

Pointer Telocation Ltd
Form 20-F
March 30, 2011

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, 2010

Or

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

Or

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

Date of event requiring this shell company report

For the transition period from _____ to _____

Commission File number: 001-13128

POINTER TELOCATION LTD.
(Exact name of Registrant as specified in its charter)

N/A

ISRAEL

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(Translation of Registrant's name into English)

(Jurisdiction of incorporation or organization)

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

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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.

4,771,181 Ordinary Shares, NIS 3.00 nominal value per share

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

Yes No

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

Yes No

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

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

Yes No

Indicate by check mark whether the registrant 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 Other
the International Accounting Standards Board

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 Ltd. and its subsidiaries, unless otherwise indicated. The term "Pointer" means Pointer Telocation Ltd. excluding its subsidiaries and affiliates. We conduct our operations through two main segments. Through our Cellocator segment, we design, develop and produce leading mobile resource management products, including asset tracking, fleet management, and security products, for sale to third party operators providing mobile resource management services and to our Pointer segment. Through our Pointer segment, we act as an operator by bundling our products together with a range of services, including stolen vehicle tracking services, fleet management services, road-side assistance services and car sharing services for sale to insurance companies, fleets, and individual customers. For further information, please 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 the Company 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 3D—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 (US GAAP).

We derived the following selected consolidated financial data for each of the years ended December 31, 2010, 2009 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, 2007 and 2006 have been derived from audited financial statements not included in this annual report.

Selected Financial Data Under U.S. GAAP:

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)

	2010	2009	2008	2007	2006
Statement of Income Data:					
Revenues:					
Products	25,415	20,038	30,645	15,821	9,701
Services	48,448	45,287	46,010	35,806	32,211
Total Revenues	73,863	65,325	76,655	51,627	41,912
Cost of revenues:					
Products	14,175	10,774	16,392	9,414	5,602
Services	31,264	26,645	29,869	23,034	20,786
Amortization of intangible assets	978	976	980	277	-
Total Cost of Revenues	46,417	38,395	47,241	32,725	26,388
Gross profit	27,446	26,930	29,414	18,902	15,524
Operating Expenses:					
Research and development, net	2,532	2,817	2,511	1,675	1,170
Selling, general and administrative expenses	16,503	15,037	15,245	11,143	8,676
Amortization of stock based compensation	-	-	-	-	-
Amortization of intangible assets	1,774	1,942	2,365	1,841	2,112
Impairment of intangible asset	-	2,959	-	36	-
Other income, net	-	-	-	-	(1,292)
Total operating income	6,637	4,175	9,293	4,207	4,858
Financial expenses, net	1,976	2,070	4,054	2,814	2,577
Other income (expenses)	21	(16)	22	(12)	14
Income (loss) before tax on income	4,640	2,089	5,261	1,381	2,295
Taxes on income	1,524	887	640	353	82
Income (loss) after taxes on income	3,116	1,202	4,621	1,028	2,213
Equity in losses of affiliate	1,158	677	-	-	-
Net income	1,958	525	4,621	1,028	2,213
Net income attributable to non-controlling interest	828	2,632	2,248	1,366	1,044
Net income (loss) attributable to Pointer Telocation Ltd. Shareholders	1,130	(2,107)	2,373	(338)	1,169
Basic net earnings (loss) per share attributable to Pointer Telocation Ltd. shareholders	0.24	(0.44)	0.51	(0.08)	0.39
Diluted net earnings (loss) per share attributable to Pointer Telocation Ltd. shareholders	0.22	(0.47)	0.50	(0.08)	0.31
Basic weighted average number of shares outstanding (in thousands)	4,768	4,753	4,679	4,271	2,983
	4,834	4,753	4,679	4,310	3,003

Diluted weighted average number of shares
outstanding (in thousands)

Balance Sheet Data:

Total assets	103,430	96,973	102,599	100,236	76,399
Net assets (liabilities) of continuing operations	36,868	33,809	35,815	32,203	19,430
Working capital (deficit)	(15,093)	(12,206)	(7,867)	(15,327)	(10,874)
Shareholders' equity	43,646	41,479	41,187	35,270	20,752
Pointer Telocation Ltd. shareholders	36,868	33,809	35,815	32,203	19,430
Non controlling interest	6,778	7,670	5,372	3,067	1,142
Share capital	3,280	3,266	3,266	3,139	2,140
Additional paid-in capital	118,512	118,348	118,015	116,910	103,880

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:

Year Ended December 31,

	2010	2009	2008
Revenues			
Products	34	31	40
Services	66	69	60
Total Revenues	100	100	100
Cost of Revenues:			
Products	19	16	21
Services	43	41	39
Amortization of intangible	1	1	1
Total Cost of Revenues	63	58	62
Gross profit	37	42	38
Operating Expenses:			
Research and development costs, net	3	4	3
Selling, general and administrative expenses	22	23	20
Total operating Expenses	25	27	23
Amortization of intangible assets and Impairment of long lived assets	2	8	3
Other income, net		-	-
Operating income (loss)	9	7	12
Financial expenses	3	3	5
Other income (expenses)	-	-	-
Income (loss) before tax on income	6	3	7
Taxes on income	2	1	1
Income (loss) after tax	4	2	6
Equity in losses of affiliate	1	1	-
Net income attributable to non-controlling interest	1	4	3
Net income (loss) attributable to Pointer Telocation Ltd. Shareholders)	2	(3) 3

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

We conduct our operations through two main segments. Through our Cellocator segment, we design, develop and produce leading mobile resource management products, that include asset tracking, fleet management and security products for sale to third party operators providing mobile resource management services world-wide, and to our Pointer segment. Through our Pointer segment, we act as an operator primarily in Israel, Argentina, Mexico and Brazil by bundling our products together with a range of services, including stolen vehicle retrieval services and fleet management services, provide road-side assistance services and car sharing services in Israel, and road-side assistance services in Romania for sale to insurance companies, car fleets, and individual customers.

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.

Risk Factors relating to our Cellocator Segment

Manufacturing of products by our Cellocator segment is highly complex, and an interruption by suppliers, subcontractors or vendors could adversely affect our business, financial condition or results of operations.

The products that we market, distribute and sell through our Cellocator segment are either manufactured or assembled at our own facility in Israel or, in certain cases, manufactured through supply agreements with third party subcontractors in Israel and abroad. During 2010, we commenced a transitioning of elements of the manufacturing and assembling process to third party sub-contractors abroad. As a result, control over the manufacturing process has been reduced to some degree and our dependence on third party manufacturers and producers has increased. Consequently, should this transitioning continue, the number of factors over which we have only limited control will increase, which may have an adverse affect our future production and supply capabilities. Additionally, many of our products are the result of complex manufacturing processes, and are sometimes dependent on components 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.

The growth of our business depends on the success of our products

Our growth depends on the continued success of our 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 resources in development than we originally intended, marketing can be longer than expected and there is no assurance of successful development or increased returns from a potential market, which 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 the complex products of our Cellocator segment entail substantial risks of product defects or failures. Despite testing by us and our customers, errors may be found in existing or future products, resulting in delay or loss of revenues, warranty expense, loss of market share or failure to achieve market acceptance, severe damage to our reputation or any other adverse effect on our business, financial condition and results of operations. Moreover, the complexities involved in implementing our products entail additional risks of performance failures. Any such occurrence could have a material adverse effect upon our business, financial condition and results of operations.

We rely on operators to market and deliver the products of our Cellocator segment.

Our revenues from consecutive end unit sales, future system upgrades, future infrastructure extensions and other sources, where applicable, are from countries in which third party operators, as well as the Pointer segment acting as an operator, conduct stolen vehicle recovery and fleet management services and are therefore dependent on their penetration rate and successful sale growth as well as the operators' continuous success and their continuous decision to offer these 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.

Our Cellocator segment relies on limited suppliers to manufacture devices for our stolen vehicle retrieval and fleet management systems (also referred to as Mobile Resource Management Solutions).

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 components for the devices in our Cellocator products are manufactured for us by independent manufacturers abroad. Surface mounting on printed circuit boards is performed by two sub-contractors. Assembly is performed by us and by a subcontractor located in Israel. During 2010 we commenced manufacturing by a sub-contractor located in Taiwan. 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. In addition, relying on third-party suppliers requires us to maintain solid relationships to ensure that they continue to work with us. Since we do not own these third party suppliers, we have little or no control over their methods of operation. Should we fail to maintain relationships with these third party suppliers, our business would be adversely affected.

We are subject to several risks as a result of obsolescence of product components.

Although we believe that most of the components of our systems may be readily acquired from numerous suppliers, a number of the components are, or are likely to become in the near term, obsolete. We cannot ensure the accessibility of substitute parts for such components. Consequently, where components become obsolete we will need to choose between entirely replacing products which contain obsolete parts or modifying existing products in a manner which will facilitate the incorporation of non-obsolete components. Both alternatives will require additional expenditure and reliance on third party manufacturers, and a failure to properly manage these additional costs and requirements could adversely affect our business.

