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

FORM 20-F

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

Or

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

For the fiscal year ended December 31, 2008

Or

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

Or

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

Date of event requiring this shell company report

For the transition period from to

Commission File number: 001-13128



POINTER

POINTER TELOCATION LIMITED

(Exact name of Registrant as specified in its charter)

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

14 Hamelacha Street,
Rosh Haayin 48091, Israel
(Address of principal executive offices)

ISRAEL
(Jurisdiction of incorporation
or organization)

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 share4,752,931

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

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued by
the International Accounting Standards Board

Other

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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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 Gandy 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 effect 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 Gandy 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.

Pointer Segment

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, Traffimaster, 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, Traffimaster, 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 Localizacion y Asistencia 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 Gandy 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.

Services

We generate revenues through our Pointer segment from sales of our services primarily by our subsidiaries in Israel and Latin America. The services included mainly road side assistance and towing, SVR, fleet management and other value added services. A majority of our revenues represent subscription fees paid to us by our customers who include insurance companies, commercial companies and individuals. Due to very intense competition in road side assistance in Israel we expect on-going price erosion. However, such competitive pressures are not expected to have a major impact on our Israeli subsidiary's Shagrir's, operating results and cash flow for 2009.

Costs and Expenses

Cost of Revenues

Cost of revenues referring to services consists primarily of the operational costs of our subsidiaries, which mainly include salaries and employee benefits, costs related to towing and mobile automobile repair vehicles and replacement vehicles, subcontractors, system maintenance, end-unit installation, system communications, security and recovery, and the depreciation of fixed assets. Cost of revenues referring to products includes expenses related to the cost of purchasing or manufacturing systems and products, including raw materials and components, salaries and employee benefits, subcontractors and consulting. Amortization of intangible assets is primarily attributable to the Cellocator acquisition's intangible assets of developed technology.

Operating Expenses

Research and Development Expenses.

Research and development expenses consist primarily of salaries and employee benefits, subcontractors and consulting in connection with our products.

Selling & Marketing Expenses.

Selling & marketing expenses consist primarily of expenses for salaries and employee benefits, sales commissions and other selling and marketing activities.

General and Administrative Expenses.

General and administrative expenses consist primarily of salaries and employee benefits for executive, accounting, administrative personnel, professional fees, provisions for doubtful accounts, and other general expenses.

Amortization of intangible assets.

Intangible assets consist of the acquired patents, customer list and brand names. Intangible assets are amortized over their useful life using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up.

Financial Income (Expenses), Net.

Financial expenses consist mainly of bank charges and interest expenses, foreign currency translation adjustments, hedging expenses and others. Financial income consists of interest on short-term bank deposits.

Other Expenses, Net.

Other expenses, net relate primarily to items of income or expenses outside our ordinary course of business.

Tax expense.

Tax expense consists of federal, state, local taxes on the income of our business, deferred income taxes and amortization of goodwill related to the acquisition of Shagrir. See Item 10.E – **Taxation and Government Programs** for further information on taxation applicable to us.

Critical Accounting Policies

The consolidated financial statements include Pointer and the accounts of our subsidiaries. Intercompany transactions and balances are eliminated in consolidation. The preparation of financial statements in conformity with U.S. GAAP requires us, in certain instances, to use estimates and assumptions that affect the amounts reported in the consolidated financial statements and the notes thereto. The actual results could differ from those estimates and the use of different assumptions would likely result in materially different results of operations. Our accounting policies are described in note 2 to the consolidated financial statements included herein at Item 18. A “critical accounting policy” is one that is both important to the portrayal of our financial condition and results of operations and requires management’s most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The significant accounting policies and estimates, which we believe to be the most critical in understanding and evaluating our reported financial position and results of operations, include:

Revenue recognition

We and our subsidiaries generate revenues primarily from the provision of services, subscriber fees and sales of systems and products, mainly in the areas of road-side assistance services, automobile repair and towing services, stolen vehicle recovery and other value added services. To a lesser extent, revenues are also derived from technical support services that we provide. We and our subsidiaries sell our systems primarily through a direct sales force as well as through resellers. Sales consummated by our sales forces and sales to resellers are considered sales to end-users.

Revenues from the sale of systems and products are recognized in accordance with Staff Accounting Bulletin (“SAB”) No. 104, “Revenue Recognition” (“SAB No. 104”), when delivery has occurred, persuasive evidence of an agreement exists, the vendor’s fee is fixed or determinable, no further obligation exists and collectability is probable.

Service revenues including subscriber fees are recognized as services are performed, over the term of the agreement.

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

In accordance with Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables” (“EITF 00-21”), revenue from certain arrangements may include multiple elements within a single contract. Our accounting policy complies with the requirements set forth in EITF 00-21, relating to the separation of multiple deliverables into individual accounting units with determinable fair values. We consider the sale of products and subscriber fees to be separate units of accounting.

Revenues from stolen vehicle retrieval services are recognized upon success, when the related stolen vehicle is recovered, and such recovery is approved by the customer or ratably over the term of the agreement.

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

Generally, we do not grant rights of return. We follow SFAS No. 48, “Revenue Recognition when Right of Return Exists”. Based on our experience, no provision for returns has been recorded.

Inventory

Inventories are stated at the lower of cost or market value. Cost is determined using the “moving average” method. Inventory write-offs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, and for market prices lower than cost. The level of our write-offs related to our inventories accounts fluctuates depending upon all of the factors mentioned above.

Valuation of Long-Lived Assets, Intangibles and Goodwill

Goodwill reflects the excess of the purchase price of the acquired subsidiary or activities over the fair value of net assets acquired. Pursuant to SFAS 142, “Goodwill and Other Intangible Assets”, goodwill is not amortized but rather tested for impairment at least annually. We have elected to test for goodwill impairment on December 31 of each year. We compare the fair value of each reporting unit to its carrying value, including goodwill. We estimate the fair value of each reporting unit by estimating the present value of the reporting unit’s discounted cash flows. The discounted cash flow calculations use projections that are based on management’s estimations. If the fair value exceeds the carrying value, no impairment loss is recognized. We evaluate the reasonableness of the fair value calculations of its reporting units by reconciling the total of the fair values of all of its reporting units to the total market capitalization, and adjusting for an appropriate control premium. If the carrying value exceeds the fair value, the goodwill of the reporting unit is considered potentially impaired and the second step is completed in order to measure the impairment loss. Under the second step goodwill is reduced to its implied fair value through an adjustment to the goodwill balance, resulting in an impairment charge.

No impairment losses were identified in 2008, 2007 or 2006.

During 2008 and 2007, the Company reduced the goodwill at the amount of \$ 805,000 and \$ 532,000, respectively due to the realization of tax loss carryforward of subsidiary, that at the date of acquisition of the subsidiary were not more-likely-than-not to be realized.

We cannot reliably predict the occurrence of future events, if any, that might adversely affect the reported value of goodwill, other intangible assets or its long lived assets at December 31, 2008. Subsequent to December 31, 2008 our share price has been volatile and has from time to time declined. Accordingly, the Company will continue to evaluate the carrying value of the goodwill to determine whether the decline in share price is an indication that there is a triggering event that may require the Company to perform an interim impairment test and record impairment charges to earnings, which could adversely affect the Company's financial results.

Other future events include decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base, or a material negative change in our relationships with significant customers. A variance in the discount rate or cash flows could have had a significant impact on the outcome of future goodwill impairment tests. If in the future we will be required to record an impairment of goodwill, our results of operations could be materially harmed and our equity could be decreased.

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

The brand names are amortized over periods between two and nine years; and the customer related intangibles are amortized over periods between five and nine years; the developed technology is amortized over a five-year period; and patents are amortized over an eight-year period.

Our long lived assets are reviewed for impairment in accordance with SFAS No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No.144") whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

During 2006, due to the requirement of certain major potential customers in Mexico to increase the territorial coverage to a nationwide coverage and due to the increased costs of communication services with respect to the proprietary system that was used, Pointer Mexico's management has decided to migrate from the Company's traditional radio frequency (RF) system communication technology to Cellular/GPS technology in Mexico. Therefore, Pointer Mexico's management has recognized an impairment loss related to its base stations (network installation), which constitute the base of its former installed technology to provide its services, and installed products (RMU's) which are the devices used to locate the vehicles.

This group of assets has been reduced to its fair value as determined by the management based on present value of future net cash flows. Impairment loss has been recognized in a separate caption within the statement of operations in the amount of \$ 372,000 for the year ended December 31, 2006 and \$ 36,000 for the year ended December 31 2007.

Share based compensation

Stock-Based Compensation Expense.

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)").

SFAS 123(R) requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated income statement. Prior to the adoption of SFAS 123(R), the Company accounted for equity-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard starting from January 1, 2006, the first day of the Company's fiscal year 2006. Under that transition method, compensation cost recognized in 2006, includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated.

The Company recognizes compensation expenses for the value of its awards, which have graded vesting, based on the accelerated attribution method over the vesting period, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

During the years ended December 31, 2008, 2007 and 2006, the Company recognized stock-based compensation expenses related to employee stock options in the amounts of \$ 350,000 \$ 783,000 and \$ 251,000 respectively.

Deferred income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). SFAS No. 109 prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value, if it is more likely than not that a portion or all of the deferred tax assets will not be realized.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 utilizes a two-step approach for evaluating tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied (i.e., the position is more-likely-than-not to be sustained). Under step two, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis that is more-likely-than-not to be realized upon ultimate settlement

FIN 48 applies to all tax positions related to income taxes subject to the Financial Accounting Standard Board Statement No. 109, "Accounting for Income Taxes" ("FAS 109"). This includes tax positions considered to be "routine" as well as those with a high degree of uncertainty.

The adoption of FIN 48 did not have a material effect on the Company's financial statements and no affect has been recorded on January 1, 2007, and no provisions were recorded during 2007 and 2008.

Selected Financial Data

We derived the following selected consolidated financial data presented below as of December 31, 2007 and 2008 and for each of the years ended December 31, 2006, 2007 and 2008 from our consolidated financial statements and related notes included in this annual report. The selected consolidated financial data (including balance sheet data) for the years ended December 31, 2004 and 2005 have been derived from audited financial statements not included in this annual report.

The financial data set forth below should be read in conjunction with "Item 5—**Operating and Financial Review and Prospectus**" and our consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this annual report. The following financial data includes the results for Cellocator for the period from and including the date of its acquisition on September 18, 2007 through December 31, 2008.

Year Ended December 31,

(in thousands of U.S. dollars – except weighted average number of ordinary shares, and basic and diluted income (loss) per ordinary share)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Statement of Income Data:					
Revenues:					
Products	30,645	15,821	9,701	8,856	5,594
Services	46,010	35,806	32,211	28,108	5,375
Total Revenues	76,655	51,627	41,912	36,964	10,969
Cost of revenues:					
Products	16,392	9,414	5,602	5,727	4,297
Services	29,869	23,034	20,786	17,587	3,301
Amortization of intangible assets	980	277	–	–	–
Total Cost of Revenues	47,241	32,725	26,388	23,314	7,598
Gross profit	29,414	18,902	15,524	13,650	3,371
Operating Expenses:					
Research and development, net	2,511	1,675	1,170	892	482
Selling, general and administrative expenses	15,245	11,143	8,676	9,211	4,419
Total Operating Expenses					
Amortization of deferred stock based compensation	–	–	–	126	465
Amortization of intangible assets and Impairment of long lived assets	2,365	1,877	2,112	2,462	932
Other income, net	–	–	(1,292)	–	–
Operating income (loss)	9,293	4,207	4,858	959	(2,927)
Financial expenses	4,054	2,814	2,577	4,027	758
Other income (expenses)	22	12	14	341	(42)
Income (loss) before tax on income	5,261	1,381	2,295	(2,727)	(3,727)
Taxes on income	640	353	82	–	37
Income (loss) before Minority interest	4,621	1,028	2,213	(2,727)	(3,764)
Minority interest	2,248	1,366	1,044	–	–
Net income (loss)	2,373	(338)	1,169	(2,727)	(3,764)
Basic net earning (loss) per share	0.51	(0.08)	0.39	(1.17)	(2.58)
Diluted net earning (loss) per share	0.50	(0.08)	0.31	(1.17)	(2.58)
Basic weighted average number of shares outstanding (in thousands)	4,679	4,271	2,983	2,339	1,457
Diluted weighted average number of shares outstanding (in thousands)	4,679	4,310	3,003	2,339	1,457
Balance Sheet Data:					
Total assets	102,599	100,236	76,399	67,214	25,513
Net assets (liabilities) of continuing operations	35,815	32,203	19,430	10,805	7,086
Working capital (deficit)	(7,965)	(15,327)	(10,874)	(13,999)	(6,698)
Shareholders' equity (deficiency)	35,815	32,203	19,430	10,805	7,086
Share capital	3,266	3,139	2,140	1,680	1,145
Additional paid-in capital	118,015	116,910	103,880	100,707	94,127

Operating Results

The following table presents, for the periods indicated, certain financial data expressed as a *percentage* of revenues for the line items discussed below:

	2008	2007	2006
Revenues:			
Products	40	31	23
Services	60	69	77
Total Revenues	100	100	100
Cost of Revenues:			
Products	21	18	13
Services	39	45	50
Amortization of intangible	1	0.5	–
Total Cost of Revenues	62	63	63
Gross profit	38	37	37
Operating Expenses:			
Research and development costs, net	3	3	3
Selling, general and administrative expenses	20	22	21
Total Operating Expenses	23	28	24
Amortization of intangible assets and Impairment of long lived assets	3	4	5
Other income, net	–	–	(3)
Operating income (loss)	12	8	12
Financial expenses	5	5	6
Other income (expenses)	–	–	–
Income (loss) before tax on income	7	3	5
Taxes on income	1	1	–
Income (loss) before Minority interest	6	2	5
Minority interest	3	3	2
Net income (loss)	3	(1)	3

Twelve Months Ended December 31, 2008 Compared with Twelve Months Ended December 31, 2007

We acquired Cellocator on September 18, 2007, and have determined to present segment financial data for Cellocator beginning in the fiscal year ended December 31, 2008. We do not present a comparison of financial results by segment for the twelve months ended December 31, 2008 compared with the twelve months ended December 31, 2007, as a result of having only one full year of financial results by segment. For more information about our financial information by segment, see “–Selected segment financial data below.”

Revenues. Revenues sharply increased by \$25 million, or 48% from \$52 million in 2007 to \$77 million in 2008. The increase in total revenues in 2008 as compared to 2007 is primarily attributable to the Cellocator acquisition in September 2007, revaluation of the NIS against the dollar by 13% and increase in revenues from services.

The revenues from products increased by \$15 million to \$ 30.6 million from \$ 15.8 million in 2007. This increase of 94% in products is primarily attributable to Cellocator acquisition which contributed to \$13 million.

The revenues from services increased by \$10.2 million from \$35.8 million to \$46 million. This increase of 28% was positively impacted also by revaluation of the NIS against the dollar of our sell of services in Israel.

Revenues from services in 2008 accounted for 60% out of total revenues as compared with 69% in 2007. This change is primarily attributable to the sharply increase of revenues from products due to the contribution of commencing sale of Cellocator's products since September 2007.

Our international revenues in 2008 accounted for 30% out of total revenues compared to 17% in 2007. During 2008 we increased our sales, primarily products, to Latin America from \$4.6 million in 2007 to \$7.9 million in 2008 and in Europe from \$ 3.8 million in 2007 to \$12.8 million in 2008 and to the rest of the world from \$0.3 million in 2007 to \$1.6 million in 2008.

Cost of Revenues. Our cost of revenues increased to \$47.2 million for the twelve months ended December 31, 2008 as compared to \$32.7 million for the same period in 2007. This increase of 44% was associated with commence of selling Cellocator's products, revaluation of the NIS against the dollar, increase of services and amortization of intangible assets on the amount of \$0.7 million attributable to Cellocator acquisition.

Gross Profit. Our gross profit increased by \$10.5 million from \$18.9 million in 2007 to \$29.4 million in 2008. This increase is mainly as a result of the foregoing. As a percentage of total revenues gross profit accounted 38% in 2008 compared to 37% in 2007. Our gross margin on products sales in 2008 was 46%, compared to 40% in 2007 without amortization. Gross margins in services is approximately 35% in 2008 and 2007.

Research and Development Costs. Research and development expenses in 2008 increased by \$0.9 million from \$1.7 million in 2007 to \$2.5 million in 2008, this is mainly as a result of our continuance investment in R&D which include among other increase of salary and subcontractors expenses.

Selling and Marketing Expenses. Selling and marketing costs increased by \$2 million to \$6.9 million in 2008 from \$4.9 million in 2007. The major increase in 2008 resulted from the increase in salaries, and marketing costs as part of our efforts to increase revenues in both products and services.

General and Administrative Expenses. General and administrative expenses increased by \$2.1 million to \$8.3 million in 2008 from \$6.2 million in 2007. The main impact in 2008 resulted from increase in our salaries and overhead cost due to the merger of Cellocator and business development efforts to penetrate to new territories.

Amortization of intangible assets and Impairment of long lived assets. Amortization of intangible assets and impairment of long lived assets increased by \$488,000 from \$1.9 million in 2007 to \$2.4 million in 2008. The amortization of intangible assets includes amortization of intangible assets related to our acquisitions.

Operating Profit. As a result of the foregoing, we recorded in 2008 a \$9.3 million operating profit, compared to an operating profit of \$4.2 million in 2007. Most of our operations are located in Israel and are in NIS and as a result were also impacted by the revaluation of the NIS against the dollar of 13% in 2007, which negatively impacted our expenses such as labor, local operating and other maintenance expenses.

Financial Expenses (Net). Financial expenses increased from \$2.8 Million in 2007 to \$4.1 million in 2008 mainly due to the effect of foreign currency translation adjustment and \$1 million of discount expenses due to early loan repayment.

Taxes on income. Taxes on income were \$640,000 in 2008 compare to \$353,000 in 2007. In 2008, taxes on income include an increase of \$160,000 in the deferred tax assets related to operating losses carried forward, other timing differences and amortization expenses of goodwill related to tax adjustment of approximately \$800,000.

Minority interest. We recorded minority interest in the Statement of Operations of our Israeli subsidiary Shagrir as results based on actual holdings, which is 56.6%. The minority interest recorded in 2008 and 2007 were \$2.2 million and \$1.4 million respectively.

Net Income (Loss). In 2008, we had net income of \$2.4 million compared to a loss of \$0.3 million in 2007.

Selected segment financial data:

As a result of Cellocator acquisition in September 2007, the Company in 2008 commenced to organize its operating results into two separate business units, the Cellocator segment and the Pointer segment. See Item 4.B – **Business Overview**.

The Company evaluates performance and allocates resources based on operating profit or loss. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in the financial statements.

The results of operations for the year ended December 31, 2008 include twelve months of combined operations resulting from our acquisition of Cellocator on September, 18 2007. Since the acquisition occurred near the end of the third quarter of 2007, results of operations for the year ended December 31, 2007 include our historical results and the operating results of Cellocator for the period September 18, 2007 through December 31, 2007 and are not reflective of the combined operations for the full year.

	2008	2007
	(in thousands of U.S. dollars)	
Cellocator Segment Revenues	\$ 24,964	\$ 10,022
Pointer Segment Revenues	57,553	45,953
Intersegment adjustment	(5,862)	(4,348)
Total revenue	76,655	51,627
Cellocator Segments operating profit	3,777	(1,454)
Pointer Segments operating profit (loss)	6,394	5,703
Intersegments adjustment	(878)	(43)
Total operating profit (loss)	\$ 9,293	\$ 4,206

Revenues. Pointer segment revenues increased by \$11.6 million to \$57.6 million from \$46 million in 2007. The increase of 25% is primarily attributable to revaluation of the NIS against the dollar by 13% and increase in revenues from services in Israel. Pointer segment revenues derive from the services provided by the Pointer segment and the utilization and sale of products relating to those services provided by the Pointer segment. A portion of these products are obtained from our Cellocator segment and a portion are obtained from third parties.

Cellocator segment revenues in 2008 and 2007 are \$25 million (include \$5.8 million intersegment revenues) and \$10 million (include \$4.3 million intersegment revenues) the increase of \$15 million or 150% is primarily attributable to the Cellocator acquisition in September 2007. The Cellocator segment revenues derive from selling the products in the Cellocator segment.

Operating profit (loss). Pointer segment operating profit increase by \$0.7 million from \$5.7 million to \$6.4 million this increase of 12% primarily attributable to increase services sell in 2008.

Cellocator segment operating profit on 2008 was \$3.8 million compare to an operating loss of \$1.5 million on 2007. This increase is primarily attributable to the Cellocator acquisition in September 2007 which fully contributed to the operating profit in 2008.

Twelve Months Ended December 31, 2007 Compared with Twelve Months Ended December 31, 2006

Revenues. Revenues sharply increased by \$9.7 million, or 23% from \$42 million in 2006 to \$51.6 million in 2007. The increase in total revenues in 2007 as compared to 2006 is attributable to the Cellocator acquisition in September 2007, revaluation of the NIS against the dollar by 7.8% and internal growth. The revenues from products increased by \$6.1 million to \$ 15.8 million from \$ 9.7 million in 2006. This increase of 63% is primarily attributable to Cellocator acquisition which contributed to \$3.5 million and the rest attributable to internal growth. The revenues from services increased by \$3.6 million from \$32.2 million to \$35.8 million. This increase of 11% was impacted also by revaluation of the NIS against the dollar.

Revenues from services in 2007 accounted for 69% out of total revenues as compared with 77% in 2006. This change is primarily attributable to the increase of revenues from products due to the contribution of selling Cellocator's products since September 2007.

Our international revenues in 2007 accounted for 17% out of total revenues compare to 11% in 2006. During 2007 we increase our sales to Latin America from \$3.4 million in 2006 to \$4.6 million in 2007 and in Europe from \$ 1 million in 2006 to \$3.8 million in 2007.

Cost of Revenues. Our cost of revenues increased to \$32.7 million for the twelve months ended December 31, 2007 as compared to \$26.3 million for the same period in 2006. This increase of 24% was associated with commence of selling Cellocator's products, revaluation of the NIS against the dollar and amortization of intangible assets on the amount of \$277,000 attributable to Cellocator acquisition

Gross Profit. Our gross profit increased by \$3.4 million from \$15.5 million in 2006 to \$18.9 million in 2007. This increase is mainly as a result of the foregoing. As a percentage of total revenues gross profit accounted 37% in 2007 and 2006.

Research and Development Costs. Net research and development expenses in 2007 increased by \$0.5 million from \$1.2 million in 2006 to \$1.7 million in 2007, this is mainly as a result Cellocator acquisition and merger of our R&D department with Cellocator's R&D.

Selling and Marketing Expenses. Selling and marketing costs increased by \$1 million to \$4.9 million in 2007 from \$3.9 million in 2006. The major increase in 2007 resulted from the increase in salaries and marketing costs.

General and Administrative Expenses. General and administrative expenses increased by \$1.5 million to \$ 6.2 million in 2007 from \$4.7 million in 2006. The main impact in 2007 resulted from increase in our salaries cost and due to the merger of Cellocator which we accounted, among other, expenses in salaries and rental.

Amortization of intangible assets and Impairment of long lived assets. Amortization of intangible assets and impairment of long lived assets decreased by \$235,000 from \$2.1 million in 2006 to \$1.9 million in 2007. The amortization of intangible assets includes amortization of intangible assets related to our acquisitions.

Due to the requirement of certain major potential customers in Mexico to increase the territorial coverage to a nationwide coverage and due to the increased costs of communication services with respect to the proprietary system that we used (such increase in costs was observed only in Mexico), we decided to migrate from the traditional RF (radio frequency) system communication technology to Cellular/GPS technology in Mexico. This process required us to impair equipment valued at about \$372,000 recorded in 2006.

Other income. On May 26, 2006, we entered into a settlement agreement, with respect to a past claim against a Latin American customer, pursuant to which we received a net amount of approximately \$1.3 million.

Operating Profit. As a result of the foregoing, we recorded in 2007 a \$4.2 million operating profit, compared to an operating profit of \$4.9 million in 2006. Most of our operations are located in Israel and are in NIS and as a result were also impacted by the revaluation of the NIS against the dollar of 7.8% in 2007, which negatively impacted our expenses such as labor, local operating and other maintenance expenses, by \$0.8 million in 2007.

Financial Expenses (Net). Financial expenses increased from \$2.6 Million in 2006 to \$2.8 million in 2007 mainly due to the effect of foreign currency translation adjustment. Financial expenses of 2007 include \$1.8 million of net interest expenses and bank charges, adjustment of foreign currency \$0.5 million and other financial expenses \$0.5 million.

Taxes on income. Taxes on income were \$353,000 in 2007 compare to \$82,000 in 2006. In 2007, taxes on income on the amount of \$2.2 million were partially offset by an increase in the deferred tax asset of \$1.9 million related to operating losses carried forward and other timing differences and in 2006, taxes on income in the amount of \$1.7 million were partially offset by an increase in the deferred tax asset of \$1.6 million related to operating losses carried forward and other timing differences.

Minority interest. We recorded minority interest in the Statement of Operations of our Israeli subsidiary Shagrir as results based on actual holdings, which is 56.6%. The minority interest recorded in 2007 and 2006 were \$1.4 million and \$1.04 million respectively.

Net Income (Loss). In 2007, we had loss of \$338,000 compared to a net income of \$1.2 million in 2006.

Impact of Exchange Rate Fluctuations on Results of Operations, Liabilities and Assets

Our results of operations, liabilities and assets were mainly impacted by the fluctuations of exchange rates between the U.S. dollar and the New Israeli Shekel ("NIS"), and to a lesser extent between the U.S. dollar and the Argentine, Mexican Peso and Euro. For a discussion regarding the functional and reporting currency of each of our subsidiaries see Note 2b to our financial reports.

We made two acquisitions in Israel. Due to the acquisition of Shagrir, our business in Israel currently accounts for the majority of our business and revenues. The business in Israel, especially the activities acquired from Shagrir Towing Services are mainly denominated in NIS. On the other hand, the majority of Cellocator revenues are generated in U.S. dollars while part of the expenses such as raw materials are mainly in U.S. dollars and part of the expenses such as labor and rental are in NIS. See "Risk Factors – We may be adversely affected by a change in the exchange rate of the New Israeli Shekel against the U.S. dollar" for a discussion of the risks relating to income and expenses in U.S. dollars and NIS.

For many years prior to 1986, the Israeli economy was characterized by high rates of inflation and devaluation of the Israeli currency against the U.S. dollar and other currencies. However, since the institution by the Israeli government of an economic recovery program in 1985, inflation, while generally continuing, has been significantly reduced and the rate of devaluation has been substantially diminished and in some years reversed.

We believe that inflation in Israel and fluctuations in the U.S. dollar - NIS exchange rate may have substantial effects on our business, and our net income. Increased inflation may increase our NIS costs in Israel including among others salaries of our employees in Israel, costs of communications, subcontractors, rental, financial expenses associated with loans related to the Israeli CPI, and other expenses, which are paid in New Israeli Shekels. Regarding fluctuations in the U.S. dollar - NIS exchange rate a devaluation of the NIS against the U.S. dollar will reduce our NIS denominated revenues and expenses in U.S. dollar terms and therefore may impact negatively our consolidated net income (losses). Revaluation of the NIS against the U.S. dollar will increase our NIS denominated revenues and expenses in U.S. dollar terms. See "Risk Factors." Due to the potential off-set of the affects described above, we cannot evaluate the net impact on our results of operations.

The exchange rate fluctuated during 2008 and 2009 from a low of NIS 3.2 to the U.S. dollar to a high of NIS 4.342 to the dollar. The average high and low exchange rates between the NIS and U.S. dollar during the most recent six months, as published by the Bank of Israel, were as follows:

<u>MONTH</u>	<u>HIGH</u> <u>1 U.S. dollar =</u>	<u>LOW</u> <u>1 U.S. dollar =</u>
September 2008	3.635	3.396
October 2008	3.879	3.465
November 2008	4.022	3.752
December 2008	3.99	3.677
January 2009	4.065	4.191
February 2009	3.783	4.012

The average exchange rate, using the average of the exchange rates on the last day of each month during the period, for each of the five most recent fiscal years, was as follows:

<u>Period</u>	<u>Exchange Rate</u>
January 1, 2004 – December 31, 2004	4.4820 NIS/\$1
January 1, 2005 – December 31, 2005	4.4878 NIS/\$1
January 1, 2006 – December 31, 2006	4.4565 NIS/\$1
January 1, 2007 – December 31, 2007	4.1081 NIS/\$1
January 1, 2008 – December 31, 2008	3.5878 NIS/\$1

In 2004, the Israeli economy recorded inflation of approximately 1.2% where the U.S. dollar devalued against the NIS by approximately 1.6%. As a result of the revaluation of the NIS, we experienced increases in the costs of our Israel operations, as expressed in U.S. dollars in 2004, but they did not materially affect our results of operations in such periods. In 2005, the Israeli economy recorded inflation of approximately 2.4% where the NIS devalued against the U.S. dollar by approximately 6.8%. As a result of the devaluation of the NIS, we experienced decreases in the costs of our Israel operations, as expressed in U.S. dollars, in 2005. In 2006, the Israeli economy recorded negative inflation of approximately 0.1% where the NIS revalued against the U.S. dollar by approximately 8.21%. As a result of the revaluation of the NIS, we experienced increases in the costs of our Israel operations, as expressed in U.S. dollars, in 2006. In 2007, the Israeli economy recorded positive inflation of approximately 3.4% where the NIS revalued against the U.S. dollar by approximately 9%. We experienced increases in the costs of our Israel operations, as expressed in U.S. dollars, in 2007. In 2008, the Israeli economy recorded positive inflation of approximately 3.8% where the NIS revalued against the U.S. dollar by approximately 1.1%. We experienced increases in the costs of our Israel operations, as expressed in U.S. dollars in 2008. In February 2009, there was devaluation of the NIS against the U.S. dollar by approximately 9.5%.

