the operating results of Cellocator for the period from and including the acquisition of Cellocator on September 18, 2007.

Since 2005 we have consolidated our financial reports in order to reflect 100% of our subsidiary Shagrir s financial results. On November 30, 2005, a group of investors, led by Gandyr Investments Ltd., exercised their options to convert their loan of approximately $6.7 million into 43.44% of the shares of Shagrir Systems. As a result, our holdings in Shagrir Systems were reduced to 56.56%. Since 2006 Shagrir s shareholders equity became positive and we have consolidated its financial results only for the then existing holding (by recording a minority interest), which materially negatively affects our net income (loss) at such periods.

Revenues

Products

We generate revenues through our Cellocator segment from sales of our products and third party products to our Pointer segment, and also to third party operators in Latin America, Europe, Israel and our other sale locations around the world which account for the majority of our revenues from sales of products. The ratio of products out of the total revenues increased since the fourth quarter of 2007 due to the inclusion of Cellocator products sales beginning in September 2007. We anticipate that the increase of products ratio out of the total revenues will not increase in 2009 due to the worldwide automotive market recession in the beginning of 2009. The acquisition of Cellocator enables us to spread our sales in new areas primarily in Europe and Latin America.