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

Systems based on our products are currently installed worldwide, with the majority of our products sold 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 operations of our Cellocator segment could be negatively impacted. In some of our international operations, we 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;
 - regulation requirements;
- greater difficulty in safeguarding intellectual property; and

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

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 that provide fleet management and stolen vehicle recovery services and the competition is with respect to different aspects such as price, performance parameters, etc.

Should any of our competitors successfully provide a broader range of products, with competitive pricing, our business results could be materially adversely affected. While we plan to continue improving our technology and products, and maintain our marketing efforts, we cannot guarantee that we will increase or maintain our customer base.

We may be unable to adequately protect our proprietary rights, which may limit our ability to compete effectively in the markets in which we operate.

Our success and our ability to compete in sales of products by our Cellocator segment 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 due to the following factors:

- the laws of certain foreign countries may not protect our proprietary rights to the extent that it is protected by 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.

Risk Factors relating to our Pointer Segment

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

We face intense competition in the all the markets in which we offer our services.

Should any of our competitors successfully provide a broader, more efficient or attractive combination of services to insurance companies, automobile owners and fleets, our business results could be materially adversely affected. For more information on our competitors, see Item 4B - Competition.

Our prospects for growth in the mobile resource management services market in Israel, Argentina, Brazil, and Mexico may be limited.

Due to the significant penetration of mobile resource management services, or MRM, such as stolen vehicle retrieval services, asset-tracking services and fleet management services, as well as the moderate overall growth of these markets in Israel, Romania, Argentina, Brazil and Mexico, we anticipate that revenues from sales of our stolen vehicle retrieval services and mobile resource management services will not increase significantly in Israel, Romania, Argentina, Brazil and Mexico, which could adversely affect our prospects for growth in such markets.

We rely on third party operators to provide our services in certain countries

In countries in which our subsidiaries conduct activities, we rely on subcontractors and police forces to provide our stolen vehicle retrieval services. This requires us to maintain solid 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 third party operators, we have little or no control over their effectiveness or methods of operation. 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.

In offering our services, we use fixed price contracts with our customers.

Our road-side services in Israel are offered at annually or monthly fixed price contracts, according to which we are generally 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 labor costs or other variable costs, our fixed price contracts may not adequately cover our future outlays. Additionally, the frequency by which subscribers 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.

Most of the stolen vehicle retrieval services and fleet management services provided by our Pointer segment are offered at monthly fixed price contracts, according to which we are paid a fixed price by our customers who subscribe to receive our services. Should operational expenses rise due to factors such as a rise in the price of 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 components or labor costs, our fixed price contracts may not adequately cover our future outlays.

General Risk Factors Relating to Our Company

Pointer Telocation Ltd. shareholders have a history of losses.

With the exception of the years 2010, 2008, 2006 and 2003, Pointer Telocation Ltd. shareholders incurred a loss in each year of the Company's existence. Net income attributable to Pointer Telocation Ltd. shareholders was \$1.1 million in 2010, resulting from activities in the ordinary course of business. While we were profitable in 2010, we cannot guarantee that we will continue to be profitable in the foreseeable future, given the markets in which we operate. As a part of our strategy, we are focusing on the development of new businesses, products, technology 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 Pointer Telocation Ltd. shareholders may continue to sustain prolonged losses or losses from continuing operations, 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 in 2010 was 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, while there has been a certain upturn in the worldwide automotive industry, this sector is cyclical in nature and difficult to predict. . 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 current uncertainty in the general economy and the automotive industries sector does not change 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 products and services.

Our stolen vehicle retrieval and mobile resource management products 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 stolen vehicle retrieval and mobile resource management products, and, consequentially, reduce the market for stolen vehicle retrieval services and mobile resource management services which utilize our products. 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 Cellocator segment and Pointer segment operate could result in reduced demand for our products and services.

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 as a whole and specifically GPRS 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 HSPA, LTE, 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 and services 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 and services, which will effectively compete with new systems available in the market. Our business will be negatively impacted if we do not introduce or develop technologically competitive products and services that respond to customer needs and are priced competitively.

We depend on a small number of customers.

Following our acquisition of the activities of Shagrir Towing Services, the customers which account for a significant part of the revenues of Shagrir Systems Ltd., or Shagrir, 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 well as Argentine insurance companies which require their customers to obtain stolen vehicle retrieval services as part of their vehicle insurance policy packages. Although in 2010 none of our customers comprised over 10% of our total 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.

The use of our products is subject to international regulations.

The use of our products is subject to regulatory approvals of government agencies in each of the countries in which our systems are operated by our Pointer segment or by other operators, including the State of Israel. Our operators typically must obtain authorization from each country in which our systems and products are installed. While, in general, operators 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 and our Pointer segment have obtained will remain sufficient in the view of regulatory authorities. In addition, we cannot assure you that operators of our systems and products will obtain licenses and approvals on a timely basis in all jurisdictions in which we wish to sell our systems or that restrictions on the use of our systems will not be unduly burdensome.

Our 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. We have registered for resale securities issued and issuable in connection with such investments in our securities (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). Additionally, on June 7, 2010 our registration statement on Form F-3 was declared effective pursuant to which, we may sell from time to time, any combination of securities, as described in the prospectus, in one or more offerings up to a total of \$25,000,000 or the equivalent denominated in foreign currencies or foreign currency units.

As a result of the registration statements that we currently have outstanding and are currently filing, many or all of our investors who 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. 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.

Pointer, Shagrir and Pointer do Brazil Commercial S.A have significant loans from Banks and others which they are required to repay in accordance with strict schedules that they may not be able to meet or that limit our operating and financial flexibility.

During 2009 and 2010 Pointer do Brazil Commercial S.A, entered into a loan agreements for the aggregate amount of \$ 280,000 with Bank Bradesco S.A. and HSBC Bank, or the Banks in order to finance its operations. Should Pointer do Brazil Commercial S.A fail to repay the loans in accordance with the repayment schedule pertaining to the loan or if the Banks refuse to amend the relevant repayment schedule, the Banks may realize certain liens that were created in their favor, which in turn may have a material adverse affect on Pointer do Brazil S.A's financial condition. As of December 31, 2010 the amount outstanding under the loans is approximately \$214,000.

As of December 31, 2010, Shagrir has in the aggregate approximately \$20.6 million in outstanding loans to Bank Hapoalim. Despite the fact that Shagrir is cash positive, should Shagrir fail to repay the loans in accordance with the repayment schedule pertaining to each loan or should Bank Hapoalim refuse to amend the relevant repayment schedule, Bank Hapoalim 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.

As of December 31, 2010, Pointer has in the aggregate approximately \$3 million in outstanding loans to Bank Hapoalim, unutilized credit facilities of \$2.1 million. While Pointer is expected to remain cash-positive, should Pointer fail to repay the loans in accordance with the repayment schedule pertaining to each loan or if Bank Hapoalim refuses to amend the relevant repayment schedule, Bank Hapoalim may realize certain liens that were created in its favor, which in turn may have a material adverse affect on Pointer's financial condition.

In January 2008 Pointer entered into credit facilities for the aggregate amount of \$1.1 million with Israel Discount Bank B.M., in order to finance its working capital. As of December 31, 2010, none of these credit facilities were utilized.

As part of Cellocator acquisition Pointer issued a non-tradable debenture with a fair value of \$ 1,951,000 convertible into 160,000 of the company ordinary shares. The debenture bears interest of annual LIBOR rate to be accrued until the date of repayment. On September 18, 2010 we paid \$951,000 out of the principal of the non-tradable debenture plus accrued interest. A new debenture was entered into with MSY Assets Ltd., a company affiliated with the seller, for the remaining \$1 million, plus interest at a rate of 4.4% per annum, to be paid in September 18, 2011. As of December 31, 2010 the debenture balance was \$ 1,013,000.

The credit facilities and loans described above contain a number of restrictive covenants that limit the operating and financial flexibility of Pointer and Shagrir. Please see Notes 10c and 10d to our consolidated financial statements for further information. The covenants are required to be met on an annual basis. Failure to comply with any of the covenants could lead to an event of default under the agreements governing some or all of the credit facilities and loans, permitting the applicable lender to accelerate all borrowings. As of December 31, 2010, Pointer and Shagrir were in compliance with the restrictive financial covenants.

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 the loans described above, please see Item 5 – Liquidity and Capital Resources and Item 10 – Material Contracts.

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

Our balance sheet contains a significant amount of goodwill and other amortizable intangible assets in long-term assets, totaling about \$60.4 million at December 31, 2010.

While no impairment losses were identified in 2010, in 2009 we amortized \$3 million of customer related intangible assets attributable to our acquisition of Cellocator due to the decrease in activity of former customers of Cellocator as a result of the worldwide economic downturn. We test goodwill for impairment at least annually and potentially more frequently in the event that indicators for potential impairment exist. We review our finite-lived intangible assets for impairment when events or changes in circumstances indicate their carrying value may not be recoverable. 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 nature of the current worldwide economic instability and the potential impact of this 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 subsidiary, Pointer Localizacion Y Asistencia S.A., or Pointer Argentina, 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, customs duties and levies 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. Additionally, due to agreements with the General Workers' Union in Argentina and the country's high inflation rate, we may be required to increase employee salaries at a rate which could adversely affect Pointer Argentina'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(a) of the United States Sarbanes–Oxley Act of 2002, adopted rules requiring public companies to include a management report assessing the Company’s effectiveness of internal control over financial reporting in its annual report on Form 20–F. Our management may conclude that our internal controls over financial reporting are not effective. Such a conclusion 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.