Regarding our operation in Argentina and the fact that most of PLA's revenues are not denominated in U.S. dollars, we believe that inflation in Argentina and fluctuations in the exchange rate between U.S. dollar and Argentinean Peso may have a significant effect on the business and overall profitability of PLA and as a consequence, on the results of our operations. In 2002, a severe and rapid currency devaluation in Argentina adversely affected PLA's U.S. dollar results. This was mainly due to PLA's inability to increase its Argentinean Peso-denominated prices to its customers, while its major costs of inventory and infrastructure were denominated in U.S. dollars. In 2004, the U.S. dollar – Argentinean Peso exchange rate fluctuated between 2.92 and 2.98 Pesos to the dollar. From January 1, 2004 to December 31, 2004, the value of the Argentinean Peso increased by approximately 2.02% against the U.S. dollar. This increase had no material effect on our business during 2004. In 2005 the U.S. dollar – Argentinean Peso exchange rate fluctuated between 2.979 and 3.032 Pesos to the dollar. From January 1, 2005 to December 31, 2005, the value of the Argentinean Peso increased by approximately 1.78% against the U.S. dollar. In 2006 the U.S. dollar – Argentinean Peso exchange rate fluctuated between 2.979 and 3.062 Pesos to the dollar. From January 1, 2006 to December 31, 2006, the value of the Argentinean Peso increased by approximately 2.79% against the U.S. dollar. This increase had no material effect on our business during 2006. In 2007 the U.S. dollar – Argentinean Peso exchange rate fluctuated between 3.062 and 3.149 Pesos to the dollar. From January 1, 2007 to December 31, 2007, the value of the Argentinean Peso increased by approximately 2.84% against the U.S. dollar. This increase had no material effect on our business during 2007. In 2008 the U.S. dollar – Argentinean Peso exchange rate fluctuated between 3.145 and 3.453 Pesos to the dollar. From January 1, 2008 to December 31, 2008, the value of the Argentinean Peso increased by approximately 9.79% against the U.S. dollar. This increase had no material effect on our business during 2008. In March 2009 the U.S. dollar – Argentinean Peso exchange rate fluctuated between 3.062 and 3.149 Pesos to the dollar. From January 1, 2008 to December 31, 2008, the value of the Argentinean Peso increased by approximately 2.84% against the U.S. dollar

The fluctuations of the Mexican Peso are not material to our business.

We are engaged from time to time, in hedging expenses relating to foreign currency exchange rate and other transactions intended to manage the risks relating to foreign currency exchange rate or interest rate fluctuations. In 2008 we entered into a foreign currency hedging transaction to manage risk related to salary expenses in NIS in 2009. We may in the future undertake, such transactions if management determines that such is necessary to offset such risks.

Governmental and Fiscal Policies which May Affect Our Business

In recent years the market for vehicle leasing in Israel has grown. Employers often provide vehicles to their employees as benefits mainly through operating leasing companies. Such benefits are tax deductible for the employer, while the employee pays taxes on the vehicle based on a predefined valuation by the income tax authorities. Starting January 1, 2008 the tax authorities announced a significant increase in the valuation of employee vehicles for the coming years. It's still early to evaluate how such resolution might affect our business, it may reduce the affordability of such vehicles, thereby causing an overall decrease in private vehicle ownership.

Argentina's ongoing debt crisis since 2001 has caused the government to implement fiscal and monetary policies, making it extremely difficult to receive credit from the banks. This policy may also contribute to the volatility of the exchange rate of the U.S. dollar against the Argentinean Peso. Additionally, the growing success of law enforcement programs in Argentina has reduced the rate of car theft and may continue to adversely affect our business. In 2008, the volatility in the global financial system has had a negative impact on the Argentine economy, and could continue to adversely affect the conditions in the country in the foreseeable future.

B. LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2008, we had a negative working capital of \$8 million, our current assets to current liabilities ratio was 0.74 and we had cash and cash equivalents of \$2.7 million and an unused credit facility of \$5.8 million. We believe that we have access to sufficient capital to meet the Company's requirements for at least the next twelve months.

Since our inception, our operations have been funded through capital contributions, bank loans, private and public placements, research and development grants from the Office of the Chief Scientist in Israel, the BIRD Foundation, the European Community and cash flow from operations. We no longer receive grants from the Office of the Chief Scientist in Israel, the BIRD Foundation or the European Community.

As a result, we expect to fund our operations through positive net cash provided by operating activities, capital contributions, bank loans, private and public placements and cash flow from our operations. These sources of liquidity consist of our long-term and short-term credit facilities, and our private placements with Israeli investors or investors, the latest of which we consummated in July 2008. See Item 4 – **Information on the Company – Recent Developments**.

As of December 31, 2008, we had loans under long-term credit facilities for approximately \$28 million in outstanding aggregate amount, of which \$22.8 million was provided to our subsidiary Shagrir by Bank Hapoalim B.M. and \$4.6 million was provided to us to finance part of the Cellocator acquisition as referenced below. Of this aggregate amount, approximately \$5.3 million are long-term loans in or linked to the U.S. dollar from banks and other sources, \$15.7 million are long-term loans denominated in NIS from a bank and other sources and \$7 million are long-term loans denominated in NIS and adjusted to the Israeli consumer price index from banks and other sources. For further information regarding our consolidated long-term loans, loan maturity and interest rate structure, see notes 10 and 11 to our consolidated financial statements contained elsewhere in this report.

As of December 31, 2008, we had a short-term credit facility for available credit of approximately \$7.6 million. Approximately \$5.8 million of this short term credit facility as of December 31, 2008 remains available, and can be utilized according to our needs.

In September 2007 we obtained credit facilities for \$7 million with Bank Hapoalim B.M. to finance part of our Cellocator acquisition. As of December 31, 2008, approximately \$4.6 million in long-term loans out of the \$7 million was outstanding and being utilized.

In January 2008 we received credit facilities for \$1 million with Israel Discount Bank B.M. to finance our working capital. As of December 31, 2008, none of these credit facilities were utilized.

In 2008, net cash provided by our continuing operating activities amounted to \$11 million as compared to net cash provided from continuing operating activities of \$8.0 million in 2007. The increase was primarily attributable to the increase of our operating income.

In 2008, net cash used in our continuing investing activities was \$3.2 million as compared to \$18.4 million in 2007. The decrease was primarily attributable to our Cellocator acquisition in the amount of \$16.6 million during 2007.

In 2008, net cash used in financing activities was \$6 million as compared to net cash provided by financing activities of \$5.7 million in 2007. Net cash used in financing activities of \$6 million was primarily attributable to repayment and replacement of long term loans from Bank Hapoalim and other lenders. See Item 4 – **Recent Developments**.

Current liabilities decreased from \$32.9 million in 2007 to \$31 million as of December 31, 2008, mainly due to the decrease of short terms bank credit and current maturities of long term loans. Long-term liabilities decreased from \$32 million in December 31, 2007 to \$30 million as of December 31, 2008 mainly due to repayment of long term loans.

The acquisitions we made in Israel in 2004 and 2005 had a positive impact on our cash flow from our operating activities, which is offset by a negative impact on our cash flow used in financing activities. The acquisition we made in Israel in 2007 of Cellocator has a positive impact on our cash flow from our operating activities, which is offset by a negative impact on our cash flow used in financing activities. However, we cannot assure, that any such net positive cash flows, if any, will sufficiently cover negative cash flows expected to be incurred by our other operative subsidiaries, and by our significant operating expenses, which we expect to incur in connection with our development and marketing of our systems and products, as well as increased investments in the deployment of our existing and new networks in different geographical regions around the world.

For further information relating to the purchase of the activities and assets of Shagrir Towing Services, and the Cellocator acquisition see Item 10 – **Material Contracts**.

We believe that our current assets, together with anticipated cash generated from operations and the bank credit lines, will be sufficient to allow us to continue our operations as a going concern. However, we cannot assure you that we will be able to generate sufficient revenues from the sale of our services and products or succeed to obtain such additional sources of equity or debt financing. In raising additional funds, we may depend on receiving financial support from our principal shareholders or other external sources. We cannot assure you that they will continue to provide us with funds when requested, and that such funds, if any, will be sufficient to finance our additional cash requirements.

Aside for the aforementioned long-terms and credit facilities from banks, we have no firm commitments or arrangements for additional financing, and there can be no assurance that any such financing will be available on terms satisfactory to us, if at all. To the extent that our capital requirements exceed cash provided from operations and available financing (if any), we may, among other things, be required to reduce significantly research & development, product commercialization, marketing and/or other activities. Under certain circumstances, our inability to secure additional financing could cause us to cease our operations. Our business has also been harmed as a result of the current general duress and difficult global economic conditions in general and particular of he automotive market and political conditions in certain countries in which we operate, such as Argentina.

For a discussion of certain commitments and contingent liabilities of ours, see Note 10 to our financial statements included herein. For further information regarding information regarding investments in our Company see Item 4 – **Recent Developments** and Item 10 – **Material Contracts**.

Capital expenditures were \$19.3 million in 2007 and \$3.5 million in 2008. Capital expenditures in 2008 were used principally for purchasing property and equipment and in 2007 were used for purchasing of property and equipment in the amount of \$2.6 million and the acquisition of Cellocator in the amount of \$16.6 million.

We estimate that our capital expenditures for 2009 will total approximately \$2.7 million, substantially all of which will relate to fixed assets that serve our road side assistance and SVR business as well as our pursuit of new business opportunities, of which approximately 66% is estimated to be spent in Israel, 30% in Latin America and 4 % in other countries. We also will need to continue to provide our subsidiaries in Latin America and in USA with financing until they have sufficient cash flows to run their operations. We expect to finance these expenditures primarily from our cash and cash equivalents, operating cash flow and our credit facilities. However, the actual amount of our capital expenditures will depend on a variety of factors, including general economic conditions, changes in the demand for our products, fluctuation of the \$ against the NIS and the risks and uncertainties involved in doing business in Israel.

C. RESEARCH AND DEVELOPMENT

We invest a significant amount of our resources on our internal research and development operations. We believe that continued and timely development of new products and new applications as well as enhancements to our existing systems and products are necessary to compete effectively in the rapidly evolving market. We dedicate a significant portion of our resources to (i) introducing new products to market and advancing our products and systems; (ii) designing improvements to existing products and applications by working closely with our customer support department in order to implement suggestions received from our customers investing in improvements to our production methods and services provision in, and by working in tandem with our operation department; and (iii) improving the customer “friendliness” of our products.

In order to facilitate future growth we are focusing on expanding our ability to enhance our existing systems and products and to introducing new versions and new products on a timely basis. Since we commenced operations we have conducted extensive research and development activities and we continue to improve our products including the Pointerware network. Our net expenditures for research and development programs during the years ended December 31, 2008 and December 31, 2007, totaled approximately \$2.5 million and \$1.7 million respectively. We expect that we will continue to commit substantial resources to research and development in the future. As of December 2008, we employed 21 persons in research and development. Our research and development expenses constituted approximately 3.2% of such sales, in years ended December 31, 2008 and 2007. For additional information concerning commitments for research development programs, see Note 10 to our financial statements included elsewhere in this annual report.

The Government of Israel encourages research and development projects oriented towards products for export through the Office of the Chief Scientist of the Ministry of Industry and Commerce of the State of Israel. Under the terms of Israel Government participation, a royalty of 2% to 5% of the net sales of products developed from a project funded by the Chief Scientist must be paid, beginning with the commencement of sales of products developed with grant funds and ending when 100% to 150% of the grant is repaid. The terms of the Israeli government participation also require that the manufacture of products developed with government grants be performed in Israel, unless a special approval has been granted. Separate Israeli government consent is required to transfer to third parties technologies developed through projects in which the government participates. Such restrictions do not apply to exports from Israel of products developed with such technologies. Royalty bearing grants received from the State of Israel for research and development were offset against our research and development costs.

We also received funding for certain research and development expenses relating to our joint venture with API from the Israel-United States Bi-national Industrial Research and Development Foundation, or BIRD Foundation. As of December 31, 2008, our contingent obligation to the BIRD Foundation was \$2.2 million.

We hold various United States patents relating to the use of Pointerware communications technology for various aspects of reverse paging and mobile location. We have not invested the requisite payment to maintain our patents, and we may lose or have already lost our rights to this proprietary technology in the near future.

The pending patent applications filed by us involve complex legal and factual questions, and the scope and breadth of claims to be allowed is uncertain. Accordingly, there can be no assurance that patent applications filed by us will afford protection against competitors with similar technology. In addition, we cannot assure you that the patents issued to us will not be infringed, designed around by others or invalidated. Some foreign countries provide significantly less patent protection than the United States. Patent applications in the United States are maintained in secrecy until patents issue, and because publication of discoveries in the scientific or patent literature tends to lag behind actual discoveries by several months, we cannot be certain that we were the first creator of inventions covered by pending patent applications or the first to file patent applications on such inventions. There can also be no assurance that any application of our technologies will not infringe patents or proprietary rights of others or that licenses that might be required for our processes or products would be available on reasonable terms. Furthermore, there can be no assurance that challenges will not be instituted against the validity or enforceability of any patent owned by us or, if instituted, that such challenges will not be successful. The cost of litigation to uphold the validity and prevent infringement of a patent can be substantial.

In addition to potential patent protection, we rely on the laws of unfair competition and trade secrets to protect our proprietary rights. We attempt to protect our trade secrets and other proprietary information by non-disclosure agreements with our employees, consultants, customers, strategic partners and potential strategic partners. Although we intend to protect our rights vigorously, there can be no assurance that secrecy obligations will be honored or that others will not independently develop similar or superior technologies or trade secrets. We believe that such measures provide only limited protection of our proprietary information, and there is no assurance that our proprietary technology will remain a secret or that others will not develop similar technology and use this technology to compete with us. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. To the extent that consultants, key employees or other third parties, such as prospective joint venture partners or subcontractors, apply technological information independently developed by them or by others to our projects, disputes may arise as to the proprietary rights to such information, which disputes may not be resolved in our favor.

Our proprietary technology also includes software. Much of the software algorithms are also included and claimed in the patent applications for Pointerware communications technology. Although software protection is anticipated to be available in the United States, there can be no assurance that the software will have patent protection in the United States. Foreign patent protection for software is generally afforded lesser protection than in the United States. See Item 3.D – **Risk Factors** -- *We may be unable to adequately protect our proprietary rights, which may limit our ability to compete effectively.*

D. TREND INFORMATION

The following discussion should be read in conjunction with the selected financial data included above and our consolidated financial statements and the related notes thereto included in this annual report.

Since our acquisition of Shagrir in 2004 and certain of the activities and assets of Shagrir Towing Services in 2005, and due to the acquisition of Cellocator assets on September 18, 2007, we have expanded our operations and increased our revenues in Israel and internationally. The majority of our revenues are now derived from customers in Israel, with total revenues of \$54.3 million. In 2008, approximately 71% of our revenues were derived from the Israeli market in comparison to 83% in 2007. The continued increase of revenues from international sales in 2008 compared to 2007 is mainly attributable to the Cellocator acquisition in September 2007. Most of Cellocator revenues are generated from sales out of Israel, and due to the recession in the worldwide automotive market and the fluctuation of the NIS to the USD, we cannot evaluate the impact on our ratio of international sales in 2009. Due to very intense competition in road side assistance in Israel we expect price erosion in that business.

In 2008 our Argentinean subsidiary, PLA, has continued to be negatively affected from the very intense competition in SVR services and on-going price erosion in addition to the devaluation of the Argentine peso to the dollar.

In February 2005, our subsidiary, PRM, commenced operations in Greater Mexico City. We currently hold 74% of the issued and outstanding shares of PRM. We still need to provide it with financing until it has sufficient cash flows to run its operations. However, this business is growing in subscribers and revenues, despite economic instability in that market.

In 2006 we introduced third party Cellular Monitoring Units which provide high functionality for location based services, utilizing advanced cellular modems with GPS. Following the acquisition of Cellocator in 2007, we are currently manufacturing our own units and no longer depend on a third party. These 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 inside 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 takes special concern of these requirements, with high degree of reliability and flexibility.

As a result of our Cellocator acquisition, we have expanded our sales mainly in Latin America and Europe to the existing customers of Cellocator and new customers. Prices are slowing driven down for high feature devices in the stolen vehicle retrieval market, such as those sold by Cellocator, which include many features, functions, sensors input and connectivity to vehicle computers, whereas prices for lower feature products have been driven down in recent years due to increased competition.

As a result of the acquisitions we made in Israel, the Shagrir operations and 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. In Israel we currently provide the full range of our services.

Events affecting the global vehicle industry have a significant bearing on the demand for our products business. We continue to closely monitor events affecting that industry; however, at this point in time, we cannot estimate their impact. On the other hand, our services business currently has a stable outlook even considering the current uncertainties in the global economy.

We believe the current economic downturn, together with the increasing demand for high-quality services and cheaper products from automotive manufacturers, importers and dealers, fleet operators as well as insurance companies, will present new challenges and create unique business opportunities for our company. We are currently in the process of evaluating partnerships that should enable us to capitalize on economies of scale to sustain our growth strategy in existing territories and new ones. In 2008 we established subsidiaries in Romania, the USA and Brazil.

E. OFF-BALANCE SHEET ARRANGEMENTS

The company has no off balance arrangement as described in this section.

F. CONTRACTUAL OBLIGATIONS

Contractual Obligations December 31, 2008 (in thousands USD)		Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Short term debt and other current liabilities	1	30,955	30,955	–	–	–
Long-term loans	2	23,825	–	19,798	3,015	1,012
Accrued severance pay	3	6,375	–	–	–	6,375
Management fees to DBSI	4	52	52	–	–	–
Operating lease obligations	5	2,666	1,035	1,582	49	–
Royalties to BIRD	6	2,232	–	–	–	2,232
Total contractual obligations		66,105	32,042	21,380	3,064	9,619

¹ Short term debt and other current liabilities include short term bank credits and current maturates if bank term loan, trade accounts payable for equipment and services that have already been supplied, deferred revenues, customer advance and other accrued expenses.

² Long term loans include principal and interest payments in accordance with the terms of the agreements with Banks and other third parties. For further information please see Item 11 -- **Liquidity and Capital Resources**.

³ Accrued severance pay maturity depends on the date our employees will actually cease being employed.

⁴ We pay annual fees \$180,000 in consideration for DBSI management services pursuant to an agreement with DBSI, which is automatically renewable every 12 months unless either party provides prior notice of termination three months prior to the beginning of a renewal term.

⁵ Operating lease obligations include rental payments of offices, cars, and other premises and equipment.

⁶ Royalties to BIRD include the amount received by BIRD foundation indexed as per the agreement, which the Company has undertaken to pay based on sales of a specific product. The Company does not anticipate selling this product and therefore, does not anticipate paying these contingent royalties (See Note 13c to our Financial Statements).

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**A. DIRECTORS AND SENIOR MANAGEMENT**

The executive officers, directors and key employees of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with Company</u>
Yossi Ben Shalom	53	Chairman of Board of Directors
Danny Stern	57	President and CEO
Gil Oren	57	External Director
Zvi Rutenberg	53	External Director
Barak Dotan	41	Director
Noga Knaz	43	Director
Yoel Rosenthal	54	Director
Amnon Duchovne-Nave	53	Chief Technology Officer
Israel Ronn	53	General Manager of the Cellocator segment
Zvi Fried	44	Vice President and Chief Financial Officer

Yossi Ben Shalom has served as our Chairman of the Board of Directors since April 2003. Mr. Ben Shalom was Executive Vice President and Chief Financial Officer of Koor Industries Ltd. (KOR) from 1998 through 2000. Before that, Mr. Ben-Shalom served as Chief Financial Officer of Tadiran Ltd. Mr. Ben-Shalom was an active director in numerous boards, such as at NICE Systems (NICE), (computer telephony), Machtshim Agan (chemistry), and Investec Bank, amongst others. Mr. Ben-Shalom was an active chairman in successful turnaround programs, such as Eurocar Israel, and American Express Israel. He participated in the creation of TDA VC fund (a joint venture between Tempelton and Tadiran). He was an active Chairman of Scopus - a technology company with sales of over \$30 million. Yossi is a co-founder of DBSI Investments Ltd. Mr. Ben Shalom holds BA in Economics and MA in Business Management from Tel Aviv University.

Danny Stern was appointed as our President and Chief Executive Officer in May 2005. Mr. Stern was General Manager of Technoplast Industries Ltd. from 2002 through 2004. Before that, Mr. Stern served as Co-Founder and Chief Executive Officer of Appilog Inc. Israel and USA from 1999 through 2002 and as Co-Founder and Chief Executive Officer of PIDC (Israel) Ltd. and LIMS Technologies Ltd. from 1990 through 1999. Mr. Stern holds a Bachelor of Arts degree in Economics from Tel Aviv University.

Gil Oren is an independent business advisor. During the years 2002-2007 Mr. Oren served as the Chief Executive Officer of Ytong Industries Ltd. During such years Mr. Oren also served on the Board of Directors of Ytong Industries Ltd., Nirlat Ltd., Aloni Conglomerate Ltd., Carmit Ltd., Orlit Industries Ltd. (in addition to serving as the Chief Executive Officer of such company), Orlit Millennium Ltd., Uulcan Casting Ltd., Urdan Industries Ltd. Mr. Oren holds a B.A in accounting and economics from Tel Aviv University and a M.B.A from Tel Aviv University. Mr. Oren is also Certified Public Accountant. Upon his appointment as an external director the Company shall deem Mr. Oren as possessing accounting and financial expertise.

Zvi Rutenberg is the Chief Executive Officer of Ashkalit Chemiproduct Ltd. Mr. Rutenberg has been with Ashkalit Chemiproduct Ltd. as of 1997 and has also served as the Chief Executive Officer of Durband, a subsidiary of Ashkalit Chemiproduct Ltd. based in Hungary. Mr. Rutenberg holds a B.A. in Industry and Management Engineering from Ben Gurion University.

Barak Dotan was appointed a director on our board in April 2003. Mr. Dotan is a co-founder of DBSI Investments Ltd., a private investment company that has made various investments in private and public companies. Before establishing DBSI Investments, Mr. Dotan worked as Product Manager for Jacada (Nasdaq: JCDA), formerly CST, a software company that provides a complete software infrastructure to transform legacy systems into e-business and wireless solutions, and thereafter managed private investments in high-tech and other areas. Mr. Dotan graduated from the Hebrew University of Jerusalem summa cum laude with a B.Sc. in Computer Science and Business Management.

Noga Knaz is the Chief Executive Officer of Rosario Capital Ltd. as of 2007. From 2006 until 2007 Ms. Knaz served as the Chief Executive Officer of Dash Securities and Investments Ltd. During the years 2002 – 2006 Ms. Knaz served in various managerial positions in Migdal Capital Markets Ltd., including co-Chief Executive Officer and head of investments and marketing division. Ms. Knaz holds a B.A from Haifa University.

Yoel Rosenthal was appointed a director on our Board in April 2003. He is a veteran accountant with over 20 years of experience. Prior to joining D.B.S.I. Mr. Rosenthal was a founder and partner of a private accounting firm in Israel, Bruckner, Rosenthal, Ingber. He also held the position of Loan Officer for multinational corporations at the Bank of Montreal in the USA. Mr. Rosenthal received an MBA with honors from the University of California at Los Angeles and a BA in Economics and Accounting from Tel Aviv University.

Amnon Duchovne –Nave is the founder of Cellocator and was its General Manager and R&D Manager until Pointer's acquisition. Mr. Duchovne –Nave has been appointed as Pointer's CTO- Chief Technology Officer. He is responsible for the continuous development of Cellocator's family products and Pointer's Automotive Solutions. Mr. Duchovne –Nave has over 20 years of experience in communication and location systems. His resume includes being a system consultant to Israel Aircraft Industries, the Israeli Air Force, being the head of R&D in the special projects section of Tadiran's communication group, where he was involved in the Mini RPV and smart weapons communications project, as well as being in charge of the development of the communications payload for the prestigious "Ofek" satellite program. Mr. Duchovne –Nave holds a B.Sc. in Electronic Engineering from the Tel Aviv University. He is a Pointer Ltd. shareholder.

Israel Ronn joined Pointer Ltd. as the General Manager of the Product and Technology Business Division in August 2007. Before joining Pointer, during the past 10 years, Mr. Ronn served as a CEO of several companies in US and Israel such as Telrad USA and Tenecs. He also led the merger of Tenecs and Congruency which created Telrad Congegy. Later he was the CEO of Cellmax Systems.

Mr. Ronn holds a B.A. degree in Computer Science and Economics from Bar Ilan University and is a graduate of Tafnit Executive Business Administration Program.

Zvi Fried was appointed our Chief Financial Officer in February 2007. Prior to his appointment Mr. Fried was Chief Financial Officer of the publicly traded Chim Nir (TASE: CMNR) and Finance Director for Amdocs (Nasdaq: DOX). Mr. Fried holds a B.A. in Economics and Accounting degree from Bar Ilan University.

B. COMPENSATION

The aggregate direct remuneration paid to all persons as a group who served in the capacity of director or executive officer during the year ended December 31, 2008, was approximately \$887,000, including amounts expended by us for automobiles made available to our officers, expenses reimbursed to officers (including professional and business association dues and expenses) and other fringe benefits commonly reimbursed or paid by companies in Israel, but excluding amounts set aside or accrued to provide pension, retirement or similar benefits, which amounted to \$123,000. This amount includes remuneration paid to former directors who did not continue as directors following the election of directors at our 2008 annual meeting of stockholders.

In addition, during 2008 a total of 9,000 options were granted to all persons as a group who served in the capacity of directors. The options were granted at an exercise price of \$5.71.

C. BOARD PRACTICES

Our Articles of Association provide for a board of directors of not less than three nor more than eleven members. Our board of directors is currently comprised of six members. Pursuant to the DBSI investment, three of these directors are affiliated with DBSI. Each director is elected to serve until the next annual general meeting of shareholders and until his or her successor has been elected. Officers serve at the discretion of the board of directors. We are subject to the Israeli Companies Law which entered into effect on February 1, 2000, as amended, and which requires the board of directors of a public company to determine the number of directors who shall possess accounting and financial expertise.

Under the Israeli Companies Law, a person who is already serving as a director will not be permitted to act as a substitute director. Additionally, the Israeli Companies Law also prohibits a person from serving as a substitute director for more than one director. Appointment of a substitute director for a member of a board committee is only permitted if the substitute is a member of the board of directors and does not regularly serve as a member of such committee. If the committee member being substituted is an external director, the substitute may only be another external director who possesses the same expertise as the external director being substituted and may not be a regular member of such committee. The term of appointment of a substitute director may be for one meeting of the board of directors or for a specified period or until notice is given of the cancellation of the appointment. To our knowledge, no director currently intends to appoint any other person as a substitute director, except if the director is unable to attend a meeting of the board of directors.

Under the Israeli Companies Law, companies registered under the laws of Israel the shares of which have been offered to the public in or outside of Israel are required to appoint no less than two external directors. No person may be appointed as an external director if such person or the person's relative, partner, employer or any entity under the person's control, has or had, on or within the two years preceding the date of the person's appointment to serve as external director, any affiliation with the company or any entity controlling, controlled by or under common control with the company. The term "affiliation" includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder.

A person shall be qualified to serve as an external director only if he or she possesses accounting and financial expertise or professional qualifications. At least one external director must possess accounting and financial expertise. The conditions and criteria for possessing accounting and financial expertise or professional qualifications were recently determined in regulations promulgated by the Israeli Minister of Justice in consultation with the Israeli Securities Authority.

Regulations have been recently promulgated under the Israeli Companies Law which now mandate that in the future when appointing an external director to the board of directors of a public company, in addition to the already existing requirements for such external director, such external director must either have "expertise in finance and accounting" or be "professionally qualified". Additionally, at least one of the external directors must have "expertise in finance and accounting".

A person is deemed to have "expertise in finance and accounting" if his or her education, experience and qualifications provide him or her with expertise and understanding in business matters - accounting and financial statements, in a way that allows him or her to understand, in depth, the company's financial statements and to encourage discussion about the manner in which the financial data is presented.

The company's board of directors must evaluate the proposed external director's expertise in finance and accounting, by considering, among other things, his or her education, experience and knowledge in the following: (i) accounting and auditing issues typical to the field in which the company operates and to companies of a size and complexity similar to such company; (ii) a company's independent public accountant's duties and obligations; (iii) preparing company financial statements and their approval in accordance with the Companies Law and the Israeli Securities Law.

A director is deemed to be “professionally qualified” if he or she meets any of the following criteria: (i) has an academic degree in any of the following professions: economics, business administration, accounting, law or public administration; (ii) has a different academic degree or has completed higher education in a field that is the company’s main field of operations, or a field relevant to his or her position; or (iii) has at least five years experience in any of the following, or has a total of five years experience in at least two of the following: (A) a senior position in the business management of a corporation with significant operations, (B) a senior public position or a senior position in public service, or (C) a senior position in the company’s main field of operations. The board of directors here too must evaluate the proposed external director’s “professional qualification” in accordance with the criteria set forth above.

The affidavit required by law to be signed by a candidate to serve as an external director must include a statement by such candidate concerning his or her education and experience, if relevant, in order that the board of directors may properly evaluate whether such candidate meets the requirements set forth in the regulations. Additionally, the candidate should submit documents and certificates that support the statements set forth in the affidavit.

Additionally, under the Israel Companies Law, a public company’s board of directors must determine the minimum number of directors who have “expertise in finance and accounting” taking into account the type of company, its size, the extent of its activities and the complexity of the company’s operations.

No person may serve as an external director if the person’s position or other business activities create, or may create, a conflict of interest with the person’s responsibilities as an external director or may otherwise interfere with the person’s ability to serve as an external director. If, at the time external directors are to be appointed, all current members of the board of directors are of the same gender, then at least one external director must be of the other gender.

External directors are to be elected by a majority vote at a shareholders’ meeting, provided that either:

- the majority of shares voted at the meeting, including at least one-third of the shares held by non-controlling shareholders voted at the meeting, vote in favor of election of the director; or
- the total number of shares held by non-controlling shareholders voted against the election of the director does not exceed one percent of the aggregate voting rights in the company.

The initial term of an external director is three years and may be extended for one additional term of three years. External directors may be removed only by the same percentage of shareholders as is required for their election, or by a court, and then only if the external directors cease to meet the statutory qualifications for their appointment, violate their duty of loyalty to the company or are found by a court to be unable to perform their duties on a full time basis. External directors may also be removed by an Israeli court if they are found guilty of bribery, fraud, administrative offenses in a company or use of inside information. Each committee of a company's board of directors must include at least one external director.

Mr. Gil Oren and Mr. Zvi Rotenberg were elected as our external directors in our 2008 annual meeting of the Company's stockholders.

Audit Committee

Nasdaq Requirements

Our ordinary shares are listed for quotation on the NASDAQ Capital Market and we are subject to the rules of the Nasdaq Marketplace Rules applicable to listed companies. Under the current Nasdaq rules, a listed company is required to have an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise. Ms. Noga Knaz and our two external directors, Mr. Gil Oren and Mr. Zvi Rotenberg qualify as independent directors under the current Nasdaq requirements, and all are members of the Audit Committee. Mr. Gil Oren is our "audit committee financial expert."