If it is determined 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.

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 ability to retain skilled professional and technical personnel and to attract additional qualified personnel in the future. The competition for such personnel is intense. We may not be able to retain our present personnel, or recruit additional qualified personnel, and our failure to do so would have a material adverse effect on our business, financial condition and results of operations.

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 the Company since March 2003, and the exercise of certain warrants, DBSI Investments Ltd., or DBSI, currently owns approximately 37% of our issued and outstanding shares, or 32.1% 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, and subject to the provisions of the Israeli Companies Law. 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 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. 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). 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, 2011 to February 28, 2011 was 1,038 shares on the NASDAQ Capital Market and 1,304 shares on the TASE. The high and low bid price of our ordinary shares from January 1, 2011 to February 28, 2011 has been 6.25 and 5.65 respectively on the NASDAQ Capital Market and between NIS 23.23 (approximately \$6.42) and NIS 20.42 (approximately \$ 5.64) 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. The trading prices of our ordinary shares on these two markets are expected to often differ, as a result of the factors described above and 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 controversies and new legislation in the United States could increase the cost of our operations.

As a result of corporate governance controversies in the United States and the legislative and litigation environment resulting from those controversies, 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, Military and Economic Conditions in Israel affect our operations.

We are incorporated under the laws of the State of Israel. Our headquarters, the headquarters of Shagrir and the Cellocator segment, are located in Israel, as well as the majority of the business activities of Shagrir and the manufacturing operations of our Cellocator segment, which account for the majority of our revenues. Consequentially, we are directly affected by the political, military and economic conditions affecting Israel.

Since the establishment of the State of Israel in 1948, a state of hostility has existed between Israel and the Arab countries in the region. This state of hostility has varied in degree and intensity over time. Although Israel has entered into peace treaties with Egypt and Jordan, and various agreements with the Palestinian Authority, there has been a marked increase in violence, civil unrest and hostility, including armed clashes, between the State of Israel and the Palestinians, since September 2000. The establishment in 2006 of a government in the Gaza Strip by representatives of the Hamas militant group has created heightened unrest and uncertainty in the region. In mid-2006, Israel engaged in an armed conflict with Hezbollah, a Shiite Islamist militia group based in Lebanon, and in June 2007, there was an escalation in violence in the Gaza Strip. From December 2008 through January 2009, Israel engaged in an armed conflict with Hamas, which involved missile strikes against civilian targets in various parts of Israel and negatively affected business conditions in Israel. As of February 2011, Egypt is going through a political turbulence, following the resignation of Hosni Mubarak as president, due to ongoing protests throughout Egypt, and the appointment of a military regime in his stead may damage the current peaceful and diplomatic relations between Israel and Egypt, which would affect the region as a whole. The continued political instability in Egypt and the Middle-East as a whole, and hostilities between Israel and its neighbors and any future armed conflict, terrorist activity or political instability in the region could adversely affect our operations in Israel and adversely affect the market price of our ordinary shares. Additionally, the political and security situation in Israel may result in parties with whom we have contracts claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions.

Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could adversely affect our operations and could make it more difficult for us to raise capital. 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.

Any downturn in the Israeli economy may have a significant impact on our business. 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. The revenues of Shagrir 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. In addition, our stolen vehicle retrieval services significantly depend 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.

Many of our employees in Israel are required to perform military reserve duty.

All non-exempt male adult permanent residents of Israel 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.

Exchange rates between the NIS and the U.S. Dollar have fluctuated continuously in recent years. 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, 2007, 2008 and 2009 the NIS appreciated in value in relation to the Dollar by 7.6%, 1.6%, 8.2%, 9%, 1.1% and 0.7%, respectively. In 2010 the rate of the revaluation of the NIS against the Dollar was 6% while the fluctuation during 2010 was between 6% revaluation and 3.2% devaluation. As of December 31, 2010, our revenues in NIS accounted for approximately 71% of our total revenues in 2010. Loans and utilized credit facilities in the amount of approximately \$20.8 million, constituting approximately 81% out of our total loans and credit facilities, are also denominated in NIS. Approximately 77% of our expenses (primarily labor expenses of the operations of our Cellocator segment and Shagrir in Israel) are incurred in NIS. Additionally, certain assets, as well as a portion of our liabilities are denominated in NIS. On the other hand, as of December 31, 2010, our sales, including sales of the products of our Cellocator segment, are generally denominated in U.S. Dollars and to a lesser extent in Euro, Argentinean Pesos and Mexican Pesos. Loans and credit facilities in the amount of approximately \$4.7 million, constituting approximately 18% out of our total loans and credit facilities, are denominated in U.S. Dollars.

Our results may be adversely affected by the devaluation of the NIS in relation to the U.S. 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 2010 we entered into a foreign currency hedging transaction to partially manage the risk related to salary expenses in 2010 and 2011. 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.

There can be no assurance that we will not incur losses from such fluctuations in the future.

For further discussion of the fluctuation of the U.S. Dollar to the NIS, please 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.

We may be adversely affected by a change of the Israeli and Argentine 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, 2010, we had outstanding loans in the amount of \$5.5 million linked to Israeli CPI. 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 US 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.

By administrative order, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations, relating primarily to the length of the work day, minimum wages, pension contributions, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment are applicable to our employees. In accordance with these provisions, the salaries of our employees are partially indexed to the Israeli CPI. In the event that inflation in Israel will increase, we will have to increase the salaries of our employees in Israel respectively. As of December 31, 2010, we did not increase the salaries of our employees in Israel due to an increase in inflation. In Argentina, we are facing a similar situation, and accordingly, in 2010, due to an increase in inflation, we increased the salaries of some of our employees. There can be no assurance that we will not be adversely affected by such increase in salaries in the future.

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.

In addition to our company's principal place of business as described above, the headquarters of our subsidiary Shagrir are located in Holon, Israel; the headquarters of our subsidiary Pointer Localization Y Asistencia, or Pointer Argentina are located in Buenos Aires, Argentina; the headquarters of our subsidiary Pointer Recuperacion de Mexico, SA de CV, or Pointer Mexico are located in Mexico City, Mexico; the headquarters of our subsidiary Pointer do Brazil Commercial S.A or Pointer Brazil are located in Sao Paulo, Brazil; the headquarters of our subsidiary S.C. Pointer S.R.L., or Pointer Romania, are located in Bucharest, Romania and the headquarters of our subsidiaries Car2Go and Rider, are located in Tel Aviv, Israel.

We are a leading provider of advanced command and control technologies for the automotive and insurance industries.

Until 2003, our business focused primarily on the development, manufacture and sale of stolen vehicle retrieval devices based on radio frequency and sale of software for command and control centers. In April 2003, our management decided to strategically focus on providing a range of additional services to automobile owners and insurance companies.

This strategy was implemented in the following years through several acquisitions in Israel and Argentina, and the establishment of subsidiaries and affiliates in Mexico, Romania and Brazil.

In April 2004, we purchased all of the outstanding and issued share capital of Shagrir (previously known as Pointer (Eden Telecom Group) Ltd.) not already held by us. At the time of the purchase, 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.

In February 2005, Shagrir purchased the assets and activities of Shagrir Towing Services, or Shagrir Towing, an Israeli company which provided road-side assistance and towing services in Israel. In order to finance Shagrir's acquisition of Shagrir Towing, Shagrir received loans from several investors, including a convertible loan from a group of investors led by Gandy Investments Ltd., or Gandy. In November 2005, the group of investors led by Gandy exercised their options to convert their loan into 43.44% of the share capital of Shagrir. As a result, our holdings in Shagrir were reduced and we currently hold approximately 56.56% of the issued and outstanding share capital of Shagrir.

In June 2004, we incorporated a Mexican company, Pointer Mexico, to serve as our local Mexican operator and service provider, and, as part of our Pointer segment, to provide stolen vehicle retrieval and fleet management services for vehicle owners using a communication network based on our technology. We currently hold 74% of the issued share capital of Pointer Mexico. In July 2009, Pointer Mexico commenced to sell the products of our Cellocator segment in Mexico as a local distributor, which became a substantial part of Pointer Mexico's revenues.

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, Pointer's ordinary shares began trading on the NASDAQ Capital Market under the symbol NXUS. On February 21, 2006 our shares began trading under a new symbol, PNTR.

On December 19, 2006, Pointer's 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. Please see Item 9 – The Offer and Listing for further information about the trading of our ordinary shares.

In 2001, the Company purchased shares in Pointer Argentina (previously known as Traesat S.A.), a corporation incorporated in Argentina. The Company currently holds 88% of the shares in Pointer Argentina.

In September 2007, we purchased the assets and activities of Cellocator Ltd., 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 from the seller 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. On September 18, 2010 we paid \$951,000 out of the principal amount of the non-tradable debenture plus accrued interest. A new debenture was entered into with MSY Assets Ltd., a company affiliated with the seller, for the remaining \$1 million, plus interest at a rate of 4.4% per annum, to be paid on September 18, 2011. As of December 31, 2010, the debenture balance was \$ 1,013,000. 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.

In July 2008, Shagrir, together with a Romanian third party, incorporated a Romanian company, Pointer Romania, to provide road-side assistance and towing services in Romania. As of December 31, 2010, Shagrir holds 50% of the issued share capital of Pointer Romania, and rest is held by third party Romanian shareholders. Shagrir has a right to acquire an additional 1% of the share capital of Pointer Romania from the Romanian shareholders. In addition, on July 11, 2008 Pointer Romania signed an agreement to provide roadside assistance services in Romania to a large Romanian-based petrol company, which in turn will offer the services to its customers, starting October 1, 2008 for over a period of two years. Currently, the Romanian-based petrol company fails to comply with the agreement, and in November 2009 Pointer Romania commenced legal proceedings against the Romanian-based petrol company in the court of Romania to enforce the agreement. The proceedings are currently on-going.

In August 2008 we incorporated a company in Brazil by the name of Cellocator Commercial S.A., which was later renamed Pointer do Brazil Commercial S.A. As of December 31, 2010, we hold 48% of the share capital of Pointer Brazil with an option to acquire additional 4%.

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

On May 17, 2009 Shagrir purchased 51% of the share capital of Car2go Ltd., or Car2go, an Israeli company that offers car sharing services in urban areas in Israel. As part of the terms of the acquisition, Shagrir provided Car2go with a loan in the amount of up to \$1.5 million (consisting of \$241,000 in cash and \$1.2 million in services). The loan was provided during 2010. The loan is linked to the Israeli CPI and bears an interest of 4%. Car2go will repay the loan in quarterly installments commencing on May 15, 2013. Please see Item 4- Business Overview for further information on the activities of Car2go.

As a result of the Company's acquisition of Cellocator and following a determination by the Company's management to control and manage the results of the Company's business by means of two operating segments, in 2008 the Company began to present its operating results in two discrete business units, the Cellocator segment and the Pointer segment. Our Cellocator segment designs, develops and produces leading mobile resource management products that include asset tracking, fleet management and security products for sale to independent operators in 30 countries, as well as to our Pointer segment. Our Pointer segment acts as an operator primarily in Israel, Argentina, Mexico, and Brazil by bundling our products together with a range of services, including stolen vehicle retrieval services fleet management and asset tracking services, and also provide road-side assistance services in Israel and Romania for sale primarily to automotive and insurance companies. See Item 4.B – Business Overview for a further description of our business segments.

Following the acquisitions we made in Israel, the operations of Shagrir as part of our Pointer segment and the technology manufacturing of our Cellocator segment 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. Please see Item 5.B. – Operating and Financial Review and Prospects – Liquidity and Capital Resources for a discussion of our capital expenditures and divestitures.

Recent Developments.

Since January 1, 2010, the following material events have occurred:

Partial Purchase of Rider

Pursuant to an agreement dated June 28, 2010, Shagrir together with Nativ Nehorai Ltd. and Tishim veTeisha (99) Yizum veNihul Ltd., incorporated a joint venture, Rider Mekvuzat Shagrir Ltd or Rider, which is intended to provide Israeli insurance companies with various products and services which can be offered to their policy holders. Pursuant to the terms of the transaction Shagrir holds 67% of the issued share capital of Rider. Additionally, under the agreement Shagrir agreed to provide a loan facility to Rider of up to approximately \$4.15 million which will be drawn upon from time to time upon a decision of Rider's board of directors. As of March 30, 2011, Rider has drawn down approximately \$690,000 under the facility.

Following the approval of Rider's quarterly financials for the period ending June 30 2012, Shagrir will be entitled to make an offer to Nativ to purchase all of its shares in Rider, and should Nativ reject the offer it will be required to purchase all of Shagrir's shares in Rider upon the same terms.

Termination of Amnon Duchovne

On September 17, 2010, Mr. Amnon Duchovne terminated his service with our company. Mr. Duchovne had served as our Chief Technology Officer since 2008.

Completion of Term of Director

On October 13, 2010, the one-year term of Ms. Noga Knaz as a member of our board of directors was completed. Ms. Noga Knaz' appointment was not renewed.

Appointment of Director

On October 13, 2010 our shareholders elected Ms. Alicia Rotbard was appointed as a member of our board of directors.

Appointment of the Chief Executive Officer

In January 2011, we announced the appointment of Mr. David Mahlab, as our Chief Executive Officer effective as of February 1, 2011. Under the terms of his employment, Mr. Mahlab was granted 246,984 options at an exercise price of \$7.00, in accordance with our 2003 option plan, which will vest (subject to his continued employment) over a three year period commencing upon the effective date of his employment. Unless terminated for cause, we may only terminate Mr. Mahlab's employment by advance notice of between 6 - 12 months depending on the length of Mr. Mahlab's engagement at the time of his termination. Mr. Mahlab may terminate his employment upon 30 days notice. Mr. Mahlab will also be entitled to an annual performance bonus of up to one year's salary which will be calculated in accordance with certain fixed criteria relating to our growth and profitability in the year preceding payment of the bonus.

B. BUSINESS OVERVIEW

A. General

We are a leading provider of mobile resource management, or MRM products and services for the automotive and insurance industries. Through our Cellocator segment, we design, develop and produce leading MRM products, which include devices for asset tracking, fleet management and security products for sale to third party operators providing MRM services in Europe, Latin America, Asia and Israel, as well as to our Pointer segment. For the communication systems required in our products, we utilize either radio frequency or GPRS/GSM technologies. Through our Pointer segment, we act as an operator primarily in Israel, Argentina, Mexico, Brazil and Romania by bundling our products together with a range of services including stolen vehicle retrieval services and fleet management services, and also provide road-side assistance services for sale to insurance companies, fleets and individual customers. In 2010, revenues generated by our Cellocator segment represented 21% of our total revenues, and revenues generated by our Pointer segment represented 79% of our total revenues

Cellocator Segment

Our Cellocator segment designs, develops and produces leading MRM products, including asset tracking, fleet management, and stolen vehicle retrieval products. Communications with our devices may be with various Radio Frequency (RF) and GSM/GPRS methods. Our Cellocator segment develops, manufactures and distributes these products to our Pointer segment and to third party operators in Europe, Latin America, Asia and Israel. These operators bundle our products with the services they provide.

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

- (i) Asset Tracking Products

Our line of asset tracking products is designed to reduce an enterprise's financial losses incurred as a result of the often difficult task of successfully tracking cargo or equipment such as trailers, containers, construction and agriculture equipment. Our products support tracking, communication, and maintenance capabilities, providing enhanced functionality for advanced asset tracking of both mobile assets and assets without a constant power supply.

(ii) Stolen vehicle retrieval ("SVR") products

Our SVR products are designed to prevent vehicles from being stolen and enable their retrieval in co-operation with law enforcement and private security agencies. Our products incorporate either a spread spectrum technology (SPSP) in the ISM frequency band, intended for self-deployed wide area networks (WAN) or Cellular/ GPS technology communication systems in order to offer a total remote vehicle monitoring and retrieval solution.

In the event that a vehicle is stolen, our operators are either alerted by our products through sensors located in the vehicle, or informed by the owners of the vehicles. The products transmit information to a command & control center ("CCC"). Once the CCC receives the information transmitted by the products, operators can take the necessary steps to recover the vehicle using their personnel as well as law enforcement agencies and various subcontractors. Our SVR products can also include the option of a "distress key" that can be used by the driver to alert the CCC, which in turn locates the vehicle and immediately enables operators to provide the required services.

Our SVR products include the following remote monitoring and control solutions:

- End Units for installation in vehicles - we offer an end unit with inputs and outputs capabilities, which may be installed in a vehicle or on any asset that may be mobilized from one location to another. The end-unit's inputs are connected to sensors that may be installed in the vehicle or on the asset. Data from these inputs may be transmitted to the CCC. CCC may send commands to the end unit activating outputs. Installation and de-installation of end units in vehicles or on assets may be performed by either employees or subcontractors of the operator, usually in designated installation centers. Assets may be defined as cargo or equipment that might not have an independent source of energy such as (but not limited to) containers, field equipment, construction equipment, trailers and various cargo.
- Command & Control Center - the CCC includes databases and software modules required for the execution of operations by the operator, as well as monitors on which the data collected from the end units is displayed and analyzed in order to determine the location of the vehicle. The CCC connects to the end-units via radio frequency or cellular communications and commands can be transmitted to the end units from the CCC using either a commercial paging system or cellular networks.
- 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 receives the end-unit's signal and measures 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 CCC. The location of the vehicle is established by either triangulation measurements from several base stations installed by the operator or by means of GPS device in the vehicle.

(iii) Fleet Management Application Products

Our fleet management products enhance utilization of vehicles and other mobile resources, as well as minimize operation costs, through fuel savings and efficiency. Our fleet management products include remote monitoring and control solutions that we also market as part of our SVR product line as described above, such as the CCC and communication infrastructure. We also provide operators with end units that, when installed in a vehicle, monitor online the operating parameters of a vehicle fleet, 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, and report the results to the owners and managers of the fleet through web-based or OS-based monitoring and management location applications.