Our Audit Committee assists our board in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing and financial reporting practices and financial statements and the independence qualifications and performance of our independent auditors. The Audit Committee also has the authority and responsibility to oversee our independent auditors, to recommend for shareholder approval the appointment and, where appropriate, replacement of our independent auditors and to pre-approve audit engagement fees and all permitted non-audit services and fees.

Israeli Companies Law Requirements

The Israeli Companies Law requires public companies to appoint an audit committee. The responsibilities of the audit committee include identifying irregularities in the management of the company's business and approving related party transactions as required by law. An audit committee must consist of at least three directors, including the external directors of the company. The chairman of the board of directors, any director employed by or otherwise providing services to the company, and a controlling shareholder or any relative of a controlling shareholder, may not be a member of the audit committee.

Currently, Ms. Noga Knaz and our two external directors, Mr. Gil Oren and Mr. Zvi Rotenberg, serve as members of our audit committee.

Under the Israeli Companies Law, the board of directors must appoint an internal auditor, recommended by the audit committee. The role of the internal auditor is to examine, among other matters, whether the company's actions comply with the law and orderly business procedure. Under the Israeli Companies Law, the internal auditor may be an employee of the company but not an office holder (as defined below), or an affiliate, or a relative of an office holder or affiliate, and he may not be the company's independent accountant or its representative. Our board of directors appointed Daniel Schapira Certified Public Accountant (ISR) to be our internal auditor.

Remuneration Committee

The compensation payable to executive officers must be approved by a majority of the directors on our board.

We have not entered into service contracts with any of the members of our board of directors.

D. EMPLOYEES

The following table sets forth the number of our employees at the end of each of the last three years:

	<u>Israel</u>	<u>Other</u>	<u>Total</u>
2008			
Sales and Marketing	101	35	136
Administration	369	17	56
Research and Development	21	–	21
Other	335	53	388
Total	496	105	601
	<u>Israel</u>	<u>Other</u>	<u>Total</u>
2007			
Sales and Marketing	90	23	113
Administration	36	15	51
Research and Development	21	–	21
Other	326	48	374
Total	473	86	559
	<u>Israel</u>	<u>Other</u>	<u>Total</u>
2006			
Sales and Marketing	85	20	105
Administration	30	12	42
Research and Development	12	–	12
Other	303	44	347
Total	430	76	506

We have entered into employment contracts with substantially all of our employees, all of which include non-competition, nondisclosure and confidentiality provisions relating to our proprietary information. We believe that our relations with our employees are satisfactory. We are not party to any collective bargaining agreements. However, in Israel, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists Association) are applicable to our employees by order of the Israeli Ministry of Labor. These provisions concern principally the length of the workday, minimum daily wages for professional workers, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay, and other conditions of employment. We generally provide our employees in Israel, with benefits and working conditions beyond the required minimums.

As a result of Cellocator acquisition in September 2007 we engaged with Cellocator's employees, about 30, and they were employed by us. Most of the employees are engaged with us under the success of their rights. Their compensation is like the compensation of our employees.

Israeli law generally requires severance upon the retirement or death of an employee or termination of employment without due cause. We currently fund our ongoing severance obligations by contributing funds on behalf of our employees to a fund known as the "Managers' Insurance" or pension funds. This fund provides a combination of savings plan, life insurance and severance pay benefits to the employee, giving the employee a lump sum of payment upon retirement and securing the severance pay, if legally entitled, upon termination of employment. We decide whether each employee is entitled to participate in the plan, and each employee who agrees to participate contributes an amount equal to 5% of his or her salary and the employer contributes between 13.3% and 15.8% of the employee's salary. In addition, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute, an agency, which is similar to the United States Social Security Administration. Since January 1, 1995, such amounts also include payments for national health insurance. The payments to the National Insurance Institute are approximately 14.5% of wages up to a specified amount, of which the employee contributes approximately 66% and the employer contributes approximately 34%.

E. SHARE OWNERSHIP

The following table details the number of our ordinary shares beneficially owned (including the shares underlying options or warrants held by such person that are exercisable within 60 days), by our directors and members of our senior management, as of March 30, 2009:

<i>Name</i>	<i>Title/Office</i>	<i>Number of Ordinary Shares Beneficially Owned</i>	<i>As a % of Outstanding Ordinary Shares Beneficially Owned⁽¹⁾</i>
Yossi Ben Shalom	Chairman of Board of Directors	1,783,590 ⁽²⁾	37.53%
Danny Stern	President and CEO	*	*
Gil Oren	External Director	*	*
Zvi Rutenberg	External Director	*	*
Barak Dotan	Director	1,783,590 ⁽²⁾	37.53%
Noga Knaz	Director	*	*
Yoel Rosenthal	Director	*	*
Zvi Fried	Chief Financial Officer	*	*
Amnon Duchovne-Nave	Chief Technology Officer	160,000 ⁽³⁾	3.37%
Israel Ronn	Cellocator segment	*	*
All directors and officers as a group		1,943,590	40.89%

* Less than 1%.

- (1) The percentage of outstanding ordinary shares beneficially owned is based on 4,752,931 shares outstanding as of March 30, 2009. The number of shares beneficially owned by a person includes ordinary shares subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of March 30, 2009.
- (2) As office holders of DBSI Investment Ltd., Messrs. Yossi Ben Shalom and Barak Dotan may be considered to be the beneficial holders of the 37.53% of our issued and outstanding shares held by DBSI Investment Ltd.
- (3) As the Cellocator founder and principal shareholder of Cellocator prior to its acquisition by us, Mr. Amnon Duchovne-Nave may be considered to be the beneficial holder of the 3.47% of our issued and outstanding shares received in the acquisition.

Employee Share Option Plans

For information concerning our employee share option plans, see as incorporated by reference, Note 11d of our consolidated financial statements.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table and notes thereto set forth certain information as of, March 30, 2009, concerning the beneficial ownership (as defined in Rule 13d – 3 under the Securities Exchange Act of 1934) of ordinary shares by each person or entity who, to the best of our knowledge, beneficially owned more than 5% of our outstanding ordinary shares. The voting rights of our major shareholders do not differ from the voting rights of holders of all of our ordinary shares.

Name of Beneficial Owner	Number of Ordinary Shares Beneficially Owned*	Percent of Outstanding Ordinary Shares Beneficially Owned*
DBSI Investment Ltd. ⁽¹⁾	1,783,590	37.53%
Eurocom Holdings (1979) Ltd.	701,592	14.76%

* The percentage of outstanding ordinary shares beneficially owned is based on 4,752,931 shares outstanding as of March 30, 2009. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. The number of shares beneficially owned by a person includes ordinary shares subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of March 30, 2009, notwithstanding the Issuance Limitation or the Funds Issuance Limitation as defined in footnotes 3 and 5 below. Such shares issuable pursuant to such options or warrants are deemed outstanding for computing the percentage ownership of the person holding such options but not deemed outstanding for the purposes of computing the percentage ownership of any other person. To our knowledge, the persons named in this table have sole voting and investment power with respect to all ordinary shares shown as owned by them.

- (1) As office holders of DBSI Investment Ltd., Messrs. Barak Dotan and Yossi Ben Shalom may be considered to be the beneficial holders of the 37.53% of our outstanding shares held by DBSI.

As of March 11, 2009 there were approximately 32 record holders of our ordinary shares, including approximately 14 record holders in the United States (who held approximately 74% of our outstanding ordinary shares).

Changes in the percentages of ownership held by our various shareholders during the past three years were primarily results of investments during these years, the conversion of debentures in March 2003, our acquisition of Shagrir in 2004 and our acquisition of Cellocator in 2007. For further information regarding such investments and acquisition see Item 4 – **Information on the Company**.

B. RELATED PARTY TRANSACTIONS

Agreements with Shagrir

In February 2005 we consummated a management services agreement with Shagrir pursuant to which we will provide Shagrir with management services with respect to its business for a period of 2 years beginning February 28, 2005, in consideration for a management fee of approximately \$263,000 million (NIS 1 million), subject to certain conditions.

In September 2008, Shagrir repaid and recapitalized loans from affiliates which were used to fund Shagrir's purchase of Shagrir Towing Systems in 2005, these repayments were financed in part by new loan facilities between Shagrir and Bank Hapoalim As of December 31, 2008 the balance of this loan was \$1.7 million. See Item 10 – **Material Contracts – Loan Agreements**.

Management Agreement with DBSI Investments Ltd.

Pursuant to the share purchase agreement with DBSI Investments Ltd., we entered a management services agreement with DBSI in April 2003. Pursuant to the management agreement, DBSI will provide us with management services with respect to our business for a period of three years, in consideration for a management fee of \$180,000 per annum for a period of three years commencing April 2003, to be paid in equal quarterly installments of \$45,000. In April 2008, the agreement was automatically renewed for an additional 12 months period and may be automatically renewed for additional 12 month terms unless terminated by either of the parties.

Cooperation and Share Exchange Agreements with Shagrir

On February 25, 2004, we entered into a cooperation agreement with Shagrir, the operator of our system in Israel. As part of this agreement Shagrir renewed its commitment to purchase exclusively from us end units for its stolen vehicle retrieval system. Shagrir undertook to purchase in 2004 end-units in an amount of \$2.3 million and during the following three years, in a minimum amount of \$4.2 million. We undertook to expand Shagrir's infrastructure network. The term of the agreement was until the end of year 2007 and we are in negotiations regarding its renewal. The second addendum of the agreement, which was entered into in 2008, updated the product prices and does not include an undertaking to purchase a minimum amount of products or to exclusively purchase systems from the Company.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

The Financial Statements required by this item are found at the end of this annual report, beginning on page F - 1.

Legal Proceedings

As of December 31, 2008, several claims were filed against Shagrir, mainly by customers. The claims are in an amount aggregating to approximately \$0.3 million. The substance of the claims is the malfunction of Shagrir products, which occurred during the ordinary course of business. The Company's management is of the opinion that no material costs will arise to Shagrir in respect to these claims and, therefore, no provision was recorded in the financial statements in respect of the claims.

B. SIGNIFICANT CHANGES

For a description of significant events, which took place since the year ending December 31, 2008, see as incorporated by reference in Item 4 - **Information on the Company – Recent Developments above.**

ITEM 9. THE OFFER AND LISTING**A. OFFER AND LISTING DETAILS***Markets and Share Price History*

Between June 1994 and April 1997, and commencing again on October 31, 1997 until August 2002, our Ordinary Shares were quoted on Nasdaq under the symbol NXUS. Between April 17, 1997, and October 30, 1997, and commencing again as of August 2002 the OTC Bulletin Board reported trading in the Ordinary Shares under the symbol NXUS and later changed to NXUSF. On November 16, 2005, our shares resumed trading on the NASDAQ Capital Market under the symbol NXUS. On February 21, 2006 our shares began trading under a new symbol, PNTR. The table below sets forth the high and low bid prices of our Ordinary Shares, as reported by NASDAQ or the OTC Bulletin Board during the indicated periods.

Period	High	Low
2009 March (until March 30, 2009)	3.60	2.85
2009 February	3.86	3.00
2009 January	4.06	3.22
2008 December	4.10	2.81
2008 November	5.33	2.70
2008 October	6.66	5.05
2009 First Quarter (until March 30, 2009)	4.06	2.85
2008 Fourth Quarter	6.66	2.70
2008 Third Quarter	7.18	5.23
2008 Second Quarter	7.20	4.62
2008 First Quarter	6.95	4.23
2007 Fourth Quarter	9.84	6.00
2007 Third Quarter	9.27	7.58
2007 Second Quarter	11.65	7.80
2008	7.20	2.70
2007	14.53	6.00
2006	19.30	5.20
2005	21.00	5.90
2004	58.00	9.00

On December 19, 2006, we commenced listing our ordinary shares on the TASE in Israel under the symbol "PNTR" The following table sets forth, for the periods indicated, the high and low reported sales prices, in NIS, of the ordinary shares on the Tel Aviv Stock Exchange:

Period	High	Low
2009 March (until March 30, 2009)	16	11
2009 February	17	13
2009 January	15	14
2008 December	16	11
2008 November	19	11
2008 October	22	18
2009 First Quarter (until March 30, 2009)	17	11
2008 Fourth Quarter	22	11
2008 Third Quarter	27	18
2008 Second Quarter	24	16
2008 First Quarter	27	15
2007 Fourth Quarter	40	23
2007 Third Quarter	40	32
2007 Second Quarter	47	33
2008	27	11
2007	58	23

B. PLAN OF DISTRIBUTION

Not applicable

C. MARKETS

Our shares are listed on the NASDAQ Capital Market under the symbol "PNTR" and on the Tel Aviv Stock Exchange under the same symbol.

D. SELLING SHAREHOLDERS

Not applicable

E. DILUTION

Not applicable

F. EXPENSES OF THE ISSUE

Not applicable

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Our registration number at the Israeli registrar of companies is 52-004147-6.

Articles of Association; Israeli Companies Law

Articles of Association

The following is a summary description of certain provisions of our memorandum of association and articles of association:

September 2003, we adopted a new Articles of Association in order to comply with the new Israeli Companies Law. The provisions of our new Articles are substantially the same as the material provisions of our previous Articles.

The objective of our company as stated in our Articles and in our Memorandum of Association is to engage in any lawful activity.

We have currently outstanding only one class of securities. Pursuant to a one-for-one hundred reverse stock split of our ordinary shares, effective as of August 2005, each share of our old Ordinary Shares with a par value of NIS 0.03 each were converted into one Ordinary Share with a par value of NIS 3.00 per share. Accordingly, all shares and per share data in this annual report have been retroactively adjusted to reflect the reverse stock split. No preferred shares are currently authorized.

Holders of Ordinary Shares have one vote per share, and are entitled to participate equally in the payment of dividends and share distributions and, in the event of our liquidation, in the distribution of assets after satisfaction of liabilities to creditors. Our Articles may be amended by a resolution carried at a General Meeting by 75% of those who voted is required. The shareholders rights may not be modified in any other way unless otherwise expressly provided in the terms of issuance of the shares.

Our Articles require that we hold our annual general meeting of shareholders each year no later than 15 months from the last annual meeting, at a time and place determined by the board of directors, upon at least 21 days prior notice to our shareholders. No business may be commenced until a quorum of two or more shareholders holding at least one-third of the voting rights are present in person or by proxy. Shareholders may vote in person or by proxy, and will be required to prove title to their shares as required by the Israeli Companies Law (the "Companies Law") pursuant to procedures established by the board of directors. Resolutions regarding the following matters must be passed at a general meeting of shareholders:

- amendments to our Articles (other than modifications of shareholders rights as mentioned above);
- appointment or termination of our auditors;
- appointment and dismissal of directors;
- approval of acts and transactions requiring general meeting approval under the Israeli Companies Law;
- increase or reduction of our authorized share capital or the rights of shareholders or a class of shareholders- Sections 286 and 287 of the Israeli Companies Law;
- any merger as provided in section 320 of the Israeli Companies Law; and
- the exercise of the board of directors' powers by a general meeting, if the board of directors is unable to exercise its powers and the exercise of any of its powers is vital for our proper management, as provided in section 52(a) of the Israeli Companies Law.

A special meeting of our shareholders shall be convened by the board, at the request of any two directors or one quarter of the officiating directors, or by request of one or more shareholders holding at least 5% of our issued share capital and 1% of the voting rights, or by request of one or more shareholders holding at least 5% of the voting rights. Shareholders requesting a special meeting must submit their proposed resolution with their request. Within 21 days of receipt of the request, the board must convene a special meeting and send out notices setting forth the date, time and place of the meeting. Such notice must be given at least 21 days, but not more than 35 days, prior to the special meeting.

The Israeli Companies Law

The Israeli Companies Law, as amended most recently in March 2006, codifies the fiduciary duties that “office holders,” including directors and executive officers, owe to a company. An office holder, is defined in the Israeli Companies Law, as a (i) director, (ii) general manager, (iii) chief business manager, (iv) deputy general manager, (v) vice general manager, (vi) executive vice president, (vii) vice president, (viii) another manager directly subordinate to the managing director or (ix) any other person assuming the responsibilities of any of the forgoing positions without regard to such person’s title.

The Israeli Companies Law requires that an office holder of a company promptly disclose, no later than the first board meeting in which such transaction is discussed, any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company. In addition, if the transaction is an extraordinary transaction, as defined under Israeli law, the office holder must also disclose any personal interest held by the office holder’s spouse, siblings, parents, grandparents, descendants, spouse’s descendants and the spouses of any of the foregoing, or by any corporation in which the office holder is a 5% or greater shareholder, holder of 5% or more of the voting power, director or general manager or in which he or she has the right to appoint at least one director or the general manager. An extraordinary transaction is defined as a transaction not in the ordinary course of business, not on market terms, or that is likely to have a material impact on the company’s profitability, assets or liabilities.

In the case of a transaction that is not an extraordinary transaction, after the office holder complies with the above disclosure requirement, only board approval is required unless the Articles of Association of the company provide otherwise. The transaction must not be adverse to the company’s interest. If the transaction is an extraordinary transaction, then, in addition to any approval required by the Articles of Association, it must also be approved by the audit committee and by the board of directors, and, under specified circumstances, by a meeting of the shareholders.

Subject to certain exceptions provided for in the regulations to the Israeli Companies Law, agreements regarding directors’ terms of employment require the approval of the board of directors and the audit committee. In all matters in which a director has a personal interest, including matters of his/her terms of employment, he/she shall not be permitted to vote on the matter or be present in the meeting in which the matter is considered. However, should a majority of the audit committee or of the board of directors have a personal interest in the matter, then:

- (a) all of the directors are permitted to vote on the matter and attend the meeting in which the matter is considered; and
- (b) the matter requires approval of the shareholders at a general meeting.

According to the Israeli Companies Law, the disclosure requirements discussed above also apply to a controlling shareholder of a public company. Such requirements also apply to certain shareholders of a public company, with respect to private placements that will increase their relative holdings in the company. In general, extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and agreements relating to employment and compensation terms of a controlling shareholder require the approval of the audit committee, the board of directors and the shareholders of the company. The term “controlling shareholder” is defined as a shareholder who has the ability to direct the activities of a company, other than if this power derives solely from the shareholder’s position on the board of directors or any other position with the company. The definition also includes shareholders that hold 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company. In general, extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and agreements relating to employment and compensation terms of a controlling shareholder, require the approval of the audit committee, the board of directors and the shareholders of the company.

The shareholder approval must either include at least one-third of the shares held by disinterested shareholders who actively participate in the voting process (without taking abstaining votes into account), or, alternatively, the total shareholdings of the disinterested shareholders who vote against the transaction must not represent more than one percent of the voting rights in the company.

Private placements in a public company require approval by a company’s board of directors and shareholders in the following cases:

(a) A private placement that meets all of the following conditions:

(i) the private placement will increase the relative holdings of a shareholder that holds five percent or more of the company’s outstanding share capital, assuming the exercise of all of the securities convertible into shares held by that person, or that will cause any person to become, as a result of the issuance, a holder of more than five percent of the company’s outstanding share capital.

(ii) 20 percent or more of the voting rights in the company prior to such issuance are being offered.

(iii) all or part of the consideration for the offering is not cash or registered securities, or the private placement is not being offered at market terms.

(b) A private placement that results in anyone becoming a controlling shareholder of the public company.

In addition, under the Israeli Companies Law, certain transactions or a series of transactions are considered to be one private placement.

Any placement of securities that does not fit the above description may be issued at the discretion of the Board of Directors.

Under the Israeli Companies Law, a shareholder has a duty to act in good faith towards the company and other shareholders and refrain from abusing his power in the company, including, among other things, voting in the general meeting of shareholders on the following matters:

- any amendment to the Articles of Association;
- an increase of the company's authorized share capital;
- a merger; or
- approval of interested party transactions that require shareholder approval as provided in sections 255 and 268 to 275 of the Israeli Companies Law.

In addition, any controlling shareholder, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or prevent the appointment office holder in the company is under a duty to act with fairness towards the company. The breach of such duty is governed by Israeli contract law. The Israeli Companies Law does not describe the substance of this duty. The Israeli Companies Law requires that specified types of transactions, actions and arrangements be approved as provided for in a company's articles of association and in some circumstances by the audit committee, by the board of directors and by the shareholders. The vote required by the audit committee and the board of directors for approval of these matters, in each case, is a majority of the disinterested directors participating in a duly convened meeting.

Provisions Restricting Change in Control of Our Company

Tender Offer. A person wishing to acquire shares or any class of shares of a publicly traded Israeli company and who would as a result hold over 90% of the company's issued and outstanding share capital or of a class of shares which are listed, is required by the Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company. If the shareholders who do not respond to the offer hold less than 5% of the issued share capital of the company, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. The Companies Law provides for an exception regarding the threshold requirement for a shareholder that prior to and following February 2000 holds over 90% of a company's issued and outstanding share capital. However, the shareholders may petition the court to alter the consideration for the acquisition. If the dissenting shareholders hold more than 5% of the issued and outstanding share capital of the company, the acquirer may not acquire additional shares of the company from shareholders who accepted the tender offer if following such acquisition the acquirer would then own over 90% of the company's issued and outstanding share capital.

The Companies Law provides that an acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company. This rule does not apply if there is already another 25% shareholder of the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% or greater shareholder of the company, if there is no 45% or greater shareholder of the company.

Merger. The Companies Law permits merger transactions if approved by each party's board of directors and the majority of each party's shares voted on the proposed merger at a shareholders' meeting called on at least 21 days' prior notice. Under the Companies Law, merger transactions may be approved by holders of a simple majority of our shares present, in person or by proxy, at a general meeting and voting on the transaction. In determining whether the required majority has approved the merger, if shares of a company are held by the other party to the merger, or by any person holding at least 25% of the outstanding voting shares or 25% of the means of appointing directors of the other party to the merger, then a vote against the merger by holders of the majority of the shares present and voting, excluding shares held by the other party or by such person, or anyone acting on behalf of either of them, is sufficient to reject the merger transaction. If the transaction would have been approved but for the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of a company, if the court holds that the merger is fair and reasonable, taking into account the value of the parties to the merger and the consideration offered to the shareholders. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be executed unless at least 30 days have passed from the receipt of the shareholders' approval and 50 days have passed from the time that a proposal for approval of the merger has been filed with the Israeli Registrar of Companies.

Nasdaq Marketplace Rules and Home Country Practices

In accordance with Israeli law and practice and subject to the exemption set forth in Rule 4350(a)(1) of the NASDAQ Marketplace Rules, we follow the provisions of the Israeli Companies Law – 1999, rather than the requirements of Marketplace Rule 4350 with respect to the following requirements:

- **Distribution of annual and quarterly reports to shareholders** – Under Israeli law we are not required to distribute annual and quarterly reports directly to shareholders and the generally accepted business practice in Israel is not to distribute such reports to shareholders. We do however make our audited financial statements available to our shareholders prior to our annual general meeting and file quarterly financial results with the Securities Exchange Commission on Form 6-K.
- **Quorum** – Under Israeli law a company is entitled to determine in its articles of association the number of shareholders and percentage of holdings required for a quorum at a shareholders meeting. Our Articles of Association provide that a quorum of two or more shareholders holding at least 33.3% of the voting rights in person or by proxy is required for commencement of business at a general meeting. However, the quorum set forth in our Articles of Association with respect to an adjourned meeting, consists of two or more shareholders in person or by proxy.

- Approval of Related Party Transactions – All related party transactions are approved in accordance with the requirements and procedures for approval of interested party acts and transactions, set forth in sections 268 to 275 of the Israeli Companies Law-1999, and the Regulations promulgated thereunder, which require audit committee approval and shareholder approval, as well as board approval, for specified transactions, rather than those approvals under Nasdaq Marketplace Rules which require approval by the audit committee or other independent body of our board. Provided that our executive officers do not serve on our board, Israeli law does not require nor do we engage in the recommendation to, or determination by, independent members of our board of the compensation of our executive officers. See also Item 10B – **Additional Information – Memorandum and Articles of Association – “The Israeli Companies Law”**, for the definition and procedures for the approval of, related party transactions.
- Shareholder Approval – We seek shareholder approval for all corporate action requiring such approval, in accordance with the requirements of the Israeli Companies Law – 1999, which are different or in addition to the requirements for seeking shareholder approval under Nasdaq Marketplace Rule 4350(i).
- Independence of Directors – our board contains two independent directors in accordance with the provisions contained in Sections 239-249 of the Israeli Companies Law – 1999 and Rule 10A-3(b) of the general rules and regulations promulgated under the Securities Act of 1933, rather than a majority of independent directors. Israeli law does not require nor do our independent directors conduct, regularly scheduled meetings at which only they are present.
- Nomination of our Directors – With the exception of our independent directors, our directors are elected for terms of one year or until the following annual meeting, by a general meeting of our shareholders. The nominations for director which are presented to our shareholders are generally made by our directors but may be made by one or more of our shareholders holding together at least one percent of the voting power at the general meeting, and such nomination under Israeli law are not required to be made by our independent directors. Israeli law does not require the adoption of and our board has not adopted a formal written charter or board resolution addressing the nomination process and related matters.
- Israeli law does not require and our board has not adopted a formal written audit committee charter.
- Our audit committee complies with all of the requirements under Israeli law.

Mr. Gil Oren and Mr. Zvi Rutenberg currently serve on our Board of Directors as external directors. Mr. Gil Oren, Mr. Zvi Rutenberg and Ms. Noga Knaz currently serve on our Audit Committee, and Mr. Gil Oren has been determined by our board to be an audit committee financial expert.

C. MATERIAL CONTRACTS

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, in exchange for approximately US\$18.6 million, consisting of (i) approximately US\$ 16.7 million in cash; (ii) the issuance of 160,000 of our ordinary shares and (iii) a non-tradable convertible debenture with a face value of \$1.9 million, which in January 2008 the seller determined in writing not to convert. As a result of the acquisition, Cellocator and/or its shareholders hold 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.

Private Placements with U.S. Institutional Investors

On April 2, 2007, we entered into and consummated a share purchase agreement, with a group of United States institutional investors for the purchase of 805,000 of our ordinary shares for an aggregate price of \$8.5M. Pursuant to the transaction, the investors were also issued warrants to purchase 402,500 of our ordinary shares, such that for each one share purchased the investors were entitled to a warrant to purchase half a share. The warrants are exercisable into ordinary shares, at an exercise price per share of \$12.6 and will be exercisable for a period of five years.

Loan Agreements

Shagrir

Our subsidiary Shagrir funded its acquisition of Shagrir Towing Services in February 2005 through a credit facility 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., or Gandyr, 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 10d of our consolidated financial statements.

Pointer

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. The credit facility matures on 2013 and interest is payable at a determined rate above the London Interbank Offered Rate, or Libor. For further information, see Note 10c of our consolidated financial statements.

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, which in January 2008 the seller determined in writing not to convert. The debenture is due and payable in September 2010 at a rate of 4.1875%, and as of December 31, 2008 the debenture has an amount outstanding of approximately \$2.1 million.

For further information regarding these loans, including related financial covenants, see Note 10c to our consolidated financial statements as of December 31, 2008, contained elsewhere in this report, and which is incorporated herein by reference.

Management Services Agreement with Gandyr and Egged

On November 16, 2004, Shagrir entered into a management services agreement with Gandyr and Egged, pursuant to which Gandyr and Egged were to grant management services to Shagrir, commencing March 1, 2007, in consideration for approximately NIS 1 million (approximately \$263,000) per year.

For a summary of other relevant contracts, see Item 4 – **Information on the Company– Recent Developments** and **–Property, Plants and Equipment**, Item 6 – **Related Party Transactions**, and Item 7 – **Major Shareholders and Related Party Transactions**, which is incorporated herein by reference.

D. EXCHANGE CONTROLS

Under current Israeli regulations, any dividends or other distributions paid in respect of our ordinary shares purchased by nonresidents of Israel with certain non-Israeli currencies (including dollars) and any amounts payable upon the dissolution, liquidation or winding up of our affairs, as well as the proceeds of any sale in Israel of our securities to an Israeli resident, will be freely repatriable in such non-Israeli currencies at the rate of exchange prevailing at the time of conversion pursuant to the general permit issued under the Israeli Currency Law, 1978, provided that Israeli income tax has been paid on (or withheld from) such payments. Because exchange rates between the NIS and the U.S. dollar fluctuate continuously, U.S. shareholders will be subject to any such currency fluctuation during the period from when such dividend is declared through the date payment is made in U.S. dollars.

Investments outside Israel by the Company no longer require specific approval from the Controller of Foreign Currency at the Bank of Israel.

E. TAXATION AND GOVERNMENT PROGRAMS

The following is a summary of some of the current tax law applicable to companies in Israel, with special reference to its effect on us and our subsidiaries. The following also contains a discussion of specified Israeli tax consequences to our shareholders and government programs from which we, and some of our subsidiaries benefit. To the extent that the discussion is based on tax legislation that has not been subject to judicial or administrative interpretation, there can be no assurance that the views expressed in the discussion will be accepted by the tax authorities in question.

The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

General Corporate Tax Structure

Israeli companies are subject to "Corporate Tax" on their taxable income. On July 25, 2005, the Knesset (Israeli Parliament) approved the Law of the Amendment of the Income Tax Ordinance (No. 147), 2005, which prescribes, among others, a gradual decrease in the corporate tax rate in Israel to the following tax rates: in 2005 - 34%, in 2006 - 31%, in 2007 - 29%, in 2008 - 27%, in 2009 - 26% and in 2010 and thereafter - 25%. However, the effective tax rate payable by a company which derives income from an approved enterprise (as further discussed below) may be considerably less.

Following an additional amendment to the Tax Ordinance, which came into effect on January 1, 2009, for a period of one year, an Israeli corporation may elect a 5% rate of corporate tax (instead of 25%) for dividend distributions received from a foreign subsidiary which is used in Israel in 2009, or within one year after actual receipt of the dividend, whichever is later. The 5% tax rate is subject to various conditions, which include conditions with regard to the identity of the corporation that distributes the dividends, the source of the dividend, the nature of use of the dividend income and the period during which the dividend income will be used in Israel.

Special Provisions Relating to Taxation Under Inflationary Conditions

Under the Income Tax (Inflationary Adjustments) Law, 1985 (“the Israeli law”), results for tax purposes are measured in real terms, in accordance with the changes in the Israeli Consumer Price Index (“Israeli CPI”). Accordingly, until 2002, results for tax purposes were measured in terms of earnings in NIS after certain adjustments for increases in the Israeli CPI. Commencing in taxable year 2003, the Company has elected to measure its taxable income and file its tax return under the Israeli Income Tax Regulations (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income), 1986. Such an elective obligates the Company for three years. Accordingly, commencing taxable year 2003, results for tax purposes are measured in terms of earnings in dollar.

In February 2008, the “Knesset” (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 2008, the results for tax purposes will be measured in nominal values, excluding certain adjustments for changes in the Consumer Price Index carried out in the period up to December 31, 2007. The amended law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

Tax Benefits and Grants for Research and Development

Israeli tax law allows, under certain conditions, a tax deduction in the year incurred for expenditures (including capital expenditures) in scientific research and development projects if the expenditures are approved by the relevant Israeli Government Ministry (determined by the field of research) and the research and development is for the promotion of the enterprise and is carried out by or on behalf of the company seeking such deduction. Expenditures not so approved are deductible over a three-year period. However, expenditures made out of proceeds made available to us through government grants are not deductible according to Israeli law.

Law for the Encouragement of Capital Investments, 1959

Certain of our facilities have been granted “Approved Enterprise” status under the Law for the Encouragement of Capital Investments, 1959, as amended, or the Investment Law. The Investment Law provides that a capital investment in eligible facilities may, upon application to the Israel Investment Center of the Ministry of Industry and Trade of the State of Israel (referred to as the Investment Center), be designated as an Approved Enterprise. Each certificate of approval for an Approved Enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources and its physical characteristics, for example, the equipment to be purchased and utilized pursuant to the program. The tax benefits derived from any such certificate of approval relate only to taxable income attributable to the specific Approved Enterprise.

A recent amendment to the Investment Law which came into effect as of April 1, 2005, or the Amendment, significantly changed the provisions of the Investment Law. The Amendment limits the scope of enterprises which may be approved by the Investment Center by determining criteria for the approval of a facility as an Approved Enterprise, such as provisions generally requiring that at least 25% of the income of an Approved Enterprise will be derived from export. Additionally, as explained below, the Amendment sets forth major changes in the manner in which tax benefits are awarded under the Investment Law whereby companies no longer require Investment Center approval (and Approved Enterprise status) in order to qualify for tax benefits. However, the Investment Law provides that terms and benefits included in any certificate of approval already granted will remain subject to the provisions of the Investment Law as in effect on the date of such approval. Therefore the tax benefits granted to our Approved Enterprises under the Investment Law will generally not be subject to the provisions of the Amendment.

Tax Benefits Prior to the Amendment

In general, taxable income of a company derived from an Approved Enterprise was subject to corporate tax at the maximum rate of 25% rather than the rates stated above (this will also apply to Approved Enterprises approved after the Amendment, as explained below). The 25% corporate tax rate applies for a period of time termed the "benefit period". The benefit period is a period of seven years commencing with the year in which the Approved Enterprise first generated taxable income. In any event, the benefit period is limited to 12 years from the commencement of production or 14 years from the year of receipt of approval, whichever is earlier. Under certain circumstances (as further detailed below), the benefit period may extend to a maximum of ten years from the commencement of the benefit period. In the event that a company is operating under more than one approval or that only part of its capital investments are approved, or a Mixed Enterprise, its effective Company Tax rate is the result of a weighted combination of the various applicable rates.

A company which qualifies as a "Foreign Investors' Company" is entitled to an extended benefit period and to further reductions in the tax rate normally applicable to Approved Enterprises. Subject to certain conditions, a "Foreign Investors' Company" is a company in which persons who are not residents in Israel invested more than 25% of its combined shareholders' investment in share capital (in terms of rights to profits, voting and the appointment of directors) and in long term shareholders' loans, as defined in the Investment Law. The percentage owned by nonresidents of Israel for any tax year will be determined by the lowest percentage of any of the above rights held by nonresidents during that year. Such a company will pay corporate tax at reduced rates for an extended ten-year (rather than the otherwise applicable seven-year) period as detailed below:

<u>Level of Foreign Investment</u>	<u>Corporate Tax Rate</u>	<u>Benefit period (years)</u>
Over 0% but less than 25%	25%	7
Over 25% but less than 49%	25%	10
Over 49% but less than 74%	20%	10
Over 74% but less than 90%	15%	10
90% or more	10%	10

There can be no assurance that the above-mentioned shareholding proportion will be reached by us.

Prior to the Amendment, a company owning an Approved Enterprise approved after April 1, 1986 (or prior thereto provided no government grants or loans had previously been granted regarding such enterprise) was entitled to elect (as we have) to forego certain Government grants extended to Approved Enterprises in return for an "alternative track" of tax benefits, or the Alternative Track. Under the Alternative Track, a company's undistributed income derived from an Approved Enterprise is exempt from corporate tax for a period of between two and ten years from the first year of taxable income, depending on the geographic location of the Approved Enterprise within Israel, and such company is eligible for the reduced tax rates under the Investment Law for the remainder of the benefit period as mentioned above.

The entitlement to the above benefits is conditional upon fulfillment of the conditions stipulated by the law, regulations published thereunder and the instruments of approval for the specific investments in the Approved Enterprise. In the event of failure to comply with these conditions, the benefits may be canceled and a company may be required to refund the amount of the benefits, in whole or in part, with the addition of linkage differences, interest and penalties.

Should we derive income from sources other than the Approved Enterprise during the relevant periods of benefits, such income will be taxable at regular corporate tax rates.

A company that elected the Alternative Track and that subsequently pays a dividend out of income derived from the Approved Enterprise(s) during the tax exemption period will be subject to corporate tax in the year the dividend is distributed in respect of the amount distributed (including the corporate tax thereon), at the rate that would have been applicable had the company not elected the Alternative Route (10%-25%, depending on the level of foreign investment in the company, as explained above). In addition, the dividend recipient is taxed at the reduced rate applicable to dividends from Approved Enterprises (15%), if the dividend is distributed during the tax exemption period or within a specified period thereafter (In the event, however, that the company qualifies as a Foreign Investors' Company, there is no such time limitation). This tax must be withheld by the company at source, regardless of whether the dividend is converted into foreign currency.

Subject to certain provisions concerning income subject to the Alternative Route, all dividends are considered to be attributable to the entire enterprise and the effective tax rate is the result of a weighted combination of the various applicable tax rates.

The Investment Law also provides that an Approved Enterprise is entitled to accelerated depreciation on its property and equipment that are included in an approved investment program.

Grants and certain other incentives received by a company in accordance with the Investment Law remain subject to final ratification by the Israel Investment Center and final determination by the Israel Tax Authority. Such ratification and determination are conditional upon fulfillment of all of the terms of the approved program.

Tax Benefits under the Amendment

As a result of the Amendment, it is no longer required to acquire Approved Enterprise status in order to receive the tax benefits previously available under the Alternative Track of benefits and therefore companies need not apply to the Investment Center for this purpose. However, the Investment Center will continue to grant Approved Enterprise status to companies seeking governmental grants. A company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set forth in the Amendment, or a Benefited Enterprise. Companies are also entitled to approach the Israeli Tax Authority and request for a pre-ruling regarding their eligibility for benefits under the Amendment. The Amendment includes provisions intended to ensure that a company will not enjoy both government grants and tax benefits for the same investment program.

Tax benefits are available under the Amendment to production facilities and to other eligible facilities, which are generally required to derive more than 25% of their business income from export. In order to receive the tax benefits, the Amendment states that the company must make an investment in the Benefited Enterprise exceeding a minimum amount specified in the Investment Law. Such investment may be made over a period of no more than three years concluding at the end of the year in which the company requests to have the tax benefits apply to its Benefited Enterprise, or the Year of Election. Where the company requests to have the tax benefits apply to an expansion of existing facilities, only the expansion will be considered a Benefited Enterprise and the company's effective tax rate will be the result of a weighted combination of the applicable rates. In the case of an expansion of existing facilities, the minimum investment required in order to qualify as a Benefited Enterprise is determined as a certain percentage of the company's production assets before the expansion.

The tax benefits available under the Amendment to qualifying income of a Benefited Enterprise are determined by the geographic location of the Benefited Enterprise in Israel. The Investment Law divides the country into three zones – A, B and C, so that a Benefited Enterprise operating in Zone A (which generally includes areas remote from the center of Israel) will receive the greatest benefits and Benefited Enterprises in Zone C will receive the least benefits.

The Amendment provides that a company producing income from a Benefited Enterprise in Zone A may elect either that (i) the undistributed income derived from the Benefited Enterprise will be fully tax exempt for the entire benefit period described below, or tax exemption, in which case the ordinary provisions described below concerning the taxation of the company and shareholder for distribution of dividends will apply; or (ii) that the income from its Benefited Enterprise will be subject to corporate tax at a rate of a 11.5%, in which case dividends paid out of such income to a foreign resident will be taxed at a rate of 4% and the company will not be subject to additional tax upon dividend distribution. Further benefits are available in the event of certain large investments by multinational companies. Benefited Enterprises located in Zones B and C will be exempt from tax for six and two years, respectively, and subject to tax at a rate of 10%-25% for the remainder of the benefit period, depending on the extent of foreign investment in the Company, as described above.

Similarly to a company which elected the Alternative Track before the amendment, dividends paid out of income derived by a Benefited Enterprise, or out of dividends received from a company whose income is derived from a Benefited Enterprise, are generally subject to withholding tax at the rate of 15%, such tax being deductible at source. The reduced withholding tax rate of 15% is limited to dividends and distributions out of income derived during the benefit period and actually paid at any time up to 12 years thereafter. A company qualifying for tax benefits under the Amendment which pays a dividend out of income derived by its Benefited Enterprise during the tax exemption period will be subject to corporate tax in respect of the gross amount of the dividend. The rate of such corporate tax will be 25%, which is the rate to which a Benefited Enterprise is generally subject. Such tax rate is lower in the case of a qualified "Foreign Investors' Company". The dividend recipient is subject to tax at the rate of 15% on the amount received which tax is deductible at source.

The period for which tax benefits are available under the Amendment is also determined by the geographical location of the Benefited Enterprise in Israel. The benefit period for Benefited Enterprises in Zone A will end on the earlier of (i) a period of ten years from the tax year in which the company first derived taxable income from the Benefited Enterprise, or the Commencement Year; or (ii) twelve years (or in certain cases fourteen years) from the first day of the Year of Election. The benefit period for Benefited Enterprises in Zones B and C will extend until the earlier of (i) seven years from the Commencement Year or (ii) 12 years from the first day of the Year of Election. This period may be extended for Benefited Enterprises owned by a "Foreign Investors' Company" during all or part of the benefit period.

Additionally, the Amendment sets forth a minimal amount of foreign investment required for a company to be regarded a Foreign Investors' Company.

There can be no assurance that we will attain approval for additional tax benefits under the Amendment, or receive approval for Approved Enterprises in the future.

Law for the Encouragement of Industry (Taxes), 1969

Under the Law for the Encouragement of Industry (Taxes), 1969, or the Industry Encouragement Law, Industrial Companies (as defined below) are entitled to the following tax benefits:

- (a) Amortization of purchases of know-how and patents over eight years for tax purposes.
- (b) The right to elect, under specified conditions, to file a consolidated tax return with other related Israeli Industrial Companies.

(c) Amortization of expenses incurred in connection with certain public securities issuances over a three-year period.

(d) Tax exemption for shareholders who held shares before a public offering on capital gains derived from the sale (as defined by law) of securities, if realized after more than five years from the public issuance of additional securities of the company. (As of November 1994, this exemption was repealed, however, it applies to some of our shareholders pursuant to a grand-fathering clause; the recent tax reform repealed the grandfathered exemption for any gains accrued from January 1, 2003).

(e) Accelerated depreciation rates on equipment and buildings.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. Under the Industry Encouragement Law, an "Industrial Company" is defined as a company resident in Israel, at least 90% of the income of which, in any tax year, determined in Israeli currency, exclusive of income from government loans, capital gains, interest and dividends, is derived from an "Industrial Enterprise" owned by it. An "Industrial Enterprise" is defined as an enterprise whose major activity in a given tax year is industrial production activity.

We believe that we currently qualify as an Industrial Company within the definition of the Industry Encouragement Law. No assurance can be given that we will continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

Israeli Capital Gains Tax

Until the end of the year 2002, and provided we maintained our status as an industrial corporation, capital gains from the sale of our securities were generally exempt from Israeli Capital Gains Tax. This exemption did not apply to a shareholder whose taxable income was determined pursuant to the Israeli Income Tax Law (Inflationary Adjustments) 1985, or to a person whose gains from selling or otherwise disposing of our securities were deemed to be business income.

From January 1, 2003, capital gains from the sale of our securities were generally subject to tax. On January 1, 2006, an amendment to the Israeli tax regime became effective (the "2006 Tax Reform"). The 2006 Tax Reform significantly changed the tax rates applicable to income derived from securities.

According to the 2006 Tax Reform, an individual is subject to a 20% tax rate on real capital gains derived from the sale of shares, as long as the individual is not a "substantial shareholder" (generally a shareholder with 10% or more of the right to profits, right to nominate a director and voting rights) in the company issuing the shares.

A substantial shareholder will be subject to tax at a rate of 25% in respect of real capital gains derived from the sale of shares issued by the company in which he or she is a substantial shareholder. The determination of whether the individual is a substantial shareholder will be made on the date that the securities are sold. In addition, the individual will be deemed to be a substantial shareholder if at any time during the 12 months preceding this date he had been a substantial shareholder.

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares in an Israeli corporation publicly traded on the TASE and/or on a foreign stock exchange, provided such gains do not derive from a permanent establishment of such shareholders in Israel and that such shareholders did not acquire their shares prior to the issuer's initial public offering. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary of or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In some instances where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

Pursuant to the treaty between the Governments of the United States and Israel with respect to taxes on income, or the U.S.-Israel tax treaty, the sale, exchange or disposition of our ordinary shares by a person who qualifies as a resident of the United States under the treaty and who is entitled to claim the benefits afforded to him by the treaty, will generally not be subject to Israeli capital gains tax. This exemption shall not apply to a person who held, directly or indirectly, shares representing 10% or more of the voting power in our company during any part of the 12 month period preceding the sale, exchange or disposition, subject to certain conditions. A sale, exchange or disposition of our shares by a U.S. resident qualified under the treaty, who held, directly or indirectly, shares representing 10% or more of the voting power in our company at any time during the preceding 12 month period would be subject to Israeli tax, to the extent applicable; however, under the treaty, this U.S. resident would be permitted to claim a credit for these taxes against the U.S. income tax with respect to the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits.

Israeli Tax on Dividend Income

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. These sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. On distributions of dividends other than bonus shares, or stock dividends, to Israeli individuals and foreign resident individuals and corporations we would be required to withhold income tax at the rate of 20%. If the income out of which the dividend is being paid is attributable to an Approved Enterprise under the Law for the Encouragement of Capital Investments, 1959, the rate is 15%. A different rate may be provided for in a treaty between Israel and the shareholder's country of residence. Under the U.S.-Israel tax treaty, if the income out of which the dividend is being paid is not attributable to an Approved Enterprise, then income tax with respect to shareholders that are U.S. corporations holding at least 10% of our voting power in the twelve-month period preceding the distribution of such dividends, is required to be withheld at the rate of 12.5%.

Residents of the United States will generally have taxes in Israel withheld at source. Such persons generally would be entitled to a credit or deduction for United States Federal income tax purposes for the amount of such taxes withheld, subject to limitations applicable to foreign tax credits. Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. These sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. On distributions of dividends other than bonus shares, or stock dividends, to Israeli individuals and foreign resident individuals and corporations we would be required to withhold income tax at the rate of 20%. If the income out of which the dividend is being paid is attributable to an Approved Enterprise under the Law for the Encouragement of Capital Investments, 1959, the rate is 15%. A different rate may be provided for in a treaty between Israel and the shareholder's country of residence. Under the U.S.-Israel tax treaty, if the income out of which the dividend is being paid is not attributable to an Approved Enterprise, then income tax with respect to shareholders that are U.S. corporations holding at least 10% of our voting power in the twelve-month period preceding the distribution of such dividends, is required to be withheld at the rate of 12.5%.

Residents of the United States will generally have taxes in Israel withheld at source. Such persons generally would be entitled to a credit or deduction for United States Federal income tax purposes for the amount of such taxes withheld, subject to limitations applicable to foreign tax credits.

F. DIVIDENDS AND PAYING AGENTS

Not Applicable

G. STATEMENT BY EXPERTS

Not Applicable

H. DOCUMENTS ON DISPLAY

We are required to file reports and other information with the Securities and Exchange Commission, or SEC, under the Securities Exchange Act of 1934 and the regulations thereunder applicable to foreign private issuers. Reports and other information filed by us with the SEC may be inspected and copied at the SEC's public reference facilities described below. As a foreign private issuer we are not required to file periodic information as frequently or as promptly as United States companies. Therefore, we publicly announce our year-end results promptly and file information with the SEC under the cover of Form 6-K as required. As a foreign private issuer, we are also exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements and our officers, directors and principal shareholders are exempt from the reporting and other provisions in Section 16 of the Exchange Act.

You may read and copy any document we file with the SEC without charge at the SEC's public reference room, located at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Branch of the SEC at such address, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition, such information concerning our company can be inspected and copied at the offices of the Israel Securities Authority at 22 Kanfei Nesharim St., Jerusalem, Israel. As a foreign private issuer, all documents which were filed after November 4, 2002 on the SEC's EDGAR system will be available for retrieval on the SEC's website at www.sec.gov. You may read and copy any reports, statements or other information that we file with the SEC at the SEC facilities listed above. These SEC filings are also available to the public from commercial document retrieval services. We also generally make available on our own web site (www.pointer.com) all our interim and year-end financial statements as well as other information. The information contained in, or incorporated into, our website is not part of this annual report.

Any statement in this annual report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to the registration statement, the contract or document is deemed to modify the description contained in this annual report. We urge you to review the exhibits themselves for a complete description of the contract or document.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. A copy of each report submitted in accordance with applicable United States law is available for public review at our principal executive offices.

I. SUBSIDIARY INFORMATION

Not Applicable

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the course of our normal operations, we are exposed to market risks including fluctuations in foreign currency exchange rates, interest rates and the Israeli CPI.

Foreign exchange risk

The majority of our revenues is generated in or linked to U.S. dollars ("Dollars"). In addition, a substantial portion of our costs is incurred in Dollars. We believe that the Dollar is the currency of the primary economic environment in which we operate. Thus, the functional and reporting currency of the Company is the Dollar.

For Shagrir whose functional currency has been determined to be its local currency, the new Israeli shekel ("NIS") is its functioning and reporting currency. For PLA, whose functional currency has been determined to be its local currency, the Argentine peso is its functioning and reporting currency, and for Pointer Mexico, whose functional currency has been determined to be its local currency, the Mexican peso is its functioning and reporting currency. Assets and liabilities are translated at year-end exchange rates and statement of operations items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded as a separate component, other comprehensive income (loss), in shareholders' equity (deficiency).

As of December 31, 2008, accumulated other comprehensive loss decreased by \$70 thousands compared to December 31, 2007. As of December 31, 2007, accumulated other comprehensive loss increased by \$1,668 million compared to December 31, 2006.

Our operating and pricing strategies take into account changes in exchange rates over time. However, there can be no assurance that future fluctuations in the value of foreign currencies will not have an adverse material effect on our business, operating results or financial condition.

Market risk was estimated as the potential change in fair value resulting from a hypothetical 10% change in the year-end Dollar exchange rate.

Our revenues and expenses generated in NIS are exposed to exchange rate fluctuations between the NIS and the Dollar. As of December 31, 2008 we had net assets of \$21 million and net income of \$117,000, denominated in the NIS. Assuming an adverse foreign exchange rate fluctuation, we would experience a change in Dollar revenues and net income. A hypothetical 10% devaluation of the Dollar against the NIS would thus result in approximately \$43,000 net decrease in our earnings

Our revenues and expenses generated in Argentinian Pesos are exposed to exchange rate fluctuations between the Argentinian Pesos and the Dollar. As of December 31, 2008 we had net assets of \$3 million and net loss of \$864,000, denominated in the Argentinian Pesos. Assuming an adverse foreign exchange rate fluctuation, we would experience a change in Dollar revenues and net income. A hypothetical 10% devaluation of the Dollar against the Argentinian Pesos would thus result in approximately \$86,000 net decrease in our earnings

Our revenues and expenses generated in Euro are exposed to exchange rate fluctuations between the Euro and the Dollar. As of December 31, 2008 we had net assets of \$0.7 million and net income of \$2.4 million, denominated in the Euro. Assuming an adverse foreign exchange rate fluctuation, we would experience a change in Dollar revenues and net income. A hypothetical 10% devaluation of the Dollar against the Euro would thus result in approximately \$310,000 net decrease in our earnings

The exposure to exchange rate fluctuations between the Mexican Peso and the U.S. dollar has no materiality effect.

Interest rate risk

Our exposure to market rate risk for changes in interest rates relates primarily to funds borrowed by us from banks and other. See also disclosure about hedging in Item 5 – **Impact of Exchange Rate Fluctuations**. As of December 31, 2008, we had total loans borrowed bearing variable interest rates of \$ 6.2 million.

The net decrease in our earnings for the next year resulting from an increase of 10% in variable interest rates will be approximately \$25,000 assuming all other variables are constant.

Israeli CPI

Our exposure to market rate risk for changes in CPI relates primarily to loans borrowed by us from banks and other. As of December 31, 2008, we had total loans borrowed linked to CPI of \$ 7 million. The net decrease in our earnings for the next year resulting from an increase of 10% in CPI will be approximately \$27,000 assuming all other variables are constant.

The table below details the balance sheet exposure by currency and interest rates:

interest	Expected Maturity Dates				
	2009	2010	2011	2012	2013 and thereafter
	(In thousands)				
Assets:					
cash - in U.S. dollars	1,045				
Cash- In other nis	1,613				
Cash- In other currency:	50				
Liabilities:					
Short-term bank credit					
In NIS:	4.5-5.8	1,644	–	–	–
Long-term loans (including current maturities)					
In U.S. dollars:	Libor +2	800	800	800	1,400
In NIS	5.48-7.75	5,373	5,479	5,022	1,615
In other currency					737

ITEM 12. DESCRIPTIONS OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15T. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as of December 31, 2008. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding adequate disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures as of December 31, 2008, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

(b) Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 based on the framework published by the Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework*. Based on this assessment, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2008, our internal control over financial reporting is effective based on those criteria.

(c) *Attestation report of the registered public accounting firm.* Not Applicable.

(d) *Changes in Internal Control over Financial Reporting.* There were no changes to our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT.

Our board of directors has determined that Mr. Gil Oren is our audit committee financial expert.

ITEM 16B. CODE OF ETHICS.

On June 22, 2003, our company adopted a code of ethics, which applies to all of our employees, officers and directors, including our chief executive officer, our chief financial officer and our principal accountant. We shall provide any person with a copy of our code upon request.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following table presents fees for professional audit services rendered by our principal auditors for the audit of the Company's consolidated annual financial statements for the years ended December 31, 2008 and 2007.

	<i>In USD in thousands</i>	
	<u>2008</u>	<u>2007</u>
Audit Fees(1)	217	153
Audit-Related Fees(2)	–	109
Tax Fees(3)	22	10
All Other Fees	–	18

- (1) Audit fees consist of fees for professional services rendered for the audit of the Company's consolidated financial statements and review of financial statements and services normally provided by the independent auditor in connection with statutory and regulatory filings or engagements.
- (2) Audit-related fees are fees principally for services not provided in Audit Fees, such as services provided in connection with the preparation of our registration statement on Forms F-3, filed with the SEC in May 2007 and amended in September 2007.
- (3) Tax services fees consist of compliance fees for the preparation of original and amended tax returns, claims for refunds and tax payments.

Pre-Approval Policies and Procedures

Our Audit committee has approved all audit and non-audit services rendered by our independent public accountants, Kost Forer Gabbay & Kasierer, a member firm of Ernst & Young Global. Pre-approval of an audit or non-audit service may be given as general pre-approval, as part of the audit committee's approval of the scope of the engagement of our independent auditors, or on an individual basis. Any proposed services exceeding general pre-approved levels also require specific pre-approval by our audit committee. The Audit Committee has not approved prohibited non-audit functions defined in section 201 of the Sarbanes-Oxley Act or the rules of the Securities and Exchange Committee, and the Audit Committee considers whether proposed services are compatible with the independence of the public accountants. All the services provided by our independent accountants in 2008 were approved by our Audit Committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN THE REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

As a foreign private issuer whose shares are listed on the NASDAQ Capital Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Marketplace Rules.

As described in Item 10.B “Additional Information – NASDAQ Marketplace Rules and Home Country Practices,” we do not comply with the NASDAQ requirement that an issuer listed on the NASDAQ Capital Market have a quorum requirement that in no case be less than 33 1/3% of the outstanding shares of the company’s common voting stock. However, our articles of association, consistent with the Israeli Companies Law, provide that the quorum requirements for an adjourned meeting are the presence of a minimum of two shareholders present in person. Our quorum requirements for an adjourned meeting do not comply with the NASDAQ requirements and we instead follow our home country practice.

As a foreign private issuer listed on the NASDAQ Capital Market, we may also follow home country practice with regard to, among other things, distribution of annual and quarterly reports to shareholders, approval of related party transactions, composition of the board of directors, approval of compensation of executive officers, director nomination process and regularly scheduled meetings at which only independent directors are present. In addition, we may follow our home country practice, instead of the NASDAQ Marketplace Rules, which require that we obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company. Under NASDAQ Marketplace Rules, U.S. domestic issuers are required to solicit proxies, provide proxy statements for all shareholder meetings and provide copies of such proxy materials to NASDAQ; however, as a foreign private issuer, we are generally exempt from the SEC’s rules governing the solicitation of shareholder proxies.

See Item 6 “Directors, Senior Management and Employees – Board Practices” and Item 10.B “Additional Information – NASDAQ Marketplace Rules and Home Country Practices” for a detailed description of the significant ways in which the registrant’s corporate governance practices differ from those followed by U.S. companies under the listing standards of the NASDAQ Capital Market.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not Applicable.

ITEM 18. FINANCIAL STATEMENTS

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

ITEM 19. EXHIBITS

- 1.1 Memorandum of Association incorporated herein by reference to Exhibit 3.1 to the our Registration Statement on Form F-1, filed with the Commission on June 10, 1994 (registration number 33-76576).
- 1.2 Amended Articles of Association of the Registrant.
- 2.1 Form of Convertible Debenture due September 18, 2010 of the Registrant.
- 4.1 English translation of Hebrew language translation of Agreement between the Company, Matan Y. Communication Tracking Systems Ltd. and Amnon Duchovna-Naveh dated July 16, 2007, incorporated herein by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form F-3/A, filed with the Commission on September 24, 2007.
- 4.2 Securities Purchase Agreement among the Company and the Investors as defined therein, dated April 2, 2007, incorporated herein by reference to Registrant's Report of Foreign Issuer on Form 6-K, filed with the Commission on April 3, 2007.
- 4.3 Registration Rights Agreement among the Company and the Investors as defined therein, dated April 2, 2007, incorporated herein by reference to Registrant's Report of Foreign Issuer on Form 6-K, filed with the Commission on April 3, 2007.
- 4.4 Form of Ordinary Share Purchase Warrant issued to the investor parties to the Securities Purchase Agreement, dated April 2, 2007, incorporated herein by reference to Registrant's Report of Foreign Issuer on Form 6-K, filed with the Commission on April 3, 2007.

- 4.5 English Translation of Hebrew Language Order Form and Warrant issued in Israeli Private Placement in January 2007, incorporated herein by reference to Exhibit 4.5 to Registrant's Form 20F/A, filed with the Commission on July 31, 2007.
- 4.6 Letter Agreement, by and among Pointer (Eden Telecom Group) Ltd. and Bank Hapoalim Ltd., dated November 16, 2004, incorporated herein by reference to Exhibit 4.18 to Registrant's Form 20-F, filed with the Commission on June 30, 2005.
- 4.7 Management Services Agreement, by and among Shagrir Systems Ltd., Gandyr Investments Ltd., Egged Holdings Ltd. and other lenders therein, dated November 16, 2004, incorporated herein by reference to Exhibit 4.13 to Registrant's Form 20-F, filed with the Commission on June 30, 2005.
- 8.1 A list of our subsidiaries.
- 12.1 Certification by Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification by Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification by Chief Executive Officer pursuant to 18 U.S.C., Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification by the Chief Financial Officer pursuant to 18 U.S.C., Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- 14.1 Consent of Kost, Forer, Gabbay & Kasierer Certified Public Accountants (Israel).
- 14.2 Consent of Grant Thornton Argentina S.C. Certified Public Accountants (Argentina).
- 14.3 Consent of Salles, Sainz – Grant Thornton, S.C. Certified Public Accountants (Mexico).

SIGNATURE

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

POINTER TELOCATION LIMITED

By: /s/ Yossi Ben Shalom

Yossi Ben Shalom
Chairman of the Board of Directors

March 31, 2009.

POINTER TELOCATION LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008

IN U.S. DOLLARS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

POINTER TELOCATION LTD.

We have audited the accompanying consolidated balance sheets of Pointer Telocation Ltd. ("the Company") and its subsidiaries as of December 31, 2008 and 2007 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of one subsidiary in 2008 and two subsidiaries in 2007 and 2006, whose financial statements reflect total assets constituting 4% and 3.7% as of December 31, 2008 and 2007, respectively, and total revenues constituting 4%, 6.5% and 5.2% of the related consolidated totals for the years ended December 31, 2008, 2007 and 2006, respectively. The financial statements of these companies were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2008 and 2007 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
March 31, 2009

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Grant Thornton Argentina
Av. Corrientes 327 piso 3°
C1043AAD - Buenos Aires
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To the Shareholders of
Pointer Localización y Asistencia S.A

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying balance sheets of Pointer Localización y Asistencia S.A. as of December 31, 2008 and 2007, and the related statements of operations, changes in shareholders' deficit, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pointer Localización y Asistencia S.A. as of December 31, 2008 and 2007 and the results of its operations and cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON ARGENTINA S.C.
Buenos Aires, Argentina
March 30, 2009

Pointer Recuperación de México, S. A. de C. V.

Certified Public Accountants
Member of Grant Thornton International

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Pointer Recuperación de México, S. A de C. V.

We have audited the accompanying balance sheets of Pointer Recuperación de México, S.A de C.V. (based in Mexico) as of December 31, 2007 and 2006, and therelated statements of operations, changes in shareholders' equity and cash flows, for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pointer Recuperación de México, S. A. de C.V. as of December 31, 2007 and 2006, and the related statements of operations, changes in shareholders' equity and cash flows, for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

SALLES, SAINZ – GRANT THORNTON, S.C.