In addition, we provide the web access required for the execution of vehicular and fleet management operations, as well as 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 driving patterns such as speed).

Our Cellocator segment distributes and sells its products to our services segment and to third party operators and distributors in 30 countries worldwide. Third party operators that purchase cellular monitoring units, command and control software or our fleet management application products provide their customers services that are based on our products in their designated territories and in their licensed coverage area. They control the sales and marketing of the products as well as the accompanying services to their final customers pursuant to their specific business focus.

Pointer Segment

Our Pointer segment currently provides the following range of services:

(i) Asset Tracking Services

Our asset tracking services in Israel, Argentina, Mexico and Brazil provide services to resources that have an intermittent source of energy or none. This places a special energy management requirement on MRM devices and the command and control software that monitors the resources.

(ii) Stolen vehicle retrieval ("SVR") services

We provide SVR services in Israel, Argentina Mexico and Brazil through our local subsidiaries Shagrir, Pointer Argentina, Pointer Mexico and Pointer Brazil respectively. In providing SVR services we purchase products manufactured by our Cellocator segment and by third party operators, such as alarm systems.

(iii) Fleet management services

Our fleet management services in Israel, Argentina, Mexico and Brazil are predominantly based on cellular communication, GPS location tools and web-based applications providing connectivity to the vehicle via products manufactured by our Cellocator segment. Our customers monitor their fleet vehicles using a web-based application that can monitor various parameters such as (but not limited) vehicle's location, speed and other inputs, and receive reports and alerts, either automatically or upon request, via internet, GPRS or SMS.

Shagrir and Pointer Mexico are amongst the leading providers of fleet management services in Israel and Mexico, respectively.

(iv) Road-side Assistance Services

We also provide road- side assistance services including towing services, mobile automobile repair services, vehicle replacement services, selling and installing spare-parts and connecting subscribers to other service providers. We provide these services through our subsidiary Shagrir, which currently operates in Israel and Romania.

As of January 2011, Shagrir owned approximately 101 service cars, mobile garages and towing vehicles and approximately 222 replacement vehicles including car sharing services. Shagrir's fleet is dispatched to the vehicle that requires assistance through a sophisticated management and monitoring software application used by Shagrir's control center and connected via remote terminals located in service cars, mobile garages and towing vehicles. The services are usually carried out by employees of Shagrir; however, during periods of high demand, Shagrir uses independent subcontractors who render these services on behalf of Shagrir.

The primary subscribers for our Road-side Assistance services are referred to Shagrir by Israeli insurance companies. To a lesser extent, additional subscribers are comprised of fleet vehicle customers and private customers. Upon subscription, our Road-side Assistance services are generally available to the subscriber twenty-four hours a day, every day, depending on the type of insurance policy and the terms of the service contract with Shagrir.

(v) Car Sharing Services

On May 17, 2009 Shagrir purchased 51% of the share capital of Car2go, an Israeli company that offers car sharing services in urban areas in Israel. Car2go has spread cars across reserved parking spaces in the Gush Dan area in Israel, allowing members of the service to access diversified vehicles by swiping their membership card near the car, and driving away. When members no longer need to use the car, they return the car to its reserved parking space. The cars can be used for a few hours or a few days, with members only paying for what they use, without any long term commitment.

(vi)

Other services

In 2007, Shagrir, through one of its operation units, commenced to provide household services to insurance companies relating to insurance coverage, including, among other things, installation, repairing water damages, replacement of water heaters, and electrical assistance.

On October 28, 2010, Shagrir entered into an agreement with Carasso Motors Ltd., or Carasso. Carasso imports and distributes vehicles and spare parts, offers insurance plans, trade-in services and is the exclusive importer and distributor of Renault from France and Nissan from Japan. Pursuant to the agreement, Shagrir will provide installation services of anti car theft devices and other car accessories to Carasso.

B. Sales and Marketing

Cellocator Segment

We employ an in house sales and marketing team that directs the sale of the products of our Cellocator Segment to operators in various countries either directly or through distributors.

Pointer Segment

Israel

The sales and marketing team of Shagrir directs its sales and marketing efforts to promoting subscriptions to its road side assistance and towing services mainly through Israeli insurance companies and to lesser extent also fleet vehicle customers. Our stolen vehicle retrieval services in Israel are marketed primarily through vehicle importers and to a lesser extent through fleet vehicle operators, leasing companies and private individuals. Other value added MRM services are marketed directly to fleet vehicle operators and private individuals who have already installed our products. Our fleet management services are marketed primarily through our in house sales and marketing team to commercial fleets.

In addition, Shagrir's sales and marketing 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, Mexico, Romania and Brazil

In order to execute their sales and marketing initiatives, our Argentinean Mexican Romanian and Brazilian subsidiaries, Pointer Argentina, Pointer Mexico, Pointer Romania and Pointer Brazil, respectively, employ an in-house sales and marketing team as well as third party contractors and distributors that focus their efforts on sales and marketing to insurance companies, vehicle agents and fleet operators, directly or indirectly, through insurance agents, vehicle distributors and vehicle financing corporations in their respective designated territories.

C. Patent and Licenses; Government Regulation

In Israel, we are not dependent on any patent or licenses that 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, 2011;
- 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, 2011; 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, 2011.

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, Pointer Argentina, is not dependent on any patent or license 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 a local operator is required to obtain a specific license for its operations. As a result, Pointer Argentina obtains domestic licenses for the deployment of our systems in Argentina.

Our services through our Mexican and Brazilian subsidiaries, Pointer Mexico and Pointer Brazil, are based entirely upon Cellular Monitoring Units and therefore require no specific governmental licenses. We are currently registered by the federal commission to provide services.

Our Cellocator segment is required to obtain a license from the Israeli Ministry of Communications in order to manufacture, market and sell its products in Israel. We have received the required licenses for most of our products and are currently in the process of completing the process of receiving licenses for the rest of our products.

While the use of our cellular monitoring units does not require regulatory approvals, the use of our radio frequency products is subject to regulatory approvals of government agencies in each of the countries in which systems incorporating such products are operated, including Israel. 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. Please see Item 3 – Risk Factors for further information.

D. Competition

Cellocator Segment

Many companies manufacture vehicle devices based on GPS/Cellular technology. 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.

In Europe, Latin America and Asia our Cellocator segment sells mostly GPS/Cellular based vehicle devices and radio frequency based vehicle devices. In the GPS/ Cellular field there is strong competition with many manufacturers introducing vehicle devices with competitive prices and various performance features. Our primary competitors in the GPS/Cellular based vehicle devices product market in Latin America include Skypatrol LLC, Digital Communications Technologies LLC (Antares GPS), Maxtrac, Continental GPS Tracking Ltd and Portman Security System International Co. Ltd. Our competitors in Europe and Asia consist mainly of GPS Tracking Network Inc. (Enfora), Uab Teltonika, Falcom GmbH, Mobile Devices, Skope Solutions, Portman and Digicore Holdings Ltd.

Pointer Segment

In Israel, our primary competitors in providing road-side assistance and towing services are Drachim Road Side & Towing Services Ltd., Femi Premium Ltd. and Shlomo-SIXT Road Side Services & Garages Ltd., In addition, other companies which provide assistance services through insurance companies may attempt to compete with us. In the stolen vehicle retrieval and fleet management market, our main direct competitor is Ituran Location & Control Ltd., or Ituran.

Our primary competitors in the stolen vehicle retrieval services market in Argentina are LoJack Corporation, or LoJack and Ituran. In Mexico, our prime competitors in the stolen vehicle retrieval market are LoJack and GRUPO CORPORATIVO MISANTI, SA DE CV. In Brazil our primary competitors are LoJack, Ituran and Carsystems

Additional competitors operate in Mexico, Brazil and in Argentina, however their positioning is not as strong as LoJack, Ituran, MISTANTI and Carsystems.

Some competitors in the stolen vehicle retrieval services market offer a similar solution to ours and others, like LoJack, use VHF based messaging unit, without a wide area network, which is sold to customers and is connected via radio to local law enforcement communication networks.

In the fleet management services market, our prime competitors in Argentina are Megatrans SA and Sitrack.com Argentina SA, while in Mexico we face competition mainly from Omnistar Pty Ltd. (Omnitrack) and Orbcomm Inc. (Inmosat) and in Brazil we face competition mainly from Sascar Tecnologia E Segurança Automotiva SA, Zatix SA and Qualcomm Inc. (Omnitracs) In the fleet management services market we have many competitors for the low-entry level services for monitoring vehicles. However, at the level that requires management (management such as analysis, reporting, diagnostics, driving patterns) fewer competitors operate in these countries but overall activities in this market remain intensive.

In addition, in the markets described above and other potential markets, primary mobile resource management service providers who directly or indirectly compete with us employ other technologies, such as a hybrid combination of Cellular GPRS with two-way satellite communications. These systems rely on GPRS communications and when these are not available, switch to two-way satellite channel, to ensure constant communication availability.

E. Seasonality

Our Cellocator segment is not significantly seasonal.

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 and the number of car accident in Israel at a certain time, with Shagrir receiving more calls for replacement vehicles when the number of stolen vehicles in Israel increases. The mobile resource management services market is not seasonal in Israel. The services provided by our Pointer segment in Argentina, Mexico, Romania and Brazil are not significantly seasonal.