Rogelio Avalos
Partner
Mexico City, MEXICO
January 25, 2008

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,708	\$ 1,200
Trade receivables (net of allowance for doubtful accounts of \$604 and \$321 at December 31, 2008 and 2007, respectively)	13,509	11,756
Other accounts receivable and prepaid expenses (Note 3)	2,774	2,001
Inventories (Note 4)	3,999	2,657
Total current assets	22,990	17,614
LONG-TERM ASSETS:		
Long-term accounts receivable	339	337
Severance pay fund	4,925	4,866
Property and equipment, net (Note 5)	7,998	7,708
Deferred income taxes	1,037	941
Other intangible assets, net (Note 6)	14,894	18,058
Goodwill (Note 7)	50,416	50,712
Total long-term assets	79,609	82,622
Total assets	\$ 102,599	\$ 100,236

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2008	2007
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit and current maturities of long-term loans (Note 8)	\$ 7,849	\$ 10,564
Trade payables	8,613	8,001
Deferred revenues and customer advances	8,701	8,253
Other accounts payable and accrued expenses (Note 9)	5,792	6,123
Total current liabilities	30,955	32,941
LONG-TERM LIABILITIES:		
Long-term loans from banks (Note 10)	20,520	18,460
Long-term loans from shareholders and others (Note 11)	3,305	5,767
Deferred revenues	257	89
Accrued severance pay	6,375	5,730
Convertible debentures (Note 12)	-	1,979
	30,457	32,025
MINORITY INTEREST	5,372	3,067
SHAREHOLDERS' EQUITY:		
Share capital (Note 14) -		
Ordinary shares of NIS 3 par value -		
Authorized: 8,000,000 shares at December 31, 2008 and 2007; Issued and outstanding: 4,752,931 and 4,612,875 shares at December 31, 2008 and 2007, respectively	3,266	3,139
Additional paid-in capital	118,015	116,910
Accumulated other comprehensive income	1,773	1,766
Accumulated deficit	(87,239)	(89,612)
Total shareholders' equity	35,815	32,203
Total liabilities and shareholders' equity	\$ 102,599	\$ 100,236

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2008	2007	2006
Revenues (Note 18b):			
Products	\$ 30,645	\$ 15,821	\$ 9,701
Services	46,010	35,806	32,211
<u>Total revenues</u>	<u>76,655</u>	<u>51,627</u>	<u>41,912</u>
Cost of revenues:			
Products	16,392	9,414	5,602
Services	29,869	23,034	20,786
Amortization of intangible assets	980	277	—
<u>Total cost of revenues</u>	<u>47,241</u>	<u>32,725</u>	<u>26,388</u>
Gross profit	29,414	18,902	15,524
Operating expenses:			
Research and development	2,511	1,675	1,170
Selling and marketing	6,934	4,934	3,927
General and administrative	8,311	6,209	4,749
Amortization of intangible assets and impairment of long-lived assets (Note 5c)	2,365	1,877	2,112
Other income, net (Note 1g)	—	—	(1,292)
<u>Total operating expenses</u>	<u>20,121</u>	<u>14,695</u>	<u>10,666</u>
Operating income	9,293	4,207	4,858
Financial expenses, net (Note 19a)	4,054	2,814	2,577
Other expenses (income), net (Note 19b)	(22)	12	(14)
Income before taxes on income	5,261	1,381	2,295
Taxes on income	640	353	82
Income before minority interest	4,621	1,028	2,213
Minority interest in earnings of subsidiaries	2,248	1,366	1,044
Net income (loss)	\$ 2,373	\$ (338)	\$ 1,169
Basic net earnings (loss) per share (Note 15)	\$ 0.51	\$ (0.08)	\$ 0.39
Diluted net earnings (loss) per share (Note 15)	\$ 0.50	\$ (0.08)	\$ 0.31

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Number of shares	Share capital	Additional paid-in capital	Deferred stock-based compensation	Receipts on account of shares	Accumulated other comprehensive income (loss)	Accumulated deficit	Total comprehensive income (loss)	Total shareholders' equity
Balance as of January 1, 2006	2,479,020	\$ 1,680	\$ 100,707	\$ (1)	\$ -	\$ (1,138)	\$ (90,443)		\$ 10,805
Reclassification of deferred stock compensation into additional paid-in capital upon adoption of SFAS 123(R)	-	-	(1)	1	-	-	-		-
Stock-based compensation expenses	-	-	153	-	-	-	-		153
Exercise of warrants and stock options	743,855	460	3,021	-	-	-	-		3,481
Receipts on account of shares	-	-	-	-	2,586	-	-		2,586
Comprehensive income:									
Foreign currency translation adjustments	-	-	-	-	-	1,236	-	\$ 1,236	1,236
Net income	-	-	-	-	-	-	1,169	1,169	1,169
Total comprehensive income								\$ 2,405	
Balance as of December 31, 2006	3,222,875	2,140	103,880	-	2,586	98	(89,274)		19,430
Issuance of shares (net of issuance costs)	1,390,000	999	10,019	-	-	-	-		11,018
Stock-based compensation expenses	-	-	425	-	-	-	-		425
Receipts on account of shares	-	-	2,586	-	(2,586)	-	-		-
Comprehensive income:									
Foreign currency translation adjustments	-	-	-	-	-	1,668	-	\$ 1,668	1,668
Net loss	-	-	-	-	-	-	(338)	(338)	(338)
Total comprehensive income								\$ 1,330	
Balance as of December 31, 2007	4,612,875	3,139	116,910	-	-	1,766	(89,612)		32,203
Issuance of shares	140,056	127	873	-	-	-	-		1,000
Stock-based compensation expenses	-	-	232	-	-	-	-		232
Comprehensive income:									
Foreign currency translation adjustments	-	-	-	-	-	(71)	-	\$ (71)	(71)
designated Unrealized gains on derivatives as cash flow hedges	-	-	-	-	-	78	-	78	78
Net Income	-	-	-	-	-	-	2,373		2,373
Total comprehensive income								\$ 7	
Balance as of December 31, 2008	4,752,931	\$ 3,266	\$ 118,015	\$ -	\$ -	\$ 1,773	\$ (87,239)		\$ 35,815

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net income (loss)	\$ 2,373	\$ (338)	\$ 1,169
Adjustments required to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, amortization and impairment	6,918	5,273	4,490
Accrued interest and exchange rate changes of convertible debenture and long-term loans	1,187	750	137
Accrued severance pay, net	619	(70)	(166)
Gain from sale of property and equipment, net	(36)	(182)	(563)
Stock-based compensation	350	783	251
Minority interest in earnings of subsidiary	2,248	1,366	1,044
Increase in trade receivables, net	(1,773)	(1,172)	(1,167)
Increase in other accounts receivable and prepaid expenses	(6)	(421)	(36)
Increase in inventories	(2,088)	(395)	(490)
Write-off of inventories	112	150	127
Deferred income taxes	(178)	(174)	(99)
Decrease (increase) in long-term accounts receivable	23	(141)	60
Increase in trade payables	888	730	1,049
Increase (decrease) in other accounts payable and accrued expenses	379	1,855	(400)
Net cash provided by operating activities	11,016	8,014	5,406
Cash flows from investing activities:			
Increase in other accounts receivable	(357)	-	-
Purchase of property and equipment	(3,476)	(2,638)	(2,277)
Proceeds from sale of property and equipment	605	860	1,026
Acquisition of Cellocator (a)	-	(16,571)	-
Acquisition of other intangible assets	-	(117)	-
Net cash used in investing activities	(3,228)	(18,466)	(1,251)
Cash flows from financing activities:			
Receipt of long-term loans from banks	9,064	5,000	2,243
Repayment of long-term loans from banks	(4,930)	(4,347)	(2,949)
Receipt of long-term loans from shareholders and others	-	-	131
Repayment of long-term loans from others	(10,201)	(2,767)	(4,529)
Proceeds from issuance of shares and exercise of warrants, net	1,000	9,588	3,481
Receipts on account of shares	-	-	2,586
Short-term bank credit, net	(970)	(1,752)	(973)
Net cash provided by (used in) financing activities	(6,037)	5,722	(10)
Effect of exchange rate changes on cash and cash equivalents	(243)	80	9
Increase (decrease) in cash and cash equivalents	1,508	(4,650)	4,154
Cash and cash equivalents at the beginning of the year	1,200	5,850	1,696
Cash and cash equivalents at the end of the year	\$ 2,708	\$ 1,200	\$ 5,850

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2008	2007	2006
(a) <u>Acquisition of Cellocator and Matan activities:</u>			
Fair value of assets acquired and liabilities assumed at date of acquisition:			
Working capital	\$ -	\$ (1,323)	\$ -
Property and equipment	-	(151)	-
Customer related intangibles	-	(3,943)	-
Brand name	-	(1,775)	-
Developed technology	-	(4,890)	-
Goodwill	-	(8,750)	-
Accrued severance pay, net	-	20	-
	-	(20,812)	-
Fair value of shares issued	-	1,430	-
Fair value of convertible debentures	-	1,951	-
Accrued expenses	-	860	-
	-	4,241	-
	\$ -	\$ (16,571)	\$ -
(b) <u>Supplemental disclosure of cash flow activity:</u>			
Cash paid during the period for interest	\$ 2,504	\$ 1,750	\$ 2,549

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

- a. Pointer Telocation Ltd., (“the Company”) was incorporated in Israel and commenced operations in July 1991. The Company provides a range of services and products to insurance companies and automobile owners, including road-side assistance, vehicle towing, stolen vehicle retrieval, fleet management location based and other value added services. We also develop, manufacture, market and sell products relating to these types of services (other than road side assistance) to independent operators, including cellular monitoring units, fleet management software and mobile resource management software used for fleet command and control centers. The Company provides services, for the most part, in Israel, Argentina and Mexico, through its local subsidiaries. Independent operators provide similar services in Latin America, Europe and other countries utilizing the Company’s technology and operational know-how. The Company’s shares are traded on the NASDAQ Capital Market and the Tel-Aviv Stock Exchange.
- b. On September 18, 2007, the Company completed the acquisition of all of the assets and assumed substantially all of the liabilities and operations of Cellocator Ltd and Matan Y. Communication and Tracking Systems (“2007 acquisition transaction”) which were engaged in selling automatic vehicle location products. 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 convertible into 160,000 of the Company Ordinary shares (see Note 12).

In respect of the acquisition, the Company entered into \$5,000 loan agreement with Bank Hapoalim B.M. (See Note 10)

The consideration is comprised of the following:

Cash	\$ 16,731
Issuance of shares	1,430
Issuance of Convertible debenture	1,951
Transactions costs	700
	<hr/>
Total consideration – purchase price	\$ 20,812
	<hr/>

The acquisition was accounted under the purchase method of accounting as determined by Statement of Financial Accounting Standards (“SAFS”) No. 141, “Business Combinations” (“SFAS No. 141”) and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition.

Based upon a valuation of tangible and intangible assets acquired and liabilities assumed, the Company allocated the total cost of the acquisition, as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

	U.S. dollars in thousand
Working capital	\$ 1,323
Property and equipment	151
Customers related intangible	3,943
Brand name	1,775
Developed technology	4,890
Goodwill	8,750
Accrued severance pay, net	(20)
	20,812

For estimated amortization expenses related to intangible assets, see Note 6c.

For estimated amortization periods related to intangible assets, see Note 2g.

As of December 31, 2008, the Company had tax deductible goodwill of \$7,627.

The unaudited pro forma information below assumes that the 2007 acquisition transaction had been consummated on January 1, 2007 and 2006 and includes the effect of amortization of intangible assets from those dates. This data is presented for information purposes only and is not necessarily indicative of the results that would have been achieved had the acquisition taken place on those dates. The pro forma information is as follows:

	Year ended December 31,	
	2007	2006
	Unaudited	
Net revenues	\$ 62,615	\$ 50,006
Net income	\$ 1,876	\$ 2,018
Basic net earnings per share	\$ 0.43	\$ 0.64
Diluted net earnings per share	\$ 0.43	\$ 0.57

- c. On February 28, 2005, the Company announced the closing of the transaction for the purchase of the activities, the assets and liabilities of Shagrir Towing Services Ltd. and ADACH ("Shagrir transaction") by the Company's subsidiary Shagrir Systems Ltd, formerly Shagrir Motor Vehicle Systems ("Shagrir") in consideration of approximately \$44,000. Shagrir funded the Shagrir transaction through financing from Shagrir towing services ("the seller"), a group of investors led by Gandyr investment LTT ("Gandyr group") and Egged holding LTD ("Egged") and the Company (See Note 11 d1 and d2). Shagrir Towing Services Ltd. was engaged in the field of road side assistance and towing services in Israel. As of December 31, 2008 the Company holds 56.56% of Shagrir's shares.
- d. In June 2008, Shagrir, together with a Romanian citizen ("Romanian Shareholder"), established a company named Pointer Systems SRL ("Pointer Romania") incorporated in Romania to operate in the business of road side assistance services. Each of the shareholders holds 50% of the issued share capital of Pointer Romania. Shagrir has a call option that grants it an extra 1% of Pointer Romania's issued share capital from the Romanian Shareholder (See Note 2c).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

- e. The Company holds 88% of Pointer Localization Y Asistencia SA's (formerly: Tracsat S.A.) ("Pointer Argentina") share capital. Pointer Argentina is the operator of the Company's systems and products that provides stolen vehicle recovery services in Buenos Aires, Argentina.

In March 2007, the Company executed a Memorandum of Understanding, or MOU, with a leading provider of road side assistance in Argentina, 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 Pointer Argentina, 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 Pointer Argentina. 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.
- f. On June 17, 2004, the Company incorporated a local Mexican operator and service provider, Pointer Recuperacion de Mexico S.A. de C.V. ("Pointer Mexico"), jointly held by the Company and its Mexican local partners.

As of December 31, 2008 the Company and its Mexican local partners hold 74% and 26% of Pointer Mexico, respectively. Pointer Mexico provides location, tracking and recovery of stolen vehicles services to its customers in Mexico.
- g. On May 26, 2006, the Company entered into a settlement with respect to a past claim against a Latin American customer, pursuant to which the Company received a net amount of approximately \$1,292.
- h. On January 8, 2008, the Company entered into a loan agreement with a Hungarian automotive service provider ("Hungarian entity"), pursuant to which the Company loaned them 290,000 Euros (approximately \$450). According to the agreement, the Hungarian entity is obligated to return only 240,000 Euros. Repayment has commenced as provided in the agreement.
- i. In August and October 2008, the Company established two subsidiaries. One in Brazil, Cellocator Comercial S.A., 60% hold by the Company and one in the United States, Pointer Telocation Inc., wholly hold by the Company. Currently, both subsidiaries have no significant operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

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

For Pointer Argentina, whose functional currency has been determined to be its local currency, the Argentinean peso, for Pointer Mexico, whose functional currency has been determined to be its local currency, the Mexican peso, for Shagrir, whose functional currency has been determined to be its local currency, the new Israeli shekel (“NIS”), and for Pointer Romania, whose functional currency has been determined to be its local currency, the euro. Assets and liabilities are translated at year-end exchange rates and statement of operations items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded as a separate component, other comprehensive income (loss), in shareholders’ equity (deficiency).

c. Principles of consolidation:

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

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

The Company applied FASB Interpretation No. 46 (revised December 2003 “FIN 46R”), Consolidation of Variable Interest Entities (“VIE”), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. For any VIE that must be consolidated under FIN 46R, the interpretation generally requires the primary beneficiary initially to measure the assets, liabilities and non-controlling interests of the newly consolidated VIE at their fair values at the date the enterprise first becomes the primary beneficiary. The Company has consolidated its Pointer Romania, subsidiary of Shagrir, based on FIN 46R guidance. Shagrir is in a position to absorb the majority of the VIE’s expected losses and residual returns, thus making Shagrir the primary beneficiary and in position to consolidate Pointer Romania.

The effect on the consolidated balance sheet including this VIE as of December 31, 2008 is not material.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Cash equivalents:

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

e. Inventories:

Inventories are stated at the lower of cost or market value. Cost is determined using the “moving average” method. Inventory consists of raw materials, work in process and finished products. Inventory write-offs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, and for market prices lower than cost. In 2008, 2007 and 2006, the Company and its subsidiaries wrote off approximately \$112, \$150 and \$127, respectively. The write-offs are included in cost of revenues.

f. Property and equipment:

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

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

g. Goodwill and other intangible assets:

Goodwill reflects the excess of the purchase price of the acquired business over the fair value of net assets acquired. Pursuant to SFAS 142, “Goodwill and Other Intangible Assets”, goodwill is not amortized but rather tested for impairment at least annually.

The Company compares the fair value of each reporting unit to its carrying value, including goodwill. The Company estimates the fair value of each reporting unit by estimating the present value of the reporting unit’s discounted cash flows. The discounted cash flow calculations use projections that are based on management’s estimations. If the fair value exceeds the carrying value, no impairment loss is recognized. The Company evaluates the reasonableness of the fair value calculations of its reporting units by reconciling the total of the fair values of all of its reporting units to the total market capitalization, and adjusting for an appropriate control premium. If the carrying value exceeds the fair value, the goodwill of the reporting unit is considered potentially impaired and the second step is completed in order to measure the impairment loss. Under the second step goodwill is reduced to its implied fair value through an adjustment to the goodwill balance, resulting in an impairment charge.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

No impairment losses were identified in 2008, 2007 or 2006.

During 2008 and 2007, the Company reduced the goodwill at the amount of \$805 and \$532, respectively due to the realization of tax loss carryforward of subsidiary, that at the date of acquisition of the subsidiary were not more-likely-than-not to be realized.

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

The brand names are amortized over a two to nine years period.

The Customers related intangibles are amortized over a five to nine years period.

The developed technology is amortized over a five-year period.

Patents are amortized over an eight-year period.

h. Impairment of long-lived assets:

The Company's long-lived assets other than goodwill are reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

During the years ended December 31, 2007 and 2006, an impairment loss of \$36 and \$372 respectively has been recognized (see Note 5c). No impairment loss has been identified as of December 31, 2008.

i. Provision for warranty:

The Company and its subsidiaries generally grant a one-year to three-year warranty for their products. The Company and its subsidiaries estimate the costs that may be incurred under its basic limited warranty and records a liability in the amount of such costs at the time which product revenue is recognized. Factors that affect the warranty liability include the number of installed units, historical and anticipated rates of warranty claims and cost per claim. The Company and its subsidiaries periodically assess the adequacy of its recorded warranty liabilities and adjust the amounts as necessary. Changes in the Company's and its subsidiaries' product liabilities during 2008 and 2007 are as follows:

	Year ended December 31,	
	2008	2007
Balance, beginning of the year	\$ 411	\$ 338
Acquisition of Cellocator activities	-	85
Warranties issued during the year	523	287
Settlements made during the year	(274)	(192)
Expirations	(101)	(125)
Foreign currency translation adjustment	(1)	18
Balance, end of year	\$ 558	\$ 411

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Revenue recognition:

The Company and its subsidiaries generate revenues mainly from the provision of services, subscriber fees and sales of systems and products, mainly in respect of road-side assistance services, automobile repair and towing services, stolen vehicle recovery, fleet management and other value added services. To a lesser extent, revenues are also derived from technical support services. The Company and its subsidiaries sell the systems primarily through their direct sales force and indirectly through resellers. Sales consummated by the Company's sales forces and sales to resellers are considered sales to end-users.

Revenues from the sale of systems and products are recognized in accordance with Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" ("SAB No. 104"), when delivery has occurred, persuasive evidence of an agreement exists, the vendor's fee is fixed or determinable, no further obligation exists and collectibility is probable.

Service revenues including subscriber fees are recognized as services are performed, over the term of the agreement.

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

In accordance with Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"), revenue from certain arrangements may include multiple elements within a single contract. The Company's accounting policy complies with the requirements set forth in EITF 00-21, relating to the separation of multiple deliverables into individual accounting units with determinable fair values. The Company considers the sale of products and subscriber fees to be separate units of accounting.

Revenues from Stolen Vehicle Recovery services are recognized upon success, when the related stolen vehicle is recovered, and such recovery is approved by the customer or ratably over the term of the agreement.

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

Generally, the Company does not grant rights of return. The Company follows SFAS No. 48, "Revenue Recognition When Right of Return Exists". Based on the Company's experience, no provision for returns was recorded.

k. Research and development costs:

Research and development costs, are charged to expenses as incurred.

l. Advertising expenses:

Advertising expenses are charged to the statement of operations as incurred. Advertising expenses for the years ended December 31, 2008, 2007 and 2006 were \$480, \$439 and \$344, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Deferred income taxes:

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). SFAS No. 109 prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value, if it is more likely than not that a portion or all of the deferred tax assets will not be realized.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 utilizes a two-step approach for evaluating tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied (i.e., the position is more-likely-than-not to be sustained). Under step two, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis that is more-likely-than-not to be realized upon ultimate settlement.

FIN 48 applies to all tax positions related to income taxes subject to the Financial Accounting Standard Board Statement No. 109, "Accounting for Income Taxes" ("FAS 109"). This includes tax positions considered to be "routine" as well as those with a high degree of uncertainty.

The adoption of FIN 48 did not have a material effect on the Company's financial statements and no affect has been recorded on January 1, 2007. No provisions were recorded during 2007 and 2008.

n. Basic and diluted net earnings (loss) per share:

Basic and diluted net earnings (loss) per share are computed based on the weighted average number of Ordinary shares outstanding during the year. Diluted net earnings (loss) per share further include the dilutive effect of stock options outstanding during the year, in accordance with SFAS No. 128, "Earnings per Share" ("SFAS No. 128").

Part of the outstanding stock options and warrants has been excluded from the calculation of the diluted earnings (loss) per share because such securities are anti-dilutive. The total weighted average number of shares related to the outstanding options and warrants excluded from the calculations of diluted earnings (loss) per share was 0, 160,000, and 0 for the years ended December 31, 2008, 2007 and 2006, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)").

SFAS 123(R) requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated income statement. Prior to the adoption of SFAS 123(R), the Company accounted for equity-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard starting from January 1, 2006, the first day of the Company's fiscal year 2006. Under that transition method, compensation cost recognized in 2006, includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated.

The Company recognizes compensation expenses for the value of its awards, which have graded vesting, based on the accelerated attribution method over the vesting period, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

During the years ended December 31, 2008, 2007 and 2006, the Company recognized stock-based compensation expenses related to employee stock options in the amounts of \$350, \$783 and \$251, respectively.

p. Data related to options to purchase the Company shares:

1. The fair value of the Company's stock options granted to employees and directors for the years ended December 31, 2008, 2007 and 2006 was estimated using the following weighted average assumptions:

	Year ended December 31,		
	2008	2007	2006
Risk free interest	2.99-3.10%	4.14%	4.3%
Dividend yields	0%	0%	0%
Volatility	78-79%	81%	52%
Expected term (in years)	4-5	3.75	2.32

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

The Company currently uses the simplified method as adequate historical experience is not available to provide a reasonable estimate. The Company adopted SAB 110 effective January 1, 2008 and will continue to apply the simplified method until enough historical experience is available to provide a reasonable estimate of the expected term for stock option grants.

The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term to the expected term of the options. The Company has historically not paid dividends and has no foreseeable plans to pay dividends and therefore use an expected dividend yield of zero in the option pricing model. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest

2. Data related to options to purchase Shagrir shares:

As of December 31, 2008, 3,383 options to purchase Shagrir shares are outstanding (2,538 are exercisable). Weighted average exercise price of these outstanding options is \$165. There were no changes during 2008.

The weighted average fair values of options granted during the year ended December 31, 2006 was \$200. No options were granted during 2007 and 2008.

Those options vest primarily over four years. The fair value for these options was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions for 2006:

	<u>2006</u>
Risk free interest	5.6%
Dividend yields	0%
Volatility	34%
Expected term (in years)	4.13

As of December 31, 2008, there was approximately \$126 of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under Shagrir' stock option plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Severance pay:

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

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

Severance pay expenses for the years ended December 31, 2008, 2007 and 2006 were \$1,291, \$534 and \$428, respectively.

r. Concentrations of credit risk:

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

The Company's cash and cash equivalents as available are invested primarily in deposits with major banks worldwide, mainly in US and Israel, however, such cash and cash equivalents and short-term deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Generally, these deposits may be redeemed upon demand and, therefore, bear low risk.

Trade receivables include amounts billed to clients located mainly in Israel and South America and Europe. Management periodically evaluates the collectibility of these trade receivables to reflect the amounts estimated to be collectible. An allowance is determined in respect of specific debts whose collection, in management's opinion, is doubtful. In 2008, 2007 and 2006, the Company recorded doubtful expenses in the amount of \$322, \$97, and \$178, respectively. As for major customers, see Note 18d.

The Company entered into foreign exchange forward contracts ("derivative instruments") intended to protect against the revaluation in value of forecasted non-dollar currency cash flows. These derivative instruments are designed to effectively hedge the Company's non-dollar currency exposure (see Note 2(t) below).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Fair value of financial instruments:

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

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

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

Effective January 1, 2008, the Company adopted SFAS 157, "Fair Value Measurements" and, effective October 10, 2008, adopted FSP No. SFAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active", except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP 157-2. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Derivatives and hedging activities:

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" requires the Company to recognize all of its derivative instruments as either assets or liabilities on the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

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

The Company entered into derivative instrument arrangements to hedge a portion of anticipated new Israeli shekel ("NIS") payroll payments. These derivative instruments are designated as cash flows hedges, as defined by SFAS No. 133, as amended, and are all highly effective as hedges of these expenses when the salary is recorded. The effective portion of the derivative instruments is included in payroll expenses in the statements of income. During 2008, there were no gains or losses recognized in earnings for hedge ineffectiveness.

At December 31, 2008, the Company expects to reclassify \$78 of net gains on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months.

u. Impact of recently issued Accounting Standards:

In February 2008, the FASB issued FASB Staff Position ("FSP") FAS No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2"), to delay the effective date of FASB Statement 157 for one year for certain nonfinancial assets and nonfinancial liabilities, excluding those that are recognized or disclosed in financial statements at fair value on a recurring basis (that is, at least annually). For purposes of applying the FSP 157-2, nonfinancial assets and nonfinancial liabilities include all assets and liabilities other than those meeting the definition of a financial asset or a financial liability in FASB Statement 159. FSP 157-2 defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP 157-2. The Company does not expect the adoption of FSP 157-2 to have a material impact on its financial position, results of operations or cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In December 2007, the FASB issued SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). SFAS 160 amends ARB 51, "Consolidated Financial Statements", to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008.

The adoption of SFAS 160 will result in reporting the minority interest as part of equity in the consolidated financial statements and will result in changing the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest.

In December 2007, the FASB issued SFAS 141(R), "Business Combinations" ("SFAS 141(R)"). This Statement replaces SFAS No. 141, "Business Combinations", and requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS 141(R) also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141(R)). In addition, SFAS 141(R)'s requirement to measure the noncontrolling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. The impact of SFAS 141R on the Company's consolidated results of operations will result an adjustment to the income tax expenses, subsequent to the effective date.

In October 2008, the FASB issued FSP No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. (FSP FAS 157-3) This FSP clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. In particular, it provides additional guidance on (a) how the reporting entity's own assumptions (that is, expected cash flows and appropriately risk-adjusted discount rates) should be considered when measuring fair value when relevant observable inputs do not exist, (b) how available observable inputs in a market that is not active should be considered when measuring fair value, and (c) how the use of market quotes (for example, broker quotes or pricing services for the same or similar financial assets) should be considered when assessing the relevance of observable and unobservable inputs available to measure fair value. This FSP is effective upon issuance, including prior periods for which financial statements have not been issued. The Company evaluated the impact of this FSP and concluded that its considerations in determining the fair value of its financial assets when the market for them is not active are consistent with the FSP's guidance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In April 2008, the FASB issued FSP 142-3, "Determination of the Useful Life of Intangible Assets" (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of FSP 142-3 will have a material impact on the Company's consolidated financial position, results of operations and cash flows.

NOTE 3:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2008	2007
Government authorities	\$ 366	\$ 326
Employees	51	63
Prepaid expenses	782	352
Deferred income taxes	1,072	978
Loan to others (see Note 1h)	357	-
Foreign currency derivatives	78	-
Others	68	282
	<u>\$ 2,774</u>	<u>\$ 2,001</u>

NOTE 4:- INVENTORIES

	December 31,	
	2008	2007
Raw materials	\$ 1,478	\$ 844
Work in process	120	322
Finished goods	2,401	1,491
	<u>\$ 3,999</u>	<u>\$ 2,657</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 5:- PROPERTY AND EQUIPMENT

a. Composition:

	December 31,	
	2008	2007
Cost:		
Installed products	\$ 2,542	\$ 3,072
Computers and electronic equipment	4,816	4,468
Office furniture and equipment	1,037	860
Motor vehicles	8,045	6,410
Network installation	1,510	1,692
Buildings	481	476
Leasehold improvements	877	506
	19,308	17,484
Accumulated depreciation:		
Installed products	1,949	2,268
Computers and electronic equipment	4,013	3,196
Office furniture and equipment	575	442
Motor vehicles	3,380	2,466
Network installation	1,059	1,144
Buildings	32	22
Leasehold improvements	302	238
	11,310	9,776
Depreciated cost	\$ 7,998	\$ 7,708

- b. Depreciation expenses for the years ended December 31, 2008, 2007 and 2006 were \$2,768 \$2,623 (including impairment of \$36) and \$2,750 (including impairment of \$372), respectively.
- c. During 2006, due to the requirement of certain major potential customers in Mexico to increase the territorial coverage to a nationwide coverage and due to the increased costs of communication services with respect to the proprietary system that was used, Pointer Mexico's management has decided to migrate from the Company's traditional radio frequency (RF) system communication technology to Cellular/GPS technology in Mexico. Therefore, Pointer Mexico's management has recognized an impairment loss related to its base stations (network installation), which constitute the base of its former installed technology to provide its services, and installed products (RMU's) which are the devices used to locate the vehicles.

This group of assets has been reduced to its fair value as determined by the management based on present value of future net cash flows. Impairment loss has been recognized in a separate caption within the statement of operations in the amount of \$372 for the year ended December 31, 2006 and \$36 for the year ended December 31 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6:- OTHER INTANGIBLE ASSETS, NET

a. Other intangible assets, net:

	December 31,	
	2008	2007
Cost:		
Patents	\$ 639	\$ 639
Developed technology	4,890	4,890
Customer related intangible	15,548	15,446
Brand name	4,473	4,448
	<u>25,550</u>	<u>25,423</u>
Accumulated amortization:		
Patents	638	636
Developed technology	1,255	277
Customer related intangible	6,965	5,129
Brand name	1,798	1,323
	<u>10,656</u>	<u>7,365</u>
Amortized cost	\$ 14,894	\$ 18,058

b. Amortization expenses for the years ended December 31, 2008, 2007 and 2006 were \$3,344, \$2,118 and \$1,740, respectively.

c. Estimated amortization expenses for the years ending:

December 31,	
2009	\$ 3,184
2010	3,135
2011	3,115
2012	2,838
2013	884
Thereafter	1,738
	<u>14,894</u>

NOTE 7:- GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2008 and 2007 are as follows:

	December 31,	
	2008	2007
Goodwill, beginning of the year	\$ 50,712	\$ 38,707
Additions in respect of acquisitions	-	8,750
Amortization of goodwill in respect of tax adjustments	(805)	(532)
Foreign currency translation adjustments	509	3,787
	<u>50,416</u>	<u>50,712</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8:- SHORT-TERM BANK CREDIT AND CURRENT MATURITIES OF LONG-TERM LOANS FROM BANKS, SHAREHOLDERS AND OTHERS

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

	Interest rate		December 31,	
	2008	2007	2008	2007
	%			
Short-term bank loans:				
In NIS	4.5-5.8	5.85-6.1	1,644	2,466
			<u>1,644</u>	<u>2,466</u>
Short-term bank credit:				
In, or linked to, dollars	–	LIBOR +1.5	–	20
In NIS	–	6.75	–	42
			<u>–</u>	<u>62</u>
Current maturities of long-term loans from banks, shareholders and others:				
In, or linked to, dollars	LIBOR +2	LIBOR +2-2.2	800	900
In NIS linked to CPI	5.48	4-6.5	1,426	5,478
In NIS	6.681-7.39	6.681-7.39	2,980	1,658
In NIS	7.75	–	967	–
In NIS	8-16	–	32	–
			<u>6,205</u>	<u>8,036</u>
			<u>\$ 7,849</u>	<u>\$ 10,564</u>
Unutilized credit lines			<u>\$ 5,771</u>	<u>\$ 4,128</u>

NOTE 9:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2008	2007
Employees and payroll accruals	\$ 3,583	\$ 3,070
Government authorities	356	290
Provision for warranty	558	411
Accrued expenses	1,200	2,173
Related party	52	51
Others	43	128
	<u>\$ 5,792</u>	<u>\$ 6,123</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- LONG-TERM LOANS FROM BANKS

a. Composition:

	Interest rate		December 31,	
	2008	2007	2008	2007
	%			
In, or linked to, dollars (See c below)	LIBOR +2	LIBOR +2-2.2	\$ 4,600	\$ 5,500
In NIS linked to CPI	5.48	5.48	6,634	7,552
In NIS	6.68-7.39	6.68-7.39	13,836	9,389
In NIS	7.75	-	1,742	-
			26,812	22,441
Less - current maturities			6,173	3,835
Less - discount			119	146
			\$ 20,520	\$ 18,460

b. As of December 31, 2008, the aggregate annual maturities of the long-term loans are as follows:

2009 (current maturities)	\$ 6,173
2010	6,279
2011	5,822
2012	5,523
2013	2,415
Thereafter	600
	\$ 26,812

c. In respect of the bank loans that funded the Cellocator transaction (see Note 1b), the Company is required to meet certain financial covenants as follows:

1. The ratio of the shareholders equity to the total consolidated assets will not be less than 20% and the shareholders equity will not be less than \$20,000, starting December 31, 2007.
2. The ratio of the Company and its subsidiaries' debt (debt to banks, convertible debenture and loans from others that are not subordinated to the bank less cash) to the annual EBITDA will not exceed 5 in 2008, 4.5 in 2009 and 4 in 2010 and thereafter.
3. The ratio of Pointer Telocation Ltd.'s debt (debt to banks, convertible debenture and loans from others was not subordinated to the bank less cash) to the annual EBITDA will not exceed 4 in 2008, 3.5 in 2009 and 2.5 in 2010 and thereafter.

As of December 31, 2008, the Company meets the financial covenants.

d. In respect of the bank loans that funded the Shagrir transaction (see Note 1c), the Company granted to Bank Hapoalim B.M. a warrant to purchase up to 100,000 Ordinary shares of the Company. During 2007, all of the warrants expired.

Under the credit facility (in respect of the loans denominated in NIS) from Bank Hapoalim B.M., Shagrir is required to meet financial covenants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The financial covenants are:

1. The ratio of the debt to the bank to the annual EBITDA will not exceed 5.5.
2. The ratio of the annual EBITDA to the current maturities (the loan principal plus interest) of long-term loans from the bank will not be less than 1, at any time.
3. The shareholders' equity, including loans from shareholders, will not be less than NIS 50 million, at any time (updated in September 2008).
4. Shagrir will not decide on any distribution of dividends from Shagrir without a written pre-approval from the bank.

As of December 31, 2008, Shagrir meets the financial covenants.

NOTE 11:- LONG-TERM LOANS FROM SHAREHOLDERS AND OTHERS

- a. Long-term loans from shareholders - composition:

	Interest rate		December 31,	
	2008	2007	2008	2007
	%			
In NIS linked to CPI (see d1 below)	–	4-6.5	\$ –	\$ 728
			–	728
Less - current maturities			–	728
			\$ –	\$ –

- b. Long-term loans from others - composition:

	Interest rate		December 31,	
	2008	2007	2008	2007
	%			
In NIS linked to CPI (see d1-d2 below)	6.5	4-6.5	\$ 394	\$ 9,234
In Euro (see d3 below)	8-16	–	115	–
In USD (see Note 12)	LIBOR	–	2,056	–
Linked to Euro (see d4 below)	2	–	35	–
In USD (see d5 below)	–	–	737	737
			3,337	9,971
Less - current maturities			32	3,473
Less - discount			–	731
			\$ 3,305	\$ 5,767

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- LONG-TERM LOANS FROM SHAREHOLDERS AND OTHERS (Cont.)

c. As of December 31, 2008, the aggregate annual maturities of the long-term loans from shareholders and others are as follow:

2009 (current maturities)	\$ 32
2010	2,123
2011	32
2012	18
Thereafter	1,132
	<u>\$ 3,337</u>

- d. 1. On October 1, 2006, Shagrir entered into an agreement to replace two long-term loans from Egged bearing an annual interest rate of 4% to 7.5%, at the aggregate amount of approximately \$2,392, into two long-term loans to mature in two years. The new loans bear an annual interest rate of 4% to 6.5% and are linked to the Israeli CPI. The option granted to Egged to purchase Shagrir's Ordinary shares or the Company's Ordinary shares was cancelled.
- On July 1, 2008, the last payment was paid. The replacement of the loans was accounted for as an extinguishment in accordance with EITF Issue No. 96-19, "Debtor's Accounting for Modification or Exchange of Debt Instruments". The extinguishment resulted in an immaterial gain.
2. Loans from Gandyr group to be repaid in nine quarterly installments, commencing six months from February 28, 2005, in accordance with the Company's financial ability. The loan was repaid in full on September 28, 2008.
- On February, 2005, Shagrir received a loan of NIS 40,000 thousand from Shagrir Towing Services Ltd. In May, 2008, Shagrir made an early payment at the amount of NIS 27,310 thousand of the remaining Balance of the loan from Shagrir Towing Services Ltd. Accordingly, the remaining discount of NIS 2,493 thousand was recorded under financial expenses.
- In addition, the Company granted Shagrir Towing Services Ltd. and ADACH jointly a warrant to purchase up to 250,000 of its Ordinary shares. During 2007, all of the warrants expired.
- A loan of \$393 (NIS 1.5 million) related to the Shagrir transaction was funded by Gandyr group and bears an annual interest of 6.5% and is linked to the Israeli CPI. No maturity date has been settled.
3. During August and October 2008, Pointer Romania signed an agreement of vehicles capital lease. The liability bears an annual interest rate of 8-16%. The loan will be repaid in 36 equal monthly payments.
4. In September 2008, Pointer Romania received a loan of EURO 25,000 from its Romanian shareholder. The loan bears an annual interest rate of 2%.
5. Pointer Mexico received a loan of \$737 from its Mexican local partner in 2005 and 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- COBVERTIBLE DEBENTURE

Debentures at the principal amount of \$1,922 convertible into 160,000 Ordinary shares of the Company, nominal value NIS 3.00 each, as of December 31, 2008 the debenture balance was \$2,056. The debenture bears interest at the annual LIBOR rate to accrue from the later of: (1) the date on which the holder provided an irrevocable written notice to the Company that it does not wish to convert the debenture into Ordinary shares of the Company, or (2) in the event that by 33 months from the date of issuance, the holder did not provide the Company with notice of conversion. The interest shall accrue until the date of repayment. During 2008 the seller notified the Company that he does not wish to convert the debenture into Ordinary shares of the Company. The debenture shall mature in September 2010. According to the notice, the Company classified the debenture as a long term loan.

NOTE 13:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Charges:

1. As collateral for its liabilities, the Company has recorded floating charges on all of its assets, including the intellectual property and equipment, in favor of banks.
2. Shagrir recorded a first priority charge on all of its assets in favor of banks. A second priority charge on all of the Shagrir's assets registered in the name of Shagrir Towing Services Ltd. and Shagrir (1985) Ltd., the sellers under the Shagrir Transaction was removed in September 2008. Gandy group, under the Agreement dated November 15, 2004, have a third priority charge on all of the Shagrir's assets and third priority fixed charge over the Company's rights to proceeds from several customers of Shagrir.

b. Collateral:

1. To secure Shagrir's obligations for providing services to several of its customers, Shagrir provided a bank guarantee in the amount of about \$412, in force until December 2009 - August 2010.
2. The Company obtained bank guarantees in the amount of \$92 in favor of its lessor, and customs.

c. Royalties:

The Company has undertaken to pay royalties to the BIRD Foundation ("BIRD"), at the rate of 5% on sales proceeds of products developed with the participation of BIRD up to the amount received, linked to the U.S. dollar. The contingent obligation as of December 31, 2008 is \$2,232. No royalties were accrued or paid during 2008, 2007 and 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

d. Lease commitments:

The Company and its subsidiaries have leased offices, motor vehicles and locations for periods through 2013. Minimum annual rental payments under non-cancelable operating leases are as follows:

2009	\$ 1,035
2010	785
2011	421
2012	376
2013	49
	<hr/>
	\$ 2,666
	<hr/>

Rent expenses for the years ended December 31, 2008, 2007 and 2006, were \$1,801, \$1,428 and \$1,328, respectively.

e. Litigation:

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

No provision was recorded in the financial statements in prior years in respect of the potential claim.

2. As of December 31, 2008, several claims were filed against Shagrir, mainly by customers. The claims are in an amount aggregating to approximately \$314. The substance of the claims is the malfunction of Shagrir's products, which occurred during the ordinary course of business. Shagrir's management, based on the opinion of its legal counsel, is of the opinion that no material costs will arise to Shagrir in respect to these claims.

f. Commitments:

1. The Company and DBSI Investment Ltd. ("DBSI") (see Note 17) have entered into a management services agreement pursuant to which DBSI shall provide management services in consideration of annual management fees of \$180 for a period of three years commencing on April 6, 2003.

This agreement is automatically renewed for additional periods of twelve months each, unless either party gives the other party a notice of termination three months prior to the beginning of a renewal term.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

2. During 1998, the Company entered into an agreement with Shagrir, for the supply of the services and equipment required to set up reception bases to be positioned throughout Israel. An addendum to the agreement was entered into in 2004 (the "First Addendum"). The agreement was for a period of 10 years with an option to extend it by an additional 10 years. During 2008, the Company and Shagrir entered into a second addendum to the agreement that extended the agreement by a period of 5 years, until 2013.

In accordance with the First Addendum to the agreement, Shagrir committed to the Company, to purchase a minimum amount of products each year, until the end of 2007. In the event it does not purchase the minimal amount as committed, Shagrir shall pay the Company the difference between the minimal amount and the amount actually purchased.

As of the end of 2007, Shagrir met its minimal purchase commitment under the aforesaid agreement. In addition, Shagrir undertook to Company that until the end of 2007 it shall not purchase from other suppliers systems whose purpose is the provision of locating services for prevention of vehicle theft. The Company undertook to Shagrir not to sell to any other entity in Israel systems for prevention of vehicle theft.

The second addendum of the agreement, which was entered into in 2008, updated the product prices and does not include an undertaking to purchase a minimum amount of products or to exclusively purchase systems from the Company.
3. Shagrir entered into a management services agreement with the Company, pursuant to which the Company will provide Shagrir with management services with respect to its business for a period of two years starting February 28, 2005, in consideration of management fees of \$263 (NIS 1 million) per year, subject to certain conditions.
4. Shagrir entered into a management services agreement with Gandyr group and Egged, pursuant to which Gandyr group and Egged will grant management services to Shagrir beginning at the end of a period of 24 months from February 28, 2005, in consideration of approximately \$263 (NIS 1 million) per year. Pursuant to the management services agreement, in the event that Gandyr Group or Egged will not exercise its entire options, the parties shall negotiate the management fees. On February 28, 2007 all of its unexercised options expired.
5. Under the credit facility from the Bank, Shagrir and the Company are required to meet financial covenants (see Note 10c and 10d).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- SHAREHOLDERS' EQUITY

a. Ordinary shares:

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

b. Issued and outstanding share capital:

1. During February and March 2005, the Company completed a round of financing of \$6,070 (\$1,000 of which was invested by DBSI Investments Ltd., a major shareholder of the Company), in consideration of 722,587 of the Company's Ordinary shares at a price per share of \$8.4. Under the terms of the investment agreements, the investors were issued warrants to purchase up to 158,969 shares of the Company, with an exercise price of \$8.4 per share. The warrants were exercisable at any time during the period, beginning on February 28, 2005 and until the earlier of: (i) April 6, 2006; or (ii) an M&A transaction. All the warrants expired.

Out of the total number of shares and warrants issued, Egged was issued 309,524 shares and 68,095 warrants.
2. During 2005, the Company issued warrants to purchase up to 508,969 shares of the Company. 158,969 warrants were issued to investors, at an exercise price of \$8.4 per share and have expired on April 6, 2006 250,000 warrants were issued to Shagrir Towing Services Ltd. and ADACH and 100,000 warrants were issued to Bank Hapoalim B.M., at an exercise price of \$18. As of December 31, 2007, these warrants have expired.
3. During 2006, 806,918 warrants and stock options were exercised into 743,855 of the Company's Ordinary shares. Out of the 806,918 warrants and stock options, 95,455 warrants were exercised by way of cashless exercise into 32,392 Ordinary shares, and 711,463 warrants and stock options were exercised into Ordinary shares, for a consideration of \$3,481.
4. On December 28, 2006 the Company entered into a Share Purchase Agreement with a group of Israeli institutional investors for the purchase of 425,000 of the Company's Ordinary shares for an aggregate price of \$4,700. The transaction was consummated on January 12, 2007. Pursuant to the transaction, the investors were also issued warrants to purchase 212,500 Ordinary shares, such that for each one share purchased, the investors acquired a warrant to purchase half an Ordinary share. The warrants are exercisable into Ordinary shares, at an exercise price of \$13.00 per share and are exercisable for a period of four years.
5. In January 2007, the Company completed a round of financing of \$4,675, out of which, an amount of \$2,586 was received as of December 31, 2006, in consideration of 425,000 of the Company's Ordinary shares at a price per share of \$11.0. Under the terms of the investment agreements, the investors were issued warrants to purchase up to 212,500 shares of the Company, with an exercise price of \$13.0 per share. The warrants may be exercised at any time until December 31, 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

- 6. On April 2, 2007, the Company entered into and consummated a share purchase agreement with a group of United States institutional investors for the purchase of 805,000 of the Company Ordinary shares for an aggregate price of approximately \$8,500. Pursuant to the transaction, the investors were also issued warrants to purchase 402,500 of the Company Ordinary shares, such that for each one share purchased, the investors were entitled to a warrant to purchase half a share. The warrants are exercisable into Ordinary shares, at an exercise price per share of \$12.6 and will be exercisable for a period of five years.
- 7. On July 18, 2008, The Company consummated a private placement of 140,056 of its ordinary shares to DBSI Investments Ltd., our principal shareholder, for an aggregate price of \$1,000.
- c. Options:
 - 1. The Company grants, under various option plans (mainly under the 2003 Employee share option plan), options to its employees, directors and service providers. The options are granted for a period of five years and usually have a vesting period of up to four years.
 - 2. A summary of employee option activity under the Company's Stock Option Plans as of December 31, 2008 and changes during the year ended December 31, 2008 are as follows:

	Number of options	Weighted-average exercise price	Weighted- average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2008	256,145	\$ 9.98		
Granted	12,000	\$ 6		
Exercised	-	\$ -		
Forfeited	(49,900)	\$ 13.35		
Outstanding at December 31, 2008	218,245	\$ 8.99	2.96	-
Exercisable at December 31, 2008	94,183	\$ 9.8	2.32	\$ -
Vested and expected to vest at December 31, 2008	207,120	\$ 8.90	2.97	\$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

The weighted-average grant-date fair value of options granted during the years ended December 31, 2008, 2007 and 2006 was \$3.81, \$4.36 and \$2.6, respectively. The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on the last trading day of the fourth quarter of fiscal 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2008. This amount changes based on the fair market value of the Company's stock.

As of December 31, 2008, there was approximately \$195 of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Company's stock option plans.

That cost is expected to be recognized over a weighted-average period of 1.86 years. Total grant-date fair value of options that vested during the year ended December 31, 2008 was approximately \$186.

3. A summary of the status of the Company's employee stock options as of December 31, 2008, 2007 and 2006, and changes during the years then ended, are as follows:

	Year ended December 31,					
	2008		2007		2006	
	Amount of options	Weighted average exercise price	Amount of options	Weighted average exercise price	Amount of options	Weighted average exercise price
Options outstanding at beginning of year	256,145	\$ 9.98	165,842	\$ 14.6	263,753	\$ 16.3
Granted	12,000	\$ 6.00	155,000	\$ 8.7	12,000	\$ 7.6
Exercised	-	\$ -	-	\$ -	(103,522)	\$ 7.8
Forfeited	(49,900)	\$ 13.35	(64,697)	\$ 18.91	(6,389)	\$ 179.3
Options outstanding at end of year	218,245	\$ 8.99	256,145	\$ 9.98	165,842	\$ 14.6
Options exercisable at end of year	94,183	\$ 9.8	70,895	\$ 13.1	81,092	\$ 19.9

The following table summarizes information relating to employees' stock options outstanding as of December 31, 2008, according to exercise price range:

Range of exercise price	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2008	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 2008	Weighted average exercise price
		Years			
\$ 5.71-6.91	12,000	4.3	\$ 6.00	3,000	\$ 6.9
\$ 7.01	87,500	3.99	\$ 7.01	21,875	\$ 7.0
\$ 7.6	9,000	2.05	\$ 7.60	6,000	\$ 7.6
\$ 9.5-10.6	62,750	1.57	\$ 10.20	47,063	\$ 10.2
\$ 11.24	41,000	3.08	\$ 11.24	10,250	\$ 11.2
\$ 13.3	5,978	0.42	\$ 13.30	5,978	\$ 13.3
\$ 1,650.0	17	0.09	\$ 1650.00	17	\$ 1650
	218,245	2.96	\$ 8.99	94,183	\$ 9.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

4. On March 5, 2007, the Board of Directors resolved to modify the terms of the options granted to its former CFO on November 23, 2005, by accelerating the vesting of the options and extending the exercise period after his resignation until June 30, 2008. As a result, the company recorded an additional amortization of stock compensation in the amount of \$100.
 5. On February 25, 2009 the board of directors resolved to issue to the Company's 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.
 6. On February 25, 2009 the board of directors resolved to modify the price of 166,750 options granted to the Company's 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, at an exercise price of \$3.14 per share.
- d. Dividends:
Any dividend distributed by the Company will be declared and paid in dollars.

NOTE 15:- NET EARNINGS (LOSS) PER SHARE

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

	Year ended December 31,		
	2008	2007	2006
Numerator:			
Numerator for basic net earnings per share - Net income (loss)	\$ 2,373	\$ (338)	\$ 1,169
Effect of diluting securities	(47)	5	(244)
Numerator for diluted net earnings per share - Net income (loss)	\$ 2,326	\$ (333)	\$ 925
Denominator:			
Denominator for basic net earnings per share - weighted-average number of shares outstanding (in thousands)	4,679	4,271	2,983
Effect of diluting securities (in thousands)	-	39	20
Denominator for diluted net earnings per share - adjusted weighted average shares and assumed exercises (in thousands)	4,679	4,310	3,003
Basic net earnings (loss) per share	\$ 0.51	\$ (0.08)	\$ 0.39
Diluted net earnings (loss) per share	\$ 0.50	\$ (0.08)	\$ 0.31

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 16:- INCOME TAXES

- a. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985 (“the Law”):

Under the Law, the Company’s results for tax purposes are measured in terms of earnings in NIS after certain adjustments for changes in the Israeli CPI. As explained in Note 2b, the financial statements are measured in dollars. The difference between the annual change in the Israeli CPI and in the NIS/dollar exchange rate causes a difference between taxable income and the income before taxes shown in the financial statements. In accordance with paragraph 9(f) of SFAS No. 109, the Company has not provided deferred income taxes on the difference between the functional currency and the tax bases of assets and liabilities.

In February 2008, the “Knesset” (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 2008, the results for tax purposes will be measured in nominal values, excluding certain adjustments for changes in the Consumer Price Index carried out in the period up to December 31, 2007. The amended law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

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

The Company is an “industrial company”, as defined by this law and, as such, is entitled to certain tax benefits, mainly accelerated depreciation of machinery and equipment, as prescribed by regulations published under the Income Tax Law (Inflationary Adjustments), 1985, the right to claim public issuance expenses in three annual installments and an annual deduction of 12.5% of patents and other intangible property rights as deductions for tax purposes.

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

According to the Law, the companies are entitled to various tax benefits by virtue of the “approved enterprise” and/or “beneficiary enterprise” status granted to part of their enterprises, as implied by this Law. The Tax benefits and reduced tax rates under the Alternative track is: the Company is tax exempt in the first two years and subject to tax at the reduced rate of 25% for a period of five years for the remaining benefit period.

The income qualifying for tax benefits under the alternative track is the taxable income of a company that has met certain conditions as determined by the Law (“a beneficiary company”), and which is derived from an industrial enterprise. The Law specifies the types of qualifying income that is entitled to tax benefits under the alternative track both in respect of an industrial enterprise, whereby income from an industrial enterprise includes, among others, revenues from the production and development of software products and revenues from industrial research and development activities performed for a foreign resident (and approved by the Head of the Administration of Industrial Research and Development).

The Company’s expansion program of its plant was granted the status of an “approved program”, in accordance with the Law, under the alternative track. According to this track, income derived from the approved enterprise is subject to the benefits and related conditions, as above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 16:- INCOME TAXES (Cont.)

The benefit period starts with the first year the approved enterprise/beneficiary enterprise earns taxable income, provided that 14 years have not passed since the approval was granted and 12 years have not passed since the enterprise began operating. In respect of expansion programs pursuant to Amendment No. 60 to the Law, the benefit period starts at the later of the year elected and the first year the Company earns taxable income provided that 12 years have not passed since the beginning of the year of election. The Company's benefit period regarding to the approved enterprise status will end in 2010.

If dividends are distributed out of tax exempt profits, as above, the Company will become liable for tax at the rate applicable to its profits from the approved enterprise in the year in which the income was earned, as if it was not under the alternative track (tax at the rate of 0%). The Company's policy is not to distribute dividends as above.

- d. On July 25, 2005, the Knesset (Israeli Parliament) passed the Law for the Amendment of the Income Tax Ordinance (No. 147), 2005, which prescribes, among others, a gradual decrease in the corporate tax rate in Israel to the following tax rates: in 2006 - 31%, in 2007 - 29%, in 2008 - 27%, in 2009 - 26% and in 2010 and thereafter - 25%.
- e. Income before taxes on income:

	Year ended December 31,		
	2008	2007	2006
Domestic	\$ 6,953	\$ 2,412	\$ 4,188
Foreign	(1,692)	(1,031)	(1,893)
	\$ 5,261	\$ 1,381	\$ 2,295

- f. Deferred taxes:

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

- 1. Provided in respect of the following:

	December 31,	
	2008	2007
Reserves and accruals	\$ 560	\$ 354
Carryforward tax losses	26,574	26,219
Other temporary differences, net	553	109
Goodwill	(3,491)	(2,330)
Net deferred tax assets before valuation allowance	24,196	24,352
Valuation allowance (3)	(22,087)	(22,433)
Net deferred tax assets	\$ 2,109	\$ 1,919
Domestic	\$ 2,109	\$ 1,919
Foreign	-	-
	\$ 2,109	\$ 1,919

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 16:- INCOME TAXES (Cont.)

2. Deferred taxes are included in the consolidated balance sheets, as follows:

	December 31,	
	2008	2007
Current assets	\$ 1,072	\$ 978
Long-term assets	1,037	941
	<u>\$ 2,109</u>	<u>\$ 1,919</u>

3. The Company and its subsidiaries (except Shagrir) have provided valuation allowances in respect of deferred tax assets resulting from tax loss carryforwards and other temporary differences. Since the Company and its subsidiaries (except for Shagrir) have a history of losses, it is more likely than not that the deferred taxes regarding the losses carryforwards and other temporary differences will not be realized in the foreseeable future.

Shagrir has provided in 2006, for the first time, deferred tax assets relating to the tax losses carryforward and other temporary differences that it is more likely than not they will be realized in the foreseeable future. The valuation allowance was adjusted respectively.

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

	Year ended December 31,		
	2008	2007	2006
Income before taxes, as reported in the consolidated statements of operations	\$ 5,261	\$ 1,381	\$ 2,295
Statutory tax rate	27%	29%	31%
Theoretical tax expenses on the above amount at the Israeli statutory tax rate	\$ 1,420	\$ 400	\$ 711
Tax adjustment in respect of different tax rates	-	-	(219)
Minority interest in earnings of subsidiary	(591)	-	-
Realization of carryforward tax losses for which a valuation allowance was provided and change in valuation allowance in respect of deferred taxes	(292)	(352)	(525)
Nondeductible expenses and other permanent differences	103	305	115
	<u>\$ 640</u>	<u>\$ 353</u>	<u>\$ 82</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 16:- INCOME TAXES (Cont.)

g. Carryforward tax losses and deductions:

Carryforward tax losses of the Company totaled approximately \$77,869 (including a capital loss in the amount of approximately \$31,541) as of December 31, 2008. The carryforward tax losses have no expiration date.

Carryforward tax losses of Pointer Argentina are approximately \$551 as of December 31, 2008. The carryforward tax losses will expire from 2009 to 2010.

Carryforward tax losses of Shagrir totaled approximately \$23,146 as of December 31, 2007. The carryforward tax losses have no expiration date.

Carryforward tax losses of Pointer Mexico totaled approximately \$3,856 as of December 31, 2008. The carryforward tax losses will expire from 2014 to 2018.

h. Final tax assessments:

Tax assessments for the Company, Shagrir and Pointer Argentina are considered final as of the 2003 tax year.

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

	Year ended December 31,		
	2008	2007	2006
Current	\$ 12	\$ -	\$ 182
Deferred	628	353	(100)
	<u>\$ 640</u>	<u>\$ 353</u>	<u>\$ 82</u>
Domestic	\$ 628	\$ 353	\$ 82
Foreign	12	-	-
	<u>\$ 640</u>	<u>\$ 353</u>	<u>\$ 82</u>

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances with related parties:

	December 31,	
	2008	2007
Other accounts payable and accrued expenses:		
DBSI (see Note 13f(1))	\$ 52	\$ 51
Long-term loans from shareholders and others:		
Egged Holdings Ltd. (see Note 13f(1))	\$ -	\$(*) 728

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

b. Transactions with related parties:

	Year ended December 31,		
	2008	2007	2006
Management fees to DBSI (see Note 13f(1))	\$ 180	\$ 180	\$ 180
Interest on long-term loans from Egged (see Note 11a)	\$ -	\$ 94	\$ 131

*) During 2007, Egged Holdings Ltd. ceased to be a shareholder of the Company.

NOTE 18:- SEGMENT, CUSTOMER AND GEOGRAPHIC INFORMATION

a. General:

Commencing January 2008, the Company has two reportable segments that are related to continuing operations. The Cellocator segment and the Pointer segment.

The Cellocator segment develops, manufactures and markets the following products: Cellular/GPS and Radio Monitoring Units, Location Based Services systems, and fleet management application products. The Company sells its systems and products to operators (directly or through distributors).

The Pointer segment sells products and provides a range of services to insurance companies, and to a lesser extent to other corporate and individual customers. The ranges of services are composed of: Stolen vehicle retrieval services, Road-side assistance and towing and Fleet management services.

During 2008, as a result of Cellocator acquisition on September 18, 2007, the Company started to produce discrete operating results of two business units, the Cellocator segment and the Pointer segment has a result of the CODM's (chief operating decision maker, who is the Chief Executive Officer) decision to control and manage the results of the Company's business by the above mentioned segments.

The Company evaluates performance and allocates resources based on operating profit or loss. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

The Company applies SFAS 131, "Disclosures about Segments of an Enterprise and Related Information".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 18:- SEGMENT, CUSTOMER AND GEOGRAPHIC INFORMATION (Cont.)

b. The following presents segment results of operations for the year ended December 31, 2008

	Cellocator segment	Pointer segment	Total
Segments Revenues	\$ 24,964	\$ 57,553	\$ 82,517
Intersegments revenues	(5,862)	-	(5,862)
Revenues from external customers	\$ 19,102	\$ 57,553	\$ 76,655
Segments Operating profit	\$ 3,777	\$ 6,394	\$ 10,171
Segments Assets	\$ 24,020	\$ 81,471	\$ 105,491
Depreciation and amortization expenses	\$ 1,720	\$ 4,394	\$ 6,114
Expenditures for assets	\$ 282	\$ 3,194	\$ 3,476

The Pointer segment revenues include revenue from services in the amount of \$46,010.

The following reconciles segment Operating profit and Segments assets to net Operating profit and assets as reported in the consolidated statements of income:

Segments Operating profit	\$ 10,171
Intercompany loss on intersegment sales	\$ (878)
Operating income	\$ 9,293
Segments assets	\$ 105,491
Intercompany elimination	\$ (2,892)
Total assets	\$ 102,599

The following presents segment results of operations for the year ended December 31, 2007

	Cellocator segment	Pointer segment	Total
Segments Revenues	\$ 10,022	\$ 45,953	\$ 55,975
Intersegments revenues	(4,348)	-	(4,348)
Revenues from external customers	\$ 5,674	\$ 45,953	\$ 51,627
Segments Operating profit(loss)	\$ (1,454)	\$ 5,703	\$ 4,249
Segments Assets	\$ 23,327	\$ 78,775	\$ 102,102
Depreciation and amortization expenses	\$ 853	\$ 3,888	\$ 4,741
Expenditures for assets	\$ 236	\$ 2,402	\$ 2,638
Acquisition of Cellocator	\$ 16,571	-	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 18:- SEGMENT, CUSTOMER AND GEOGRAPHIC INFORMATION (Cont.)