Principal Markets

For the breakdown of our revenues by category of segments please see Item 5- Selected 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:

	2010		2009		2008	
	In thousands	% of our total sales	In thousands	% of our total sales	In thousands	% of our total sales
Services:	48,448	66	45,287	69	46,010	60
Products:	25,415	34	20,038	31	30,645	40
Total:	73,863	100	65,325	100	76,655	100

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

	2010		2009		2008	
	In thousands	% of our total sales	In thousands	% of our total sales	In thousands	% of our total sales
Israel	53,574	73	50,604	77	54,322	71
Latin America	11,483	16	6,325	10	7,923	10
Europe	7,553	10	7,376	11	12,826	17
Other	1,253	1	1,020	2	1,584	2
Total	73,863	100	65,325	100	76,655	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 and affiliates, their countries of incorporation and our ownership interest in each of them:

JURISDICTION OF INCORPORATION	NAME OF SUBSIDIARY
Argentina	Pointer Localización y Asistencia S.A (1)
Israel	Shagrir System Ltd.(2)
Mexico	Pointer Recuperacion Mexico SA (3)
Romania	S.C. Pointer S.R.L. (4)
Brazil	Pointer do Brazil Commercial S.A.(5)
USA	Pointer Telocation Inc. (6)
Israel	Car2go Ltd. (7)
Israel	Rider Mekvuzat Shagrir Ltd. (8)

- (1) We hold 88% of the issued and outstanding shares of Pointer Argentina.
(2) We hold 56.56% of the issued and outstanding shares of Shagrir.
(3) We hold 74% of the issued and outstanding shares of Pointer Mexico.
(4) Shagrir holds 50% of the issued and outstanding shares of S.C. Pointer S.R.L.
(5) We hold 48% of the issued and outstanding shares of Pointer do Brazil Commercial S.A.
(6) We hold 100% of the issued and outstanding shares of Pointer Telocation Inc.
(7) Shagrir holds 51% of the issued and outstanding shares of Car2go Ltd.
(8) Shagrir holds 67% of the issued and outstanding shares of Rider.

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 1,470 square meters with annual lease payments of approximately \$290,000. Pointer Argentina's offices and operations facility are located in Buenos Aires, Argentina. Pointer Argentina currently leases 1,570 square meters (including 850 square meters used by its installation centers) with an annual lease payment of \$223,000. 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 \$394,000. In addition, in February 2005, as part of the purchase by Shagrir of the assets of Shagrir Towing, Shagrir purchased the property of Shagrir Towing in Haifa (2,100 square meters) for approximately \$389,000; and leases an additional property in Jerusalem, Israel (approximately 155 square meters) with annual rental fees of approximately \$50,000. Pointer Mexico's offices and operations facility are located in Mexico City, Mexico. Pointer Mexico currently leases 400 square meters with an annual lease payment of \$100,000. Pointer Brazil's offices and operations facility are located in Sao Paulo, Brazil. Pointer Brazil currently leases 200 square meters with an annual lease payment of \$28,000. Pointer Romania's offices and operations facility are located in Bucharest, Romania. Pointer Romania currently leases 150 square meters with an annual lease payment of \$32,000. Car2go Ltd.'s offices are located in Tel Aviv, Israel. Car2go Ltd. currently leases 110 square meters with an annual lease payment of \$17,000. Rider's offices are located in Tel Aviv, Israel. Rider currently leases 114 square meters with an annual lease payment of \$15,000. For further information, please see Note 13d 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."

Overview

We believe we are a leading provider of advanced mobile resource management products and services for the automotive and insurance industries. We conduct our operations through two main segments. Through our Cellocator segment, we design, develop and produce leading mobile resource management products, including asset tracking, fleet management and security products for sale to third party operators providing mobile resource management services worldwide, as well as to our Pointer segment. Through our Pointer segment, we act as an operator primarily in Israel, Romania, Argentina, Mexico and Brazil by bundling our products together with a range of services, including stolen vehicle retrieval services and fleet management services, and also provide road-side assistance services in Israel for sale to insurance companies, fleets and individual customers.

Our revenues are principally derived from (i) rendering services through our Pointer segment and (ii) sales of our systems and products through our Cellocator segment, as well as through our Pointer segment which bundles our products in the services it offers.

Our acquisition of Cellocator Ltd., a developer and manufacturer of cellular monitoring units, was intended to assist us in our objective to present new products to the market, improve our gross margin from cellular 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 acquisition of Cellocator Ltd. in September 2007, Cellocator became a separate segment of our operations in 2008. The Cellocator segment is responsible for a significant part of our revenues.

Following our acquisition of Shagrir in 2004, the acquisition of certain activities and assets of Shagrir Towing in 2005, and the acquisition of Cellocator Ltd. in 2007, we have expanded our operations and increased our revenues in Israel and abroad. Our revenues from customers in Israel in 2010 were \$53.7 million, which constituted approximately 73% of our total revenues, in comparison to \$50.6 million in 2009, which constituted approximately 77% of our total revenues. In 2010, our revenues from international customers were \$20.2 million, which constituted approximately 27% of our total revenues, in comparison to \$15 million in 2009, which constituted approximately 23% of our total revenues.

As a result of the acquisitions described above, the operations of Shagrir as part of our Pointer segment and the technology manufacturing of our Cellocator segment are currently our most significant operations, and are expected to account for the majority of our business and revenues in the foreseeable future.

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 acquisition of technology or of operators that provide services. As a result of our acquisitions, the total goodwill and other intangible assets in our balance sheets were \$60.4 million and \$60 million as of December 31, 2010 and 2009, respectively. See Item 4 – History and Development of the Company for further information on our acquisitions.

Research and Development

The research and development activities of our Cellocator segment involve the development of new products in response to an identified market demand. Research and development expenditures were \$2.5 million, \$2.8 million and \$2.5 million in the fiscal years ended December 31, 2010, 2009 and 2008, respectively.

Business Challenges/ Areas of Focus

Our primary areas of focus and business include:

- Continuing the growth, revenues and profitability of our products and services by the subsidiaries;
- Enhancing the introduction and recognition of our new products, including the products of our Cellocator segment, into the markets;
- Penetrating into new markets, mainly Latin America and Europe through the products of our Cellocator segment, and strengthening our presence in existing markets by proposing full scope of services;
- Succeeding in selling diversified products in territories in which we already conduct activities, mainly in Latin America and Europe
 - penetrating into new territories; and
- Achieving operating profitability of our Pointer segment affiliates by increasing number of subscribers using our technology and expanding the services generated by RSA and car sharing.

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 Ltd. on September 18, 2007.

For the most part of the year 2005 and thereafter, we have consolidated 100% of the financial results of our subsidiary Shagrir. 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 share capital of Shagrir. As a result, our holdings in Shagrir reduced to 56.56%. Since 2006 Shagrir's shareholders equity became positive and we have allocated to the non-controlling interest their share in Shagrir's net income, which materially negatively affects Pointer's shareholders income (loss) at such periods.

Effective January 1 2009, due to an amendment to the accounting principle ASC 810, "Consolidation", we have retroactively adjusted our consolidated total equity and our consolidated net income to include the non-controlling interest.

Revenues

Products

The majority of our revenues from sale of products are generated through our Cellocator segment, from sales of products manufactured by us and by third parties to our Pointer segment in Israel and to third party operators world-wide. In addition, we also generate revenues through our Pointer segment from sales of products that are bundled together with our services. The portion of the revenues we receive from the sale of products out of our total revenues increased since the fourth quarter of 2007 due to the acquisition of Cellocator and its inclusion in our operations beginning in September 2007. The portion of the revenues we receive from sale of products out of our total revenues decreased in 2009 due to the worldwide automotive market recession which commenced at the beginning of 2009. The portion of revenues we receive from the sale of products out of total revenues, increased in 2010 due to the partial recovery of the worldwide automotive mark, which was off-set by the reduction in the price of products in that market.

Services

We generate revenues through our Pointer segment from sales of our services primarily by our subsidiaries in Israel and Latin America. The services include mainly road side assistance and towing services, stolen vehicle retrieval services, fleet management and other value added services. A majority of our revenues consists of subscription fees paid to us by our customers, which include insurance companies, commercial companies and individuals. In 2010 due to very intense competition in the Israeli market we faced price erosion that was partially offset by operational efficiency and cost reduction. Due to very intense competition in the Israeli market, we expect continuous price erosion in this market that may affect our business.

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 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.

Finite-life intangible assets consist of 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.

Impairment of intangible asset

In 2009, we recorded an impairment loss in the amount \$3 million reducing customers related intangibles (attributed to the Company's acquisition of Cellocator in 2007) from a carrying amount of \$3.2 to a fair value of \$214,000. The circumstances leading to the impairment are attributed to the decrease in activity of the former customers of Cellocator.

No impairment losses were identified in 2010

Financial Income (Expenses), Net.

Financial expenses consist mainly of bank charges and interest expenses, foreign currency transaction adjustments, revaluation of derivative instruments 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, and deferred income taxes. See Item 10.E – Taxation and Government Programs for further information on taxation applicable to us.