The Pointer segment revenues include revenue from services in the amount of \$35,806.

The following reconciles segment Operating profit and Segments assets to net Operating profit and assets as reported in the consolidated statements of income:

Segments Operating profit	\$ 4,249
Intercompany loss on intersegment sales	\$ (42)
Operating income	\$ 4,207
Segments assets	\$ 102,102
Intercompany elimination	\$ (1,866)
Total assets	\$ 100,236

c. Summary information about geographical areas:

	Year ended December 31,		
	2008	2007	2006
1. Revenues *):			
Israel	\$ 54,322	\$ 42,859	\$ 37,346
Latin America	7,923	4,647	3,424
Europe	12,826	3,836	1,077
Other	1,584	285	65
	\$ 76,655	\$ 51,627	\$ 41,912

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

	December 31,		
	2008	2007	2006
2. Long-lived assets:			
Israel	\$ 72,189	\$ 74,991	\$ 53,638
Argentina	977	1,162	725
Mexico	142	325	302
	\$ 73,308	\$ 76,478	\$ 54,665

d. In 2008 none of our customer accounted above 10% of the Company's revenues and in 2007, one customer accounted for 10.5% of the Company's revenues.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 19:- SELECTED STATEMENTS OF OPERATIONS DATA

	Year ended December 31,		
	2008	2007	2006
a. Financial expenses, net:			
Income:			
Interest on short-term bank deposits	\$ 21	\$ 336	\$ 112
Expenses:			
Bank charges and interest expenses	1,948	1,619	1,763
Foreign currency translation adjustments	1,283	529	(40)
Interest on long-term loans to shareholders	-	-	131
Interest on long-term loans to others	(3)	515	631
Amortization of discount on long-term loans	704	-	204
Interest on convertible debenture	77	28	-
Change in fair value of foreign currency forward contracts	-	111	-
Other	66	348	-
	4,075	3,150	2,689
	\$ 4,054	\$ 2,814	\$ 2,577
b. Other expenses (income), net:			
Capital loss (gain)	\$ 36	\$ 12	\$ (20)
Other	(14)	-	6
	\$ (22)	\$ 12	\$ (14)

THE COMPANIES LAW, 1999
ARTICLES OF ASSOCIATION
OF
POINTER TELOCATION LTD.

PRELIMINARY

1. Company Name

The name of the Company is "Pointer Telocation Ltd." (the "Company").

2. Purpose

The purpose of the Company shall be as detailed in the Memorandum of Association of the Company.

3. Interpretation

(a) Unless the subject or the context otherwise requires: (i) words and expressions defined in the Israeli Companies Law, 1999 (the "Companies Law") in force on the date when these Articles or any amendment thereto, as the case may be, first became effective shall have the same meanings defined therein; (ii) words and expressions importing the singular shall include the plural and vice versa; (iii) words and expressions importing the masculine gender shall include the feminine gender; and (iv) words and expressions importing persons shall include corporate bodies.

(b) The captions in these Articles are for convenience only and shall not be deemed a part hereof or affect the construction of any provision hereof.

(c) The specific provisions of these Articles shall supercede the provisions of the Companies Law to the extent permitted under the Companies Law. With respect to any matter that is not specifically addressed in these Articles, the provisions of the Companies Law shall govern.

4. Limitation of Liability

The liability of each shareholder for the Company's obligations is limited to the unpaid sum, if any, owing to the Company in consideration for the issuance of the shares held by such shareholder.

5. Authorized Share Capital

The share capital of the Company is NIS 24,000,000 (twenty four million) divided into 8,000,000 (eight million) Ordinary Shares, NIS 3.00 each (the "Ordinary Shares").

6. Ordinary Shares

The Ordinary Shares of the Company confer on the holders thereof rights to receive notice of, attend, and vote in meetings of the shareholders, rights to receive dividends, rights to receive a distribution of assets upon liquidation and certain other rights all as are specified in these Articles.

7. Increase of Share Capital

The Company may, from time to time, increase its share capital by the creation of new shares. Any such increase shall be in such amount and shall be divided into shares of such nominal amounts, and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as the resolution approving the creation of such shares shall provide. Except to the extent otherwise provided in the resolution creating such new shares, such new shares shall be subject to all the provisions applicable to the shares of the original capital.

8. Special Rights; Modifications of Rights

(a) The Company may, from time to time, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in the resolution pursuant to which such shares are created.

(b) (i) If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles, may be modified or abrogated by the Company, subject to the consent in writing of, or sanction of a resolution passed by, the holders of a majority of the issued shares of such class at a separate General Meeting of the holders of the shares of such class.

(ii) The provisions of these Articles relating to General Meetings shall, mutatis mutandis, apply to any separate General Meeting of the holders of the shares of a particular class; provided, however, that the requisite quorum at any such separate General Meeting shall be two or more shareholders present in person or proxy and holding not less than thirty-three and a third percent ($33\frac{1}{3}\%$) of the issued shares of such class.

(iii) Unless otherwise provided by these Articles, the enlargement of an existing class of shares, or the issuance of additional shares thereof, or the creation of a new class of shares identical to an existing class of shares in all respects shall not be deemed, for purposes of this Article 8(b), to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

9. Consolidation, Subdivision, Cancellation and Reduction of Share Capital

(a) The Company may, from time to time (subject, however, to the provisions of Article 8(b) hereof and to applicable law):

(i) consolidate and divide all or any of its issued or unissued share capital into shares of larger nominal value than its existing shares;

(ii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by these Articles (subject, however, to the provisions of the Companies Law), and the resolution whereby any share is subdivided may determine that, as among the holders of the shares resulting from such subdivision, one or more of the shares may, as compared with the others, have any such preferred or deferred rights or rights of redemption or other special rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares;

(iii) cancel any shares which, at the date of the adoption of such resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled; or

(iv) reduce its share capital in any manner, subject to any authorization or consent required by law.

(b) With respect to any consolidation of issued shares into shares of larger nominal value, and with respect to any other action which may result in fractional shares, the Board of Directors may settle any difficulty which may arise with regard thereto, as it deems fit, including, inter alia, resort to one or more of the following actions:

(i) determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into each share of larger nominal value;

(ii) allot, in contemplation of or subsequent to such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iii) redeem, in the case of redeemable preference shares, and subject to applicable law, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iv) cause the transfer of fractional shares by certain shareholders of the Company to other shareholders thereof so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees to pay the transferors the fair value of fractional shares so transferred, and the Board of Directors is hereby authorized to act as agent for the transferors and transferees with power of substitution for purposes of implementing the provisions of this sub-Article 9(b)(iv).

SHARES

10. Issuance of Share Certificates; Replacement of Lost Certificates

(a) Share certificates shall bear the stamp or seal of the Company and shall bear the signature of a Director or of any other person or persons authorized thereto by the Board of Directors.

(b) Each shareholder shall be entitled to one numbered certificate for all the shares of any class registered in his name, and if the Board of Directors so approves, to several certificates, each for one or more of such shares.

(c) A share certificate registered in the names of two or more persons shall be delivered to the person first named in the Share Register in respect of such co-ownership.

(d) If a share certificate is defaced, lost or destroyed, it may be replaced, upon payment of such fee, and upon the furnishing of such evidence of ownership and such indemnity, as the Board of Directors may think fit.

11. Registered Holder

Except as otherwise provided in these Articles, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof, and, accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by statute, be bound to recognize any equitable or other claim to, or interest in such share on the part of any other person.

12. Allotment of Shares

The shares shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions, and at such times, as the Board of Directors may think fit, and the power to give to any person the option to acquire from the Company any shares, during such time and for such consideration as the Board of Directors may think fit.

13. Payment in Installments

If by the terms of allotment of any share, the whole or any part of the price thereof shall be payable in installments, every such installment shall, when due, be paid to the Company by the then registered holder(s) of the share of the person(s) entitled thereto.

14. Calls on Shares

(a) The Board of Directors may, from time to time, make such calls as it may think appropriate upon shareholders in respect of any sum unpaid in respect of shares held by such shareholders which is not, by the terms of allotment thereof or otherwise, payable at a fixed time, and each shareholder shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the person(s) and at the time(s) and place(s) designated by the Board of Directors, as any such time(s) may be thereafter extended and/or such person(s) or place(s) changed. Unless otherwise stipulated in the resolution of the Board of Directors (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all shares in respect of which such call was made.

(b) Notice of any call shall be given in writing to the shareholder(s) in question not less than fourteen (14) days prior to the time of payment, specifying the time and place of payment, and designating the person to whom such payment shall be made; provided, however, that before the time for any such payment, the Board of Directors may, by notice in writing to such shareholder(s), revoke such call in whole or in part, extend such time, or alter such person and/or place. In the event of a call payable in installments, only one notice thereof need be given.

(c) If, by the terms of allotment of any share or otherwise, any amount is made payable at any fixed time, every such amount shall be payable at such time as if it were a call duly made by the Board of Directors and of which due notice had been given, and all the provisions herein contained with respect to such calls shall apply to each such amount.

(d) The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof and all interest payable thereon.

(e) Any amount unpaid in respect of a call shall bear interest from the date on which it is payable until actual payment thereof, at such rate (not exceeding the then prevailing debitory rate charged by leading commercial banks in Israel), and at such time(s) as the Board of Directors may prescribe.

(f) Upon the allotment of shares, the Board of Directors may provide for differences among the allottees of such shares as to the amount of calls and/or the times of payment thereof.

15. Prepayment

With the approval of the Board of Directors, any shareholder may pay to the Company any amount not yet payable in respect of such shareholder's shares, and the Board of Directors may approve the payment of interest on any such amount until the same would be payable if it had not been paid in advance, at such rate and time(s) as may be approved by the Board of Directors. The Board of Directors may at any time cause the Company to repay all or any part of the money so advanced, without premium or penalty. Nothing in this Article 15 shall derogate from the right of the Board of Directors to make any call before or after receipt by the Company of any such advance.

16. Forfeiture and Surrender

(a) If any shareholder fails to pay any amount payable in respect of a call, or interest thereon as provided for herein, on or before the day fixed for payment of the same, the Company, by resolution of the Board of Directors, may at any time thereafter, so long as the said amount or interest remains unpaid, forfeit all or any of the shares in respect of which the said call had been made. Any expense incurred by the Company in attempting to collect any such amount or interest, including, inter alia, attorneys' fees and costs of suit, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of the amount payable to the Company in respect of such call.

(b) Upon the adoption of a resolution of forfeiture, the Board of Directors shall cause notice thereof to be given to such shareholder, which notice shall state that, in the event of the failure to pay the entire amount so payable within a period stipulated in the notice (which period shall not be less than fourteen (14) days and which may be extended by the Board of Directors), such shares shall be ipso facto forfeited, provided, however, that, prior to the expiration of such period, the Board of Directors may nullify such resolution of forfeiture, but no such nullification shall stop the Board of Directors from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

(c) Whenever shares are forfeited as herein provided, all dividends theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited at the same time.

(d) The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share.

(e) Any share forfeited or surrendered as provided herein shall become the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of as the Board of Directors thinks fit.

(f) Any shareholder whose shares have been forfeited or surrendered shall cease to be a shareholder in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 14(e) above, and the Board of Directors, in its discretion, may enforce the payment of such monies, or any part thereof, but shall not be under any obligation to do so. In the event of such forfeiture or surrender, the Company, by resolution of the Board of Directors, may accelerate the date(s) of payment of any or all amounts then owing by the shareholder in question (but not yet due) in respect of all shares owned by such shareholder, solely or jointly with another, and in respect of any other matter or transaction whatsoever.

(g) The Board of Directors may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it thinks fit, but no such nullification shall stop the Board of Directors from re-exercising its powers of forfeiture pursuant to this Article 16.

17. Intentionally Deleted.

18. Sale after Forfeiture or Surrender

Upon any sale of shares after forfeiture or surrender, the Board of Directors may appoint a person to execute an instrument of transfer of the shares so sold and cause the purchaser's name to be entered in the Share Register in respect of such shares, and the purchaser shall not be bound to see to the regularity of the proceedings, or to the application of the purchase money, and after such purchaser's name has been entered in the Share Register in respect of such shares, the validity of the sale shall not be impeached by any person, and the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively.

19. Redeemable Shares

The Board of Directors may, subject to the provisions of the Companies Law, issue redeemable shares and redeem the same.

TRANSFER OF SHARES

20. Effectiveness and Registration

The shares of the Company are freely transferable. No transfer of shares shall be registered unless a proper instrument of transfer (in form and substance satisfactory to the Board of Directors) has been submitted to the Company, together with the share certificate(s) and such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered in the Share Register in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof. The Board of Directors, may, from time to time, prescribe a reasonable fee for the registration of a transfer.

21. Suspension of Registration

The Board of Directors may suspend the registration of transfers during the fourteen (14) days immediately preceding a general meeting of the shareholders of the Company.

TRANSMISSION OF SHARES

22. Decedents' Shares

(a) In case of a share registered in the names of two or more holders, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article 22(b) have been effectively invoked.

(b) Any person becoming entitled to a share in consequence of the death of any person, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board of Directors may reasonably deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title), shall be registered as a shareholder in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share.

23. Receivers and Liquidators

- (a) The Company may recognize the receiver or liquidator of any corporate shareholder in winding-up or dissolution, or the receiver or trustee in bankruptcy of any shareholder, as being entitled to the shares registered in the name of such shareholder.
- (b) The receiver or liquidator of a corporate shareholder in winding-up or dissolution, or the receiver or trustee in bankruptcy of any shareholder, upon producing such evidence as the Board of Directors may deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title, shall with the consent of the Board of Directors (which the Board of Directors may grant or refuse in its absolute discretion), be registered as a shareholder in respect of such shares, or may, subject to the regulations as to transfer herein contained, transfer such shares.

GENERAL MEETINGS

24. Annual General Meeting

- (a) An Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board of Directors.

25. Special General Meetings

- (a) All General Meetings other than Annual General Meetings shall be called "Special General Meetings."
- (b) The Board of Directors may, whenever it thinks fit, convene a Special General Meeting at such time and place as may be determined by the Board of Directors.
- (c) The Board of Directors shall be obligated to convene a Special General Meeting at such time and place, within or without the State of Israel, as may be determined by the Board of Directors, upon requisition in writing as follows:
- (i) The requisition in writing is made by any of the following:
- (x) two directors or twenty-five percent (25%) of the directors holding office;
 - (y) one or more shareholders holding at least five percent (5%) of the Company's outstanding shares, and at least one-percent (1%) of the voting rights in the Company; and
 - (z) one or more shareholders holding at least five percent (5%) of the voting rights in the Company.
- (ii) The requisition in writing to convene a Special General Meeting pursuant to Article 25(c)(i) shall set forth the reasons for convening the meeting, shall be signed by the person(s) requesting the convening of the meeting and shall be delivered to the registered offices of the Company.
- (iii) Within twenty-one (21) days of receipt of the requisition in writing, the Board of Directors shall send a notice pursuant to Article 26 below to the shareholders of the Company. The General Meeting shall convene within at least 35 days from the date the written notice was issued.

26. Notice of General Meetings: Omission to Give Notice

(a) Not less than twenty-one (21) days' prior notice shall be given of every General Meeting. Each such notice shall specify the place and the day and hour of the meeting and the general nature of each item to be acted upon thereat, as well as any other information required by the Companies Law or any regulation promulgated thereunder.

(b) The accidental omission to give notice of a meeting to any shareholder, or the non-receipt of notice sent to such shareholder, shall not invalidate the proceedings at such meeting.

PROCEEDINGS AT GENERAL MEETINGS

27. Entitlement to Notice: Participation

(a) Notice shall be given to all shareholders registered in the Company's Share Register.

(b) The Board of Directors shall set a record date, which date shall comply with the requirements of the Companies Law. Shareholders of record, as set forth in the Company's Share Register, on the day determined by the Board of Directors and set forth in the notice of General Meeting shall be entitled to participate and vote in the General Meeting.

28. Quorum

(a) Two or more shareholders (not in default in payment of any sum referred to in Article 33(a) hereof), present in person, by proxy or by proxy card and holding shares conferring in the aggregate thirty-three and a third percent ($33\frac{1}{3}\%$) or more of the voting power of the Company, shall constitute a quorum at General Meetings. No business shall be transacted at a General Meeting, or at any adjournment thereof, unless the requisite quorum is present when the meeting proceeds to business.

(b) If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon requisition under Article 25(c), shall be dissolved, but in any other case it shall stand adjourned to the same day in the next week, at the same time and place, or to such day and at such time and place as the Chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. No business shall be transacted at any adjourned meeting except business that might lawfully have been transacted at the meeting as originally called. At such adjourned meeting, any two (2) shareholders (not in default as aforesaid) present in person, by proxy or by proxy card, shall constitute a quorum.

29. Chairman

The Chairman, if any, of the Board of Directors shall preside as Chairman at every General Meeting of the Company. If there is no such Chairman, or if at any meeting such Chairman is not present within fifteen (15) minutes after the time fixed for holding the meeting or is unwilling to act as Chairman, the shareholders present shall choose someone of their number to be Chairman. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any General Meeting nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a shareholder or proxy of a shareholder if, in fact, he or she is also a shareholder or such proxy).

30. Adoption of Resolutions at General Meetings

(a) Except with respect to matters which require the approval of a special majority under the Companies Law, all resolutions of the shareholders shall be deemed adopted if approved by the holders of a simple majority of the voting power represented at the meeting, in person, by proxy or by proxy card, and voting thereon.

(b) Every question submitted to a General Meeting shall be decided by a show of hands, but if a written ballot is demanded by any shareholder present in person or by proxy and entitled to vote at the meeting, the same shall be decided by such ballot. A written ballot may be demanded before the proposed resolution is voted upon or immediately after the declaration by the Chairman of the results of the vote by a show of hands. If a vote by written ballot is taken after such declaration, the results of the vote by a show of hands shall be of no effect, and the proposed resolution shall be decided by such written ballot. The demand for a written ballot may be withdrawn at any time before the same is conducted, in which event another shareholder may then demand such written ballot. The demand for a written ballot shall not prevent the continuance of the meeting for the transaction of business other than the question on which the written ballot has been demanded. All votes properly tendered by proxy card, as set forth in Article 33(c)(iii), with respect to a given resolution shall be counted for purposes of determining the outcome of any vote with respect to such resolution taken by show of hands or by secret ballot.

(c) A declaration by the Chairman of the meeting that a resolution has been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minute book of the Company, shall be prima facie evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

31. Power to Adjourn

(a) The Chairman of a General Meeting at which a quorum is present may, with the consent of the holders of a majority of the voting power represented in person or by proxy and voting on the question of adjournment (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called.

(b) It shall not be necessary to give any notice of an adjournment, unless the meeting is adjourned for thirty (30) days or more in which event notice thereof shall be given in the manner required for the meeting as originally called.

32. Voting Power

Subject to the provisions of Article 33(a) and subject to the rights of holders of shares with special rights as to voting, every shareholder shall have one vote for each share held by such shareholder of record, on every resolution, without regard to whether the vote hereon is conducted by a show of hands, by written ballot or by any other means.

33. Voting Rights

(a) No shareholder shall be entitled to vote at any General Meeting (or be counted as a part of the quorum thereat), unless all calls and other sums then payable by such shareholder in respect of such shareholder's shares in the Company have been paid.

(b) A company or other corporate body being a shareholder of the Company may, subject to applicable law, authorize any person to be its representative at any meeting of the Company. Any person so authorized shall be entitled to exercise on behalf of such shareholder all the power that the latter could have exercised if it were an individual shareholder. Upon the request of the Chairman of the meeting, written evidence of such authorization (in form acceptable to the Chairman) shall be delivered to the Chairman.

(c) Any shareholder entitled to vote may vote in one of the following manners:

- (i) personally;
- (ii) by proxy (who need not be a shareholder of the Company);
- (iii) by proxy card, provided it is completed and returned to the Company's offices in accordance with its terms; or
- (iv) if the shareholder is a company or other corporate body, by a representative authorized pursuant to Article 33(b).

(d) If two or more persons are registered as joint holders of any share, the vote of the senior who tenders a vote, in person, by proxy or by proxy card, shall be accepted to the exclusion of the vote(s) of the other joint holder(s); and for this purpose seniority shall be determined by the order in which the names stand in the Share Register.

34. Proxies; Instrument of Appointment

(a) The instrument appointing a proxy shall be in writing and shall be substantially in the following form:

"I _____ (Name of Shareholder) of _____ (Address of Shareholder) being a shareholder of Pointer Telocation Ltd. hereby appoint _____ (Name of Proxy) of _____ (Address of Proxy) as my proxy to vote for me and on my behalf at the General Meeting of the Company to be held on the ____ day of _____, 20__ and at any adjournment(s) thereof.

Signed this ____ day of _____, 20__.

(Signature of Appointer)"

or in any usual or common form or in such other form as may be approved by the Board of Directors, including a form which provides for a continuing proxy until the occurrence of such date or event as is specified in the proxy. It shall be duly signed by the appointer or his duly authorized attorney, which signature shall be confirmed by an advocate or notary or bank or in any other manner acceptable to the Chairman or, if such appointer is a company or other corporate body, under its common seal or stamp or the hand of its duly authorized agent(s) or attorney(s).

(b) The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall either be delivered to the Company (at its Registered Office, or at its principal place of business or at the offices of its registrar and/or transfer agent or at such place as the Board of Directors may specify) before the time fixed for the meeting at which the person named in the instrument proposes to vote, or presented to the Chairman at such meeting.

(c) Proxy cards shall be in such form, and substance, as shall be prescribed by the Board of Directors. Proxy cards shall be completed and delivered to the Company (at its Registered Office, or at its principal place of business or at the offices of its registrar and/or transfer agent or at such place as the Board of Directors may specify) in accordance with its terms.

(d) A vote cast pursuant to an instrument appointing a proxy or by proxy card shall be valid notwithstanding the previous death, liquidation or winding-up of the appointing shareholder (or of his attorney-in-fact, if any, who signed such instrument), or the revocation of the appointment or the transfer of the share in respect of which the vote is cast, provided no written intimation of such death, liquidation, winding-up revocation or transfer shall have been received by the Company or by the Chairman of the meeting before such vote is cast and provided, further, that the appointing shareholder, if present in person at said meeting, may revoke the appointment by means of a writing, oral notification to the Chairman, or otherwise.

BOARD OF DIRECTORS

35. Powers of Board of Directors

The Board of Directors shall determine the Company's policies, oversee the activities of the Chief Executive Officer, and take such other actions as are described in Section 92 of the Companies Law. The Board of Directors shall be empowered to exercise any power of the Company not conferred upon by the Companies Law or by these Articles on any other organ of the Company. The authority conferred on the Board of Directors by this Article 35 shall be subject to the provisions of the Companies Law and of these Articles.

36. Exercise of Powers of Directors

(a) A meeting of the Board of Directors at which a quorum is present shall be competent to exercise all the authorities, powers and discretions vested in or exercisable by the Board of Directors.

(b) A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a majority of the Directors present when such resolution is put to a vote and voting thereon.

(c) The Board of Directors is authorized to adopt any resolution without an actual meeting, provided that all Directors then in office and lawfully entitled to vote thereon (as conclusively determined by the Chairman of the Board of Directors) have agreed in writing or given their consent (by telephone, e-mail, facsimile, letter or otherwise) to the adoption of such resolution. In the event of the adoption of a resolution pursuant to this Article 36(c), the Chairman of the Board shall state in the minutes the manner in which each Director voted on the resolution and the fact that all directors consented to the adoption of the resolution without the convening of a meeting.

37. Audit Committee

(a) The Board of Directors shall appoint an Audit Committee (all of whose members must be Directors) comprised of at least three Directors, including all of the Outside Directors. The Chairman of the Board of Directors, any other Director who is employed by, or providing services on a regular basis to, the Company and any Controlling Shareholder or a Relative of a Controlling Shareholder shall not serve as members of the Audit Committee.

(b) The duties of the Audit Committee shall be:

- (i) to detect any deficiencies in the business management of the Company, by among other things consulting with the Company's Internal Auditor and independent auditors, and to propose to the Board of Directors ways of correcting these deficiencies; and
- (ii) to decide whether to approve actions and transactions requiring approval of the Audit Committee pursuant to the Companies Law.

38. Delegation of Powers

(a) Subject to Section 112 of the Companies Law, the Board of Directors may delegate any or all of its powers to committees, each consisting of two or more persons (all of whose members must be Directors, at least one of which must be an Outside Director), and it may from time to time revoke such delegation or alter the composition of any such committee. Any Committee so formed (in these Articles referred to as a "Committee of the Board of Directors"), shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee of the Board of Directors shall, mutatis mutandis, be governed by the provisions herein contained for regulating the meetings of the Board of Directors, so far as not superseded by any regulations adopted by the Board of Directors under this Article. Unless otherwise expressly provided by the Board of Directors in delegating powers to a Committee of the Board of Directors, such Committee shall not be empowered to further delegate such powers.

(b) Without derogating from the provisions of Article 52, the Board of Directors may, subject to the provisions of the Companies Law, from time to time appoint a Secretary to the Company, as well as officers, agents, employees and independent contractors, as the Board of Directors may think appropriate, and may terminate the service of any such person. The Board of Directors may, subject to the provisions of the Companies Law, determine the powers and duties, as well as the terms and conditions of employment, of all such persons, and may require security in such cases and in such amounts as it thinks appropriate.

(c) The Board of Directors may from time to time, by power of attorney or otherwise, appoint any person, company, firm or body of persons to be the attorney or attorneys of the Company at law or in fact for such purpose(s) and with such powers, authorities and discretions, and for such period and subject to such conditions, as it thinks fit, and any such power of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board of Directors may think fit, and may also authorize any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

(d) Any director designated to the Board of Directors as a nominee of either DBSI Holdings Ltd. or Egged Holdings Ltd. may demand that a resolution of the Board of Directors of the Company be transferred to the vote of the shareholders of the Company.

39. Number of Directors

The number of members of the Board of Directors (including Outside Directors) shall be determined, from time to time, by the Annual General Meeting, provided that the Board of Directors of the Company shall consist of not less than three (3) directors and not more than eleven (11) Directors.

40. Election, Appointment and Removal of Directors

(a) The Directors shall be elected and dismissed by the holders of a majority of the shares present and voting at an Annual General Meeting, provided that any vote to appoint or dismiss an Outside Director shall satisfy the requirements of Section 239 or Section 246, as the case may be, of the Companies Law. Subject to Article 39 above, between annual meetings, the Board shall be empowered to appoint directors, other than Outside Directors, by a majority vote of the directors.

(b) All Directors, except Outside Directors, shall retire at the Annual General Meeting of the Company immediately following the Annual General Meeting at which they were elected, subject to the provisions of sub-article 40(d) below. Outside Directors shall retire on the third Annual General Meeting of the Company after the Annual General Meeting in which they were appointed.

(c) A retiring Director shall be eligible for re-election, provided that Outside Directors shall only be entitled to re-election for one additional term of three years.

(d) If at any Annual General Meeting, the places of the vacating directors are not filled, the meeting shall stand adjourned until the same day in the next week at the same time and place, and if at the adjourned meeting the places of the vacating Directors are, again, not filled, the vacating Directors shall be deemed to have been re-elected at the adjourned meeting. In any event, a retiring director shall remain in office until a new director has been elected or appointed in his or her place.

(e) Every Director who serves as such upon the effective date of these Articles shall continue to serve in his or her position until the conclusion of the election of Directors in the first General Meeting that will take place after the effective date of these Articles, unless the position is vacated before then in accordance with these Articles.

(f) Notwithstanding anything to the contrary in this Article 40, the shareholders may, at any time, by resolution at a Special General Meeting, discharge from office any member of the Board of Directors (provided that with respect to Outside Directors, the dismissal is effected in accordance with Section 246 of the Companies Law) and/or to appoint a member to the Board of Directors (provided that with respect to Outside Directors, the requirements of Section 239 of the Companies Law are satisfied); provided however, that in the event of dismissal of a Director, the Director shall first be given the opportunity to state his or her case.

41. Qualification of Directors

No person shall be disqualified to serve as a Director by reason of his or her not holding shares in the Company or by reason of his having served as a Director in the past, subject to Sections 240 and 245 of the Companies Law with respect to Outside Directors.

42. Continuing Directors in the Event of Vacancies

In the event of one or more vacancies in the Board of Directors, the continuing Directors may continue to act in every matter, and, pending the filling of any vacancy pursuant to the provisions of Article 40, may temporarily fill any such vacancy; provided, however, that if they number less than a majority of the number provided for pursuant to Article 39 hereof or if the number of Outside Directors drops below two, they may only act in an emergency, and must call a General Meeting of the Company for the purpose of electing Directors to fill any or all vacancies, so that at least a majority of the number of Directors provided for pursuant to Article 39 hereof, or at least two Outside Directors, as the case may be, are in office as a result of said meeting.

43. Vacation of Office

(a) The office of a Director shall be vacated by the Director's written resignation. Such resignation shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

(b) The Company will be entitled, at any time, by resolution of the shareholders at a Special General Meeting, to discharge from office any Director, provided such Director is given a reasonable opportunity to state his or her case before the shareholders at the General Meeting. The power granted by this sub-article shall not apply to Outside Directors, unless such discharge is effected in accordance with Section 246 of the Companies Law.

(c) The office of a Director shall be vacated, ipso facto, upon the occurrence of any of the following: (i) such Director's death, (ii) such Director is convicted of a crime as described in Section 232 of the Companies Law, (iii) such Director is removed by a court of law in accordance with Section 233 of the Companies Law, (iv) such Director becomes legally incompetent, or (v) such Director is declared bankrupt, or (vi) if such Director is a corporate entity, upon its winding-up liquidation, whether voluntary or involuntary.

44. Remuneration of Directors

No Director shall be paid any remuneration by the Company for such Director's services as a member of the Board of Directors or for any other services provided to the Company, unless such remuneration has been approved pursuant to the provisions of the Companies Law.

45. Conflict of Interests

Subject to the provisions of the Companies Law, the Company may enter into any contract or otherwise transact any business with any Office Holder in which contract or business such Office Holder has a personal interest, directly or indirectly; and may enter into any contract or otherwise transact any business with any third party in which contract or business an Office Holder has a personal interest, directly or indirectly.