Critical Accounting Policies

The consolidated financial statements include the Company's and its subsidiaries accounts. 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. 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 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 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 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 ASC 605-25, "Multiple-Element Arrangements" (formerly EITF 00-21, "Revenue Arrangements with Multiple Deliverables"), revenue from certain arrangements may include multiple elements within a single contract. Our accounting policy complies with the requirements set forth in ASC 605-25, relating to the separation of multiple deliverables into individual accounting units with determinable fair values. 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 ASC 605-15-25 "sales of product when right of return exists" (formerly FAS 48, "Revenue Recognition When Right of Return Exists"). Based on our experience, no provision for returns was recorded.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is determined by evaluating the credit worthiness of each customer based upon specific information, including the aging of the receivables. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. In each period, we estimate the likelihood of collecting receivables and adjust the allowance accordingly.

Inventory

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. The level of our write-offs related to our inventories accounts fluctuates depending upon all of the factors mentioned above.

Business Combinations and Purchase Price Allocation

In accordance with ASC 805, "Business Combinations", we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed, as well as non-controlling interests, based on their estimated fair values. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets.

We engage third-party appraisal firms to assist management in determining the fair values of certain assets acquired and liabilities assumed, mainly intangible assets whose measurement requires judgment and involves the use of significant estimates and assumptions. Management makes estimates of fair value based upon assumptions believed to be reasonable. These estimates are mostly based on historical experience and information obtained from the management of the acquired companies and although they are deemed to be consistent with market participants' assumptions, they are inherently uncertain. While there are a number of different methods for estimating the value of intangible assets acquired, the primary method used is the discounted cash flow approach. Some of the more significant estimates and assumptions inherent in the discounted cash flow approach include projected future cash flows, including their timing, a discount rate reflecting the risk inherent in the future cash flows and a terminal growth rate. We also estimate the expected useful lives of the intangible assets, which require judgment and can impact our results of operations. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

Valuation of Long-Lived Assets, Intangibles and Goodwill

(a) Tangible and Intangibles Long-Lived Assets

Intangible assets consist of brand names, customer related intangibles, and developed technology. Intangible assets are stated at amortized cost. 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.

Brand names are amortized over periods between two and nine years; customer related intangibles are amortized over periods between five and nine years; and developed technology is amortized over a five-year period.

We perform an impairment test for tangible and intangible long-lived assets (or assets group) whenever events or circumstances suggest that the assets may not be recoverable. Impairment is only deemed to have occurred if the sum of the forecasted undiscounted future cash flows related to the assets are less than their carrying value. If the forecasted undiscounted cash flows are less than the carrying value, then we must write down the carrying value to its estimated fair value based on forecasted discounted cash flows.

We use the income approach in order to determine the fair value of intangible assets, as no quoted price in active market exists for such assets. The income approach requires management to predict forecasted cash flows, including estimates and assumptions related to revenue growth rates and operating margins, future economic and market conditions. Our estimates of market segment growth and our market segment share and costs are based on historical data, various internal estimates and certain external sources, and are based on assumptions that are consistent with the plans and estimates we are using to manage the underlying business. If future forecasts are revised, they may indicate or require future impairment charges. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

As required by ASC 820, "Fair Value Measurements", starting January 1, 2009, the Company applies assumptions that marketplace participants would consider in determining the fair value of long lived assets (or assets groups).

In 2009, we recorded an impairment loss in the amount \$3 million reducing customers related intangibles (attributed to the Company's acquisition of Cellocator in 2007) from a carrying amount of \$3.2 million to a fair value of \$214,000. The circumstances leading to the impairment are attributed to the decrease in activity of former customers of Cellocator. The impairment was recorded in the "Operating Income" caption in the consolidated statement of operations. The customer's related intangible impairment is reflected in the Cellocator segment. The fair value of the customers related intangibles was determined by the income approach method. Assumptions in the fair value assessment included: the impact of changes in economic conditions, revenue forecast from the former customers of Cellocator, and the Company's weighted average cost of capital ("WACC").

No impairment losses were identified in 2010

(b) Goodwill impairment test

The company identifies several reporting units which are aggregated into two operative segments, the Cellocator segment and the Pointer segment.

As required by ASC 820, "Fair Value Measurements", starting 2009, the Company applies assumptions that market place participants would consider in determining the fair value of each reporting unit.

We perform our annual impairment analysis of goodwill as of December 31 of each year, or more often if there are indicators of impairment present. We perform a two-step impairment test on goodwill at the level of the reporting units. In the first step, we compare the fair value of each reporting unit to its carrying value. If the fair value exceeds the carrying value of the net assets, goodwill is considered not impaired, and we are not required to perform further testing. If the carrying value of the net assets exceeds the fair value, then we must perform the second step, of the impairment test in order to determine the implied fair value of goodwill. To determine the fair value used in Step 1, we use discounted cash flows. If and when we are required to perform a Step 2 analysis, determining the fair value of our net assets and our off-balance sheet intangibles would require us to make judgments that involve the use of significant estimates and assumptions.

We determined the fair value of each reporting unit using the income approach, which utilizes a discounted cash flow model, as we believe that this approach best approximates the reporting unit's fair value at this time. Judgments and assumptions related to revenue, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions are inherent in developing the discounted cash flow model. The material assumptions used for the income approach for 2010 were five years of projected net cash flows, a discount rate of 12% to 17% and a long-term growth rate of 2%-3%. We considered historical rates and current market conditions when determining the discount and growth rates to use in our analyses. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for our goodwill.

No impairment losses were identified in the years 2010, 2009 or 2008.

We performed a sensitivity analysis for the two key assumptions used in our annual goodwill impairment test and determined that an increase in the estimated weighted average cost of capital of 2% and/or decrease of 1% in the long-term growth rate, would not result in the estimated fair value of any of the reporting units to fall below its carrying value. Based on the sensitivity analysis, none of our reporting units is at risk for goodwill impairment. As of December 31, 2010, the fair value of our reporting units significantly exceeded its carrying values.

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. 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.

During 2008 and 2007, the Company reduced the goodwill balance at an amount of \$805,000 and \$532,000, respectively due to realization of carryforward tax losses of a subsidiary, for which a valuation allowance was recognized upon acquisition. Starting 2009, the effects of changes outside of the measurement period to deferred tax asset valuation allowances recognized in a business combinations (including business combinations which occurred prior to January 1, 2009) are reported directly as a reduction of income tax expense as required by ASC 805.

Share based compensation

Stock-Based Compensation Expense.

The Company applies ASC 718, "Compensation - Stock Compensation" (formerly SFAS 123(R) "Share-Based Payment"). In accordance with ASC 718, all grants of employee's equity based stock options are recognized in the financial statements based on their grant date fair values. The fair value of graded vesting options, as measured at the date of grant, is charged to expenses, based on the accelerated attribution method over the requisite service period of each of the awards, net of estimated forfeitures.

During the years ended December 31, 2010, December 31, 2009 and December 31, 2008, the Company recognized stock-based compensation expenses related to employee stock options in the amounts of \$121,000, \$367,000 and \$350,000, respectively. See Notes 2(q) and 14 in our consolidated financial statements for additional information.

We estimated the value of equity employee stock options on the date of grant using a Black-Scholes option-pricing valuation model. The fair value of stock options awards, as determined on the date of grant, is affected by several factors including our stock price, our stock price volatility, risk-free interest rate, expected dividends and the expected term of the options. If such factors change and we employ different assumptions for future grants, our compensation expense may differ significantly from what we have recorded in the current period.

In addition, our compensation expense is affected by our estimate of the number of awards that will ultimately vest. In the future, if the number of equity awards that are forfeited by employees are lower than expected, the expenses recognized in such future periods will be higher.

Deferred income taxes

The Company accounts for income taxes and uncertain tax positions in accordance with ASC 740, "Income Taxes". Deferred tax assets and liabilities are provided using the balance sheet liability method. Under this method, deferred taxes are recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, and are measured using the enacted tax rate and laws that will be in effect when the difference is expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to amounts that are more likely than not to be realized.

The effect on deferred taxes of a change in tax rates is recognized in income in the period enacted.

Effective January 1, 2007, the Company adopted an amendment to ASC 740-10 (formerly FIN 48 "Accounting for Uncertainty in Income Taxes"- an Interpretation of FASB Statement No. 109). The update clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements and prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The adoption of the amendment to ASC 740-10 did not have a material effect on the Company's consolidated financial statements.

As of December 31, 2010, the Company did not record any liability for uncertain tax positions. The Company's policy is to recognize, if any, tax related interest as interest expenses and penalties as general and administrative expenses. For the year ended December 31, 2010, the Company did not have any interest and penalties associated with tax positions.

The impact of recent Accounting Standards that are not yet in effect on the Company

In October 2009, the FASB issued an update to ASC 605-25, "Revenue Recognition - Multiple-Element Arrangements", that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements to: (i) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated; (ii) require an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have VSOE of selling price or third-party evidence of selling price; (iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method and (iv) require expanded disclosures of qualitative and quantitative information regarding application of the multiple-deliverable revenue arrangement guidance. The update is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, or retrospectively, for all periods presented. Mandatory adoption is for January 1, 2011. We are currently evaluating the impact on our consolidated results of operations and financial condition.