46. Alternate Directors

(a) A Director may, by written notice to the Company, appoint an alternate for himself or herself (in these Articles referred to as "Alternate Director"), remove such Alternate Director and appoint another Alternate Director in place of any Alternate Director appointed by him whose office has been vacated for any reason whatsoever. Unless the appointing Director, by the instrument appointing an Alternate Director or by written notice to the Company, limits such appointment to a specified period of time or restricts it to a specified meeting or action of the Board of Directors, or otherwise restricts its scope, the appointment shall be for an indefinite period, and for all purposes.

(b) Any notice given to the Company pursuant to Article 46(a) shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

(c) An Alternate Director shall have all the rights and obligations of the Director who appointed him, provided, however, that he or she may not in turn appoint an alternate for himself or herself (unless the instrument appointing him otherwise expressly provides), and provided further that an Alternate Director shall have no standing at any meeting of the Board of Directors or any committee thereof while the Director who appointed him is present.

(d) Any person or legal entity that is qualified to serve as a Director may act as an Alternate Director, provided that one person may not act as an Alternate Director for more than one Director and a Director may not act as an Alternate Director for another Director.

(e) An Alternate Director shall be responsible for his own acts and defaults.

(f) The office of an Alternate Director shall be vacated under the circumstances, mutatis mutandis, set forth in Article 43, and such office shall ipso facto be vacated if the Director who appointed such Alternate Director ceases to be a Director.

PROCEEDINGS OF THE BOARD OF DIRECTORS

47. Meetings

(a) The Board of Directors shall convene meetings as required to fulfill the needs of the Company, but in any event shall convene at least one meeting in every three month period. The Board of Directors may meet and adjourn its meetings and otherwise regulate such meetings and proceedings as the Directors think fit. Meetings of the Board of Directors may be held telephonically or by any other means of communication provided that each Director participating in such meeting can hear all of the other Directors participating in such meeting.

(b) The Chairman of the Board of Directors may convene a meeting of the Board of Directors from time to time as he or she deems fit, provided that a prior written notice of such a meeting shall be given reasonable time in advance unless such notice is waived in writing by all of the Directors as to a particular meeting. The notice of meeting shall include the agenda of the meeting.

(c) Upon the receipt of a written request under any of the following circumstances, the Chairman of the Board of Directors shall, and in the absence of a Chairman, any Director receiving such written request shall convene a meeting of the Board of Directors, provided that a prior written notice of such a meeting shall be given reasonable time in advance, unless such notice is waived in writing by all of the Directors as to a particular meeting:

(i) upon the receipt of a written request from any two Directors, or in the event that there are five or less Directors serving in office at the time, upon the written request of any Director;

(ii) upon the receipt of a written request from any Director requesting that a meeting be convened and stating that he or she has learned of an alleged violation of the law or proper business procedure by the Company.

(iii) upon the receipt of any written request from the Chief Executive Officer of the Company requesting an action of the Board of Directors; or

(iv) upon the receipt of a written request from the independent auditor(s) of the Company regarding material flaws in the oversight of the Company's internal accounting methods.

48. Quorum

(a) Until otherwise unanimously decided by the Board of Directors, a quorum at a meeting of the Board of Directors shall be constituted by the presence, in person or represented by an Alternate Director, of a majority of the Directors then in office who are lawfully entitled to participate in the meeting (as conclusively determined by the Chairman of the Board of Directors).

(b) If within an half an hour from the time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to such time, date and place as the Chairman may determine, provided that not less than two (2) days' written notice shall have been provided to each of the Directors of such meeting. No business shall be transacted at any adjourned meeting except business that might lawfully have been transacted at the meeting as originally called. At such adjourned meeting, any two (2) members present in person or represented by an Alternate Director shall constitute a quorum.

(c) Notwithstanding anything to the contrary in this Article 48, the quorum for purposes of discussing and resolving upon the termination or suspension of the services of the Internal Auditor of the Company shall be a majority of the Directors then in office.

49. Chairman of the Board of Directors

The Board of Directors may from time to time elect one of its members to be the Chairman of the Board of Directors, remove such Chairman from office and appoint another in its place. The Chairman of the Board of Directors shall preside at every meeting of the Board of Directors, but if there is no such Chairman, or if at any meeting he or she is not present within fifteen (15) minutes of the time fixed for the meeting, or if the appointed Chairman is unwilling to take the chair, the Directors present shall choose one of their number to be the chairman of such meeting. The Chief Executive Officer of the Company shall not serve as the Chairman of the Board of Directors, and the Chairman of the Board of Directors shall not be granted authorities of the Chief Executive Officer, unless such appointment, or grant, as the case may be, is approved by the shareholders in a General Meeting in accordance with Section 121(c) of the Companies Law. The office of Chairman shall not entitle such Director to a second or casting vote.

50. Validity of Acts Despite Defects

Subject to the provisions of the Companies Law, all acts done bona fide at any meeting of the Board of Directors, or of a Committee of the Board of Directors, or by any person(s) acting as Director(s), shall, notwithstanding that it may afterwards be discovered that there was some defect in the appointment of the participants in such meetings or any of them or any person(s) acting as aforesaid, or that they or any of them were disqualified, be as valid as if there were no such defect or disqualification.

MINUTES

51. Minutes

(a) Minutes of each General Meeting and of each meeting of the Board of Directors (or any committee thereof) shall be recorded and duly entered in books provided for that purpose.

(b) Any minutes as aforesaid, if purporting to be signed by the chairman of the meeting or by the chairman of the next succeeding meeting, shall constitute prima facie evidence of the matters recorded therein.

CHIEF EXECUTIVE OFFICER

52. Chief Executive Officer

(a) The Board of Directors shall from time to time appoint one or more persons, whether or not Directors, as Chief Executive Officers(s) of the Company and may confer upon such person(s), and from time to time modify or revoke, such title(s) (including General Manager, Managing Director, Director General or any similar or dissimilar title). The appointment of the Chief Executive Officer(s) may be either for a fixed term or without any limitation of time. The Board of Directors may from time to time remove or dismiss the Chief Executive Officer(s) from office and appoint another or others in the Chief Executive Officer(s)'s place.

(b) The Chief Executive Officer(s) shall manage the business of the Company, subject to the policies established by the Board of Directors, such limitations and restrictions as are set forth in these Articles or as the Board of Directors may from time to time prescribe, and the provisions of the Companies Law.

(c) The Board of Directors may from time to time determine the Chief Executive Officer(s) salary and other terms and conditions of the Chief Executive Officer's employment, subject to the provisions of the Companies Law.

(d) Subject to the provisions of the Companies Law and provided the Board of Directors has authorized him or her to do so, the Chief Executive Officer of the Company may appoint additional Officer Holders (as such term is defined in the Companies Law) of the Company (other than Directors and Chief Executive Officers), and determine the duties and powers of such Office Holders, and the terms and conditions of such Office Holders' employment. The Chief Executive Officer shall notify the Board of Directors of each such appointment at the first meeting of the Board of Directors following such appointment.

INTERNAL AUDITOR

53. Internal Auditor

The Board of Directors shall appoint an internal auditor pursuant to a recommendation of the Audit Committee. The following persons shall not serve as the Internal Auditor of the Company: (i) any Interested Party of the Company; (ii) any Office Holder of the Company; (iii) any relative of either of the foregoing; and (iv) the Company's independent auditor(s) or anyone on their behalf.

INDEMNIFICATION AND INSURANCE

54. Exemption From Duty Of Care

Subject to the provisions of the Companies Law including the receipt of all approvals as required therein or under any applicable law, the Board of Directors may resolve in advance to exempt an Office Holder from all or part of such Officer Holder's responsibility or liability for damages caused to the Company due to any breach of such Office Holder's duty of care towards the Company.

55. Indemnification

(a) Subject to the provisions of the Companies Law including the receipt of all approvals as required therein or under any applicable law, the Company may indemnify any Office Holder to the fullest extent permitted by the Companies Law.

(b) Subject to the provisions of the Companies Law including the receipt of all approvals as required therein or under any applicable law, the Board of Directors may resolve retroactively to indemnify an Office Holder with respect to the following liabilities and expenses, provided that such liabilities or expenses were incurred by such Officer Holder in such Officer Holder's capacity as an Officer Holder of the Company:

(i) a monetary liability imposed on an Office Holder pursuant to a judgment in favor of another person, including a judgment imposed on such Office Holder in a compromise or in an arbitration decision that was approved by a court of law; and

(ii) reasonable legal expenses, including attorney's fees, which the Office Holder incurred or with which the Officer Holder was charged by a court of law, in a proceeding brought against the Officer Holder, by the Company or by another on behalf of the Company, or in a criminal prosecution in which the Officer Holder was acquitted, or in a criminal prosecution in which the Office Holder was convicted of an offense that does not require proof of criminal intent.

(c) Subject to the provisions of the Companies Law including the receipt of all approvals as required therein or under any applicable law, the Board of Directors may resolve in advance to indemnify the Company's Officer Holders for those liabilities and expenses described in Sub-Article 55(b)(ii), provided that (i) in the opinion of the Board of Directors such liabilities and expenses can be foreseen at the time the undertaking to indemnify is provided, and (ii) the Board of Directors shall set a reasonable limit to the amounts for such indemnification under the circumstances.

56. Insurance

(a) Subject to the provisions of the Companies Law including the receipt of all approvals as required therein or under any applicable law, the Company may enter into an agreement to insure an Office Holder for any liability that may be imposed on such Office Holder in connection with an act performed by such Officer Holder in such Office Holder's capacity as an Officer Holder of the Company, with respect to each of the following:

(i) violation of the duty of care of the Office Holder towards the Company or towards another person;

(ii) breach of the fiduciary duty towards the Company, provided that the Office Holder acted in good faith and with reasonable grounds to assume that the action in question would not harm the best interests of the Company; and

(iii) a financial obligation imposed on the Office Holder for the benefit of another person.

(b) The Company may procure insurance for or indemnify any person who is not an Office Holder, including without limitation, any employee, agent, consultant or contractor, provided, however, that any such insurance or indemnification is in accordance with the provisions of these Articles and the Companies Law.

57. Inapplicability of Articles 54, 55, and 56(a)

(a) Articles 54, 55 and 56(a) shall not apply under any of the following circumstances:

- (i) a breach of an Office Holder's fiduciary duty, if the Officer Holder did not act in good faith and with reasonable grounds to assume that the action in question was in the best interest of the Company;
- (ii) a grossly negligent or intentional violation of an Office Holder's duty of care;
- (iii) an intentional action by an Office Holder in which such Office Holder intended to reap a personal gain illegally; and
- (iv) a fine or ransom levied on an Office Holder.

RIGHTS OF SIGNATURE AND RUBBER STAMP

58. Rights of Signature and Rubber Stamp

(a) The Board of Directors shall be entitled to authorize any person or persons (who need not be Directors) to act and sign on behalf of the Company, and the acts and signature of such person(s) on behalf of the Company, together with the Company's rubber stamp or the Company's name in print or handwriting, shall bind the Company insofar as such person(s) acted and signed within the scope of such person's authority.

(b) The Company shall have at least one official rubber stamp.

DIVIDENDS

59. Declaration of Dividends

Subject to the Companies Law, the Board of Directors may from time to time declare, and cause the Company to pay, such dividends as may appear to the Board of Directors to be justified by the profits of the Company. Subject to the Companies Law, the Board of Directors shall determine the time for payment of such dividends and the record date for determining the shareholders entitled thereto.

60. Amount Payable by Way of Dividends

Subject to the rights of the holders of shares with special rights as to dividends, any dividend paid by the Company shall be allocated among the shareholders entitled thereto in proportion to the nominal value of their respective holdings of the shares in respect of which such dividend is being paid.

61. Payment in Specie

Subject to the Companies Law, the Board of Directors may from time to time declare a dividend to be paid, wholly or partly, by the distribution of specific assets of the Company or by distribution of paid up shares, debentures or debenture stock of the Company or of any other companies, or in any one or more of such ways.

62. Implementation of Powers under Articles 60 and 61

For the purpose of giving full effect to any resolution under Articles 60 or 61, the Board of Directors may settle any difficulty which may arise in regard to the distribution as it thinks expedient, including determine the value for the purpose of the said distribution of certain assets and resolve that payments in cash shall be made to members in reliance upon the value thus determined, determine regulations in relation to fractions of shares or in relation to non-payment of amounts less than NIS 200.

63. Deductions from Dividends

The Board of Directors may deduct from any dividend or other monies payable to any shareholder in respect of a share any and all sums of money then payable by such shareholder to the Company on account of calls or otherwise in respect of shares of the Company and/or on account of any other matter of transaction whatsoever.

64. Retention of Dividends

(a) The Board of Directors may retain any dividend or other monies payable or property distributable in respect of a share on which the Company has a lien, and may apply the same in or toward satisfaction of the debts, liabilities, or engagements in respect of which the lien exists.

(b) The Board of Directors may retain any dividend or other monies payable or property distributable in respect of a share in respect of which any person is, under Articles 22 or 23, entitled to become a shareholder, or which any person is, under said Articles, entitled to transfer, until such person shall become a shareholder in respect of such share or shall transfer the same.

65. Unclaimed Dividends

All unclaimed dividends or other monies payable in respect of a share may be invested or otherwise made use of by the Board of Directors for the benefit of the Company until claimed. The payment by the Directors of any unclaimed dividend or such other monies into a separate account shall not constitute the Company a trustee in respect thereof, and any dividend unclaimed after a period of three (3) years from the date of declaration of such dividend, and any such other monies unclaimed after a like period from the date the same were payable, shall be forfeited and shall revert to the Company; provided, however, that the Board of Directors may, at its discretion, cause the Company to pay any such dividend or such other monies, or any part thereof, to a person who would have been entitled thereto had the same not reverted to the Company.

66. Mechanics of Payment

Any dividend or other monies payable in cash in respect of a share may be paid by check sent through the post to, or left at, the registered address of the person entitled thereto or by transfer to a bank account specified by such person (or, if two or more persons are registered as joint holders of such share or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, to any one of such persons or to his bank account), or to such person and at such address as the person entitled thereto may by writing direct. Every such check shall be made payable to the order of the person to whom it is sent, or to such person as the person entitled thereto as aforesaid may direct, and payment of the check by the banker upon whom it is drawn shall be a good discharge to the Company. Every such check shall be sent at the risk of the person entitled to the money represented thereby.

67. Receipt from a Joint Holder

If two or more persons are registered as joint holders of any share, or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, any one of them may give effectual receipts for any dividend or other monies payable or property distributable in respect of such share.

ACCOUNTS

68. Books of Account

The Board of Directors shall cause accurate books of account to be kept in accordance with the provisions of the Companies Law and of any other applicable law. Such books of account shall be kept at the Registered Office of the Company, or at such other place or places as the Board of Directors may think appropriate, and they shall always be open to inspection by all Directors. No shareholder, not being a Director, shall have any right to inspect any account or book or other similar document of the Company, except as conferred by law or authorized by the Board of Directors or by a resolution of a General Meeting of the Company.

69. Fiscal Year

The Company's fiscal year shall commence on January 1st and end on the following December 31st.

70. Audit

The Company shall prepare financial statements in accordance with generally accepted accounting principles consistently applied and as required by the Companies Law and any other applicable law. The Company's annual financial statements shall be audited for correctness by the Company's auditor and shall be approved and signed by the Board of Directors.

71. Auditors

(a) The shareholders of the Company shall appoint an independent auditor(s) of the Company at the Annual General Meeting. Such appointment shall be in force until the end of the fiscal year for which the appointment is made, or for a longer period if so resolved at the Annual General Meeting, but in no event for a period of more than three fiscal years. The shareholders of the Company may remove the independent auditor(s) at any time.

(b) The appointment, authorities, rights and duties of the independent auditor(s) of the Company shall be regulated by applicable law.

(c) The Board of Directors shall determine the remuneration of the independent auditor(s) and report to the shareholders on such remuneration at the Annual General Meeting.

DONATIONS

72. Donations

The Company shall be entitled to donate reasonable amounts to a cause which the Board of Directors deems worthy, even if such donation is not motivated by business considerations.

NOTICES

73. Notices

(a) Any written notice or other document may be served by the Company upon any shareholder personally or by sending it by mail addressed to such shareholder at such shareholder's address as described in the Share Register or such other address as such shareholder may have designated in writing for the receipt of notices and other documents. Any written notice or other document may be served by any shareholder upon the Company by tendering the same in person to the Secretary or the Chief Executive Officer of the Company at the principal office of the Company or by sending it by prepaid registered mail (airmail if posted outside Israel) to the Company at its Registered Address. Any such notice or other document shall be deemed to have been served two (2) business days after it has been posted (five (5) business days if sent to a place not located on the same continent as the place from where it was posted), or when actually received by the addressee if sooner than two (2) days or five (5) days, as the case may be, after it has been posted, or when actually tendered in person, to such shareholder (or to the Secretary or the Chief Executive Officer); provided, however, that notice may be sent by e-mail, facsimile or other electronic means and confirmed by registered mail as aforesaid, and such notice shall be deemed to have been given twenty-four (24) hours after such e-mail, facsimile or other electronic communication has been sent or when actually received by such shareholder (or by the Company), whichever is earlier. If a notice is, in fact, received by the addressee, it shall be deemed to have been duly served, when received, notwithstanding that it was defectively addressed or failed, in some respect, to comply with the provisions of this Article 73(a).

(b) All notices to be given to the shareholders shall, with respect to any share to which persons are jointly entitled, be given to whichever of such persons is named first in the Share Register, and any notice so given shall be sufficient notice to the holders of such share.

(c) Any shareholder whose address is not described in the Share Register, and who shall not have designated in writing an address for the receipt of notices, shall not be entitled to receive any notice from the Company.

WINDING UP

74. Winding Up

Subject to the rights of the holders of shares with special rights as to liquidation, if the Company be wound up on liquidation or dissolution, then, subject to applicable law, all the assets of the Company available for distribution among the shareholders shall be distributed to them in proportion to the respective percentage holdings of all of the Ordinary Shares (assuming for purposes of this calculation, the conversion of any other class of shares into Ordinary Shares).

(Face of Security)

THIS DEBENTURE AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS DEBENTURE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR QUALIFIED UNDER ANY STATE OR FOREIGN SECURITIES LAW, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT COVERING THIS DEBENTURE AND/OR SUCH SECURITIES, OR THE HOLDER RECEIVES AN OPINION OF COUNSEL FOR THE HOLDER OF THE DEBENTURE AND/OR SUCH SECURITIES SATISFACTORY TO THE COMPANY STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF THE SECURITIES ACT AND THE QUALIFICATION REQUIREMENTS UNDER APPLICABLE STATE OR FOREIGN LAW.

POINTER TELOCATION LTD.
Convertible Debenture (this "**Debenture**")
Due September 18, 2010

US\$ 1,921,668

Pointer Telocation Ltd., a company organized under the laws of the State of Israel, for value received promises to pay to:

Cellocator Ltd.

The principal sum of US\$ 1,921,668 (One Million Nine Hundred Twenty One Thousand Six Hundred Sixty Eight United States Dollars) (the "**Principal Amount**") on September 18, 2010 (the "**Maturity Date**").

Interest Rate: Annual Libor Rate to accrue as of the later of: (i) the date on which the Holder provided an irrevocable written notice to the Company that it does not wish to convert the Debenture into Ordinary Shares of the Company; or (ii) in the event that by June 18, 2010 the Holder did not provide the Company a notice of conversion of the Debenture. The interest shall accrue until actual date of repayment.

Dated: September 18, 2007
Pointer Telocation Ltd.
By: /s/ Daniel Stern, CEO
By: /s/ Zvi Fried, CFO

(Back of Security)

Pointer Telocation Ltd.
Convertible Debenture
Due September 18, 2010

1. Principal and Interest. Pointer Telocation Ltd., a company organized under the laws of the State of Israel (the "**Company**"), promises to pay the Principal Amount and the interest on the Principal Amount on the Maturity Date.

The interest at Annual Libor rate is to accrue as of the later of: (i) the date on which the Holder provided an irrevocable written notice to the Company that it does not wish to convert the Debenture into Ordinary Shares of the Company; or (ii) in the event that by June 18, 2010 the Holder did not provide the Company a notice of conversion of the Debenture (the "Interest").

2. Method of Payment. On the Maturity Date, the holder of this Debenture (the "**Holder**") must surrender this Debenture to the Company to collect the Principal Amount and the Interest. At the option of the Holder, the Company will pay amounts due hereunder either by means of a check mailed to the Holder's registered address from a post office located in Israel, or a transfer directly to a bank account of the Holder specified in writing to the Company. All payments shall be made in lawful money of the United States of America. Payment shall be credited first to the Interest then due and payable and the remainder applied to the Principal Amount. The Company may not prepay the principal amount and/or interest accrued thereon, in part or in whole

3. Debenture. This Debenture is an unsecured general obligation of the Company.

4. Conversion.

a. Conversion. The Holder may convert this Debenture into an aggregate of 160,000 Ordinary Shares of the Company, nominal value NIS 3.00 each, at any time as of December 18, 2008 (the "First Conversion Date") and no later than June 18, 2010.

Notwithstanding the above, the Holder shall be entitled to convert this Debenture prior to the First Conversion Date, immediately prior to the occurrence of any of the following events: (i) DBSI Investments Ltd. ("DBSI"), the controlling shareholder of the Company, shall sell its holdings in the Company in a sale that shall entitle the Holder to a tag along right, as detailed in the agreement between Cellocator Ltd., Matan Communication and Localization Systems Ltd., Amnon Dochovna Nave and DBSI dated July 16, 2007; (ii) a sale of all or substantially all of the assets of the Company; or (iii) acquisition of all or a majority of the issued share capital of the Company by a third party that is not DBSI.

b. Conversion Price; Interest. The conversion price per share will be US\$ 12.010425, subject to adjustment in certain events set forth below in Section 4.d. To determine the number of shares issuable upon conversion of this Debenture, divide the Principal Amount by the conversion price in effect on the conversion date. No fractional share shall be issued and the number of shares to be issued upon conversion of this Debenture shall be rounded up to the nearest whole share. No Interest shall accrue in the event of conversion.

c. Conversion Procedure. To convert this Debenture the Holder must: (1) complete and sign the conversion notice on the back of this Debenture; (2) surrender this Debenture to the Company; and (3) furnish appropriate endorsements and transfer documents if required by the Company. At its expense, the Company will, as soon as practicable thereafter, issue and deliver to such Holder, at such Holder's address set forth on the signature page hereto or such other address requested by such Holder, a certificate for the number of shares to which such Holder is entitled upon such conversion. The Company covenants that the shares issuable upon the conversion of this Debenture will, upon conversion of this Debenture in accordance with the terms hereof, be validly issued, fully paid and nonassessable and free from all liens, encumbrances, preemptive rights and charges in respect of the issue thereof, and will be duly registered in the share register of the Company.

d. Adjustment. The conversion price is subject to adjustment for the following: the issuance of capital stock of the Company as a dividend or as a distribution on the Ordinary Shares; subdivisions, combinations and reclassifications of the Ordinary Shares or other recapitalization of the Company.

5. Amendment, Supplement and Waiver. This Debenture may be amended or supplemented with the consent of the Holder, and any existing default or compliance with any provision may be waived with the consent of the Holder.

6. Default and Remedies. If any Event of Default occurs, then notwithstanding anything contained herein to the contrary, the Holder may declare this Debenture to be due and payable immediately without further action or notice. An Event of Default is: (a) default for thirty (30) days in payment when due of the Principal Amount and the Interest; or (b) any of the following events of bankruptcy or insolvency: (i) the insolvency of the Company, (ii) the commission of any act of liquidation, dissolution or bankruptcy by the Company, (iii) the execution by the Company of a general assignment for the benefit of creditors, (iv) the filing by or against the Company of any petition in bankruptcy or any petition for relief under the provisions of the bankruptcy laws or any other law for the relief of debtors and the continuation of such petition without dismissal for a period of sixty (60) days or more, (v) the appointment of a receiver or trustee to take possession of a substantial portion of the property or assets of the Company.

7. No Recourse against Others. A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under this Debenture or for any claim based on, in respect of or by reason of such obligations or their creation. The holder of a Debenture by accepting a Debenture waives and releases all such liability. The waiver and release are part of the consideration for the issue of this Debenture.

8. Collection Costs and Taxes. In the event of default by the Company (or its assignee) in the payment of the Principal Amount or Interest due on this Debenture, the Holder shall be entitled to receive and the Company (or its assignee) agrees to pay all reasonable costs of collection incurred by the Holder, including, without limitation, reasonable attorney's fees for consultation, suit and/or settlement.

9. Governing Law. This Debenture shall be solely and exclusively governed by and construed according to the laws of the State of Israel, without regard to the conflict of laws provisions thereof. Any dispute arising under or in relation to this Debenture shall be solely and exclusively resolved in the competent courts of the Tel Aviv-Jaffa district, and each of the parties hereby submits irrevocably to the jurisdiction of such court.

10. Lost Documents. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Debenture, and an indemnity agreement reasonably satisfactory to the Company (in case of loss, theft or destruction), or upon surrender and cancellation of such Debenture (in the case of mutilation), the Company will make and deliver in lieu of such Debenture a new debenture of like tenor and unpaid principal amount and dated as of the date to which interest has been paid on the unpaid principal amount of the Debenture in lieu of which such new Debenture is made and delivered.

11. Amendments and Waivers. Any term of this Debenture may be amended or waived only with the written consent of the Company and the Holder. Any waiver by the Company or the Holder of a breach of any provision of this Debenture shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Debenture. The failure of the Company or the Holder to insist upon strict adherence to any term of this Debenture on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Debenture.

12. Invalidity. If any provision of this Debenture is invalid, illegal or unenforceable, the balance of this Debenture shall remain in effect, and if any provision is inapplicable to any person or circumstance, it shall nevertheless remain applicable to all other persons and circumstances. In such an event, the parties will in good faith attempt to effect the business agreement represented by such invalidated term to the fullest extent permitted by law.

[Remainder of page intentionally left blank]

ASSIGNMENT FORM

To assign this Debenture fill in the form below:

I/We assign and transfer this Debenture to:

[_____]

(Insert assignee's Israel identity no., company no., social security no. and/or tax I.D. no.)

(Print or type assignee's name, address and zip code)

and irrevocably appoint:

agent to transfer this Debenture on the books of the Company. The agent may substitute another to act for him.

Your signature: _____

(Sign exactly as your name appears on the other side of this Debenture)

CONVERSION NOTICE

To convert this Debenture into Ordinary Shares of the Company, check the box:

To convert only part of this Debenture, state the amount:

US \$ _____

If you want the share certificate made out in another person's name, fill in the form below:

(Insert other person's Israeli identity no., company no., social security no. and/or tax I.D. no.)

(Print or type other person's name, address and zip code).

Date: _____



The following table sets forth a list of our subsidiaries.

Name of subsidiary	Jurisdiction of incorporation
Pointer Localizacion Y Asistencia S.A.	Argentina
Shagrir Motor Vehicle Systems Ltd.	Israel
Pointer S.A.	Mexico
S.C. Pointer S.R.L.	Romania
Cellocator Comercial S.A.	Brazil
Pointer Telocation Inc.	USA

CERTIFICATIONS

I, Danny Stern, certify that:

1. I have reviewed this annual report on Form 20-F of Pointer Telocation Ltd.;
 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
 3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this annual report;
 4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
-
-

5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

March 31, 2009

/S/ DANNY STERN

Danny Stern
Chief Executive Officer

CERTIFICATIONS

I, Zvi Fried, certify that:

1. I have reviewed this annual report on Form 20-F of Pointer Telocation Ltd.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this annual report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

March 31, 2009

/S/ ZVI FRIED

Zvi Fried
Chief Financial and Principal Accounting Officer

CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pointer Telocation Ltd. (the "Company") on Form 20-F for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Danny Stern, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. the Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ DANNY STERN

Danny Stern
Chief Executive Officer

March 31, 2009

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pointer Telocation, Ltd. (the "Company") on Form 20-F for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Zvi Fried, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. the Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Zvi Fried

Zvi Fried
Chief Financial and Principal Accounting Officer

March 31, 2009

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Consent of Independent Registered Public Accounting Firm

We consent to the reference to our firm under the caption "Experts" in the Registration Statement Form F-3 (No. 333-111019, 333-119998, 333-126257, 333-143399) and related Prospectus and on Form S-8 (No. 333-118897, 333-113420, 333-141306 and 333-139717) pertaining to the Employees' Stock Option Plan of Pointer Telocation Ltd. and to the incorporation by reference therein of our report dated March 31, 2009 with respect to the consolidated financial statements of Pointer Telocation Ltd. , included in its Annual Report (Form 20-F) for the year ended December 31, 2008, filed with the Securities and Exchange Commission.

/s/ Kost, Forer, Gabbay & Kasierer
Kost, Forer, Gabbay & Kasierer
A Member of Ernst & Young Global

Tel-Aviv, Israel
March 31, 2009

EXHIBIT 14.2

Grant Thornton Argentina
Av. Corrientes 327 piso 3°
C1043AAD - Buenos Aires
Argentina
T (54 11) 4105 0000
F (54 11) 4105 0100
E post@gtar.com.ar
www.gtar.com.ar

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 30, 2009, accompanying the financial statements of Pointer Localizacion y Asistencia S.A. included in the Annual Report of Pointer Telocation Ltd. on Form 20-F for the year ended December 31, 2008, filed with the Securities and Exchange Commission. We hereby consent to the incorporation by reference of said report and to the use of our name as it appears under the caption of "Experts" in the Registration Statement Form F-3 (No. 333-111019, 333-119998, 333-126257, 333-143399) of Pointer Telocation Ltd. and on Form S-8 (No. 333-118897, 333-113420, 333-141306 and 333-139717) pertaining to the Employees' Stock Option Plan of Pointer Telocation Ltd.

/s/ Grant Thornton Argentina S.C.

Buenos Aires, Argentina
March 30, 2009

[Salles Sainz Grant Thornton Letterhead]

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04500, Mexico, D.F.

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F +52 55 5424 6501
ravalos@sstg.com.mx

Consent of Independent Registered Public Accounting Firm

We consent to the reference to our firm under the caption "Experts" in the Registration Statement Form F-3 (No. 333-111019, 333-119998, 333-126257, 333-143399) and related Prospectus and on Form S-8 (No. 333-118897, 333-113420, 333-141306, 333-139717) pertaining to the Employees' Stock Option Plan of Pointer Telocation Ltd., and to the incorporation by reference of our report dated January 25, 2008, with respect to the financial statements of Pointer Recuperación de México, S.A de C.V, included in the Annual Report (Form 20-F) of Pointer Telocation Ltd., for the year ended December 31, 2008, filed with the Securities and Exchange Commission.

/s/ SALLES, SAINZ-GRANT THORNTON, S.C.
By: Rogelio Avalos, CPA - Partner

Mexico City, Mexico
March 29, 2009