In October 2009, the FASB issued an update to ASC 985-605, "Software-Revenue Recognition". In accordance with the update to the ASC, tangible products containing software components and non-software components that function together to deliver the tangible product's essential functionality are excluded from the scope of the software revenue recognition guidance. In addition, hardware components of a tangible product containing software component are always excluded from the software revenue guidance. The update is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, or retrospectively, for all periods presented. We are currently evaluating the impact on our consolidated results of operations and financial condition

The EITF issued ASU 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations codified in ASC 805, "Business Combinations". This ASU responds to diversity in practice about the interpretation of the pro forma disclosure requirements for business combinations. When a public entity's business combinations are material on an individual or aggregate basis, the notes to its financial statements must provide pro forma revenue and earnings of the combined entity as if the acquisition date(s) had occurred as of the beginning of the annual reporting period. The ASU clarifies that if comparative financial statements are presented, the pro forma disclosures for both periods presented (the year in which the acquisition occurred and the prior year) should be reported as if the acquisition had occurred as of the beginning of the comparable prior annual reporting period only and not as if it had occurred at the beginning of the current annual reporting period. The ASU also expands the supplemental pro forma disclosure requirements to include a description of the nature and amount of any material non-recurring adjustments that are directly attributable to the business combination. The guidance in the ASU is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15 2010, and should be applied prospectively. We believe that the adoption could have an impact on its Pro Forma information in future periods.

In April 2010, the EITF issued ASU 2010-13, an amendment to ASC No. 718 "Compensation - Stock Compensation. This ASU clarifies employee stock options that have exercise prices denominated in the currency of any market in which a substantial portion of the entity's equity securities trade. These should be classified as equity, assuming all other criteria for equity classification are met. The amendments in the ASU do not contain any disclosure requirements incremental to those required by ASC 718. The guidance is effective in 2011. The adoption of the new guidance will not have a material impact on our consolidated financial statements.

In February 2010, the FASB issued amendments to certain recognition and disclosure requirements of Subsequent Events codified in ASC 855, "Subsequent Events". This update removes the requirement to disclose the date through which subsequent events were evaluated in both originally issued and reissued financial statements for "SEC Filers." The adoption of the new guidance did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, updating the "Fair Value Measurements Disclosures" codified in ASC 820. This update requires (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value, and require disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. As applicable to us, this update became effective in these annual financial statements. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

For more information on our selected financial data, see Item 3 – Key Information – Selected Financial Data

Analysis of our Operation Results for the Year ended December 31, 2010 as compared to the Year ended December 31, 2009

Revenues. Revenues increased by \$8.5 million, or 13%, from \$65 million in 2009 to \$74 million in 2010. The increase in total revenues in 2010 as compared to 2009 is primarily attributable to the upturn in the global economy and worldwide automotive industry which affected an increase in sales of our Cellocator segment. In addition, the revaluation of the average exchange rate of the NIS against the US Dollar affected an increase in our revenues from our Pointer segment in the Israeli market.

The revenues from the sale of our products increased by \$5.4 million, or 27%, from \$20 million in 2009 to \$25 million in 2010. This increase is primarily attributable to the increase in sales of our Cellocator segment.

The revenues from the sale of our services increased by \$3 million, or 7%, from \$45 million in 2009 to \$48 million in 2010.

Revenues from our services in 2010 accounted for 66% of our total revenues as compared with 69% in 2009. This change is primarily attributable to the increase in sales of our Cellocator segment.

Our international revenues in 2010 accounted for 27% of total revenues compared to 23% in 2009. The increase in international sales is primarily attributable to an increase in the sales of the Cellocator segment in 2010. Sales to Latin America increased from \$6.3 million in 2009 to \$11.5 million in 2010; sales to Europe increased from \$7.4 million in 2009 to \$7.5 million in 2010; and sales to other countries increased from \$1 million in 2009 to \$1.3 million in 2010.

Cost of Revenues. Our cost of revenues increased by \$8 million to \$46 million for the twelve months ended December 31, 2010 as compared to \$38 million for the same period in 2009. This increase of \$8 million is associated with an increase of \$8.5 million in our revenues.

Gross Profit. Our gross profit increased by \$0.5 million from \$26.9 million in 2009 to \$27.4 million in 2010. As a percentage of total revenues gross profit accounted for 37% in 2010 compared to 41% in 2009. Our gross margin on product sales in 2010 was 44% compared to 46% in 2009. Gross margins on services was approximately 35% in 2010 compared to 41% in 2009. Price erosion in the Israeli market is the primary reason for the increase in gross profit and decrease in gross margin on services.

Research and Development Costs. Research and development expenses in 2010 decreased by \$0.3 million from \$2.8 million in 2009 to \$2.5 million in 2010. As a percentage of revenues from the Cellocator segment the research and development costs accounted for 11% in 2010 compared to 18% in 2009. The decrease is primarily attributable to our efforts in 2009 to develop and launch new products in 2010.

Selling and Marketing Expenses. Selling and marketing costs increased by \$1.2 million to \$7.4 million in 2010 from \$6.2 million in 2009. The increase in 2010 resulted from an increase in the marketing efforts primarily in the Israeli market.

General and Administrative Expenses. General and administrative expenses increased by \$0.3 million to \$9.1 million in 2010 from \$8.8 million in 2009.

Amortization of intangible assets and Impairment of long lived assets. Amortization of intangible assets and impairment of long lived assets decreased by \$3.1 million from \$4.9 million in 2009 to \$1.8 million in 2010. In 2009, the amortization of intangible assets includes amortization of intangible assets related to our acquisitions. The \$4.9 million attributed to amortization in 2009 includes a one-time impairment of \$3 million in connection with the decrease in activity of former Cellocator customers that necessitated impairing intangible assets. As of December 31, 2010, the fair value of our reporting units significantly exceeded its carrying values therefore, no impairment losses were identified in 2010.

Operating Profit. As a result of the foregoing, we recorded in 2010 a \$6.6 million operating profit, compared to an operating profit of \$4.2 million in 2009. The increase in 2010 is attributable to the impairment in the amount of \$3 million in 2009 of the intangible assets related to the acquisition of Cellocator in 2007.

Financial Expenses (Net). Financial expenses decreased from \$2.1 million in 2009 to \$2 million in 2010. The decrease is mainly attributable to a decrease in bank charges and interest expenses.

Taxes on income. Taxes on income were \$1.5 million in 2010 compared to \$0.9 million in 2009. In 2010 taxes on income include a decrease of \$0.9 million in the deferred tax assets related to operating losses carried forward and increase of \$0.6 million in deferred tax liability relating to other timing differences.

Equity in losses of our Brazilian affiliate. In 2010, we recorded equity in losses of the Brazilian affiliate in the amount of \$1.2 million compared to \$0.7 million in 2009.

Net Income. We recorded net income of \$2 million in 2010 and \$0.5 million in 2009.

Net Income attributable to non controlling interests. We recorded net income attributable to non-controlling interests in the amount of \$0.8 million in 2010, compared to \$2.6 million in 2009.

Net Income (Loss) attributable to Pointer shareholders. In 2010, Pointer recorded net income of \$1.1 million, compared to a net loss of \$2.1 million in 2009.

Analysis of our Operation Results for the Year ended December 31, 2009 as compared to the Year ended December 31, 2008

Revenues. Revenues decreased by \$11.3 million, or 15%, from \$77 million in 2008 to \$65 million in 2009. The decrease in total revenues in 2009 as compared to 2008 is primarily attributable to the downturn in the global economy and the car industry, which affected a reduction in revenues from the sales of our Cellocator segment.

The revenues from the sale of our products decreased by \$10.6 million, or 35%, from \$31 million in 2008 to \$20 million in 2009. This decrease is primarily attributable to a decrease in the sales of our Cellocator segment.

The revenues from our services decreased by \$0.7 million, or 2%, from \$46.0 million in 2008 to \$45.3 million in 2009.

Revenues from our services in 2009 accounted for 69% of our total revenues as compared with 60% in 2008. This change is primarily attributable to the downturn in global economy and the car industry, which affected a reduction in revenues from the sales of our Cellocator segment.

Our international revenues in 2009 accounted for 23% of total revenues compared to 30% in 2008. The decrease in international sales is primarily attributable to a decrease in the sales of the Cellocator segment in 2009. Sales to Latin America decreased from \$7.9 million in 2008 to \$6.3 million in 2009; sales to Europe decreased from \$12.8 million in 2008 to \$7.4 million in 2009; and sales to other countries decreased from \$1.6 million in 2008 to \$1 million in 2009.

Cost of Revenues. Our cost of revenues decreased by \$8.8 million to \$38.4 million for the twelve months ended December 31, 2009 as compared to \$47.2 million for the same period in 2008. This decrease of \$8.8 million is associated with a decrease of \$5.6 million in the sales of products due to reduced sales of our Cellocator segment, and a decrease of \$3.2 million attributable to reduced cost of services.

Gross Profit. Our gross profit decreased by \$2.5 million from \$29.4 million in 2008 to \$26.9 million in 2009. As a percentage of total revenues gross profit accounted for 41% in 2009 compared to 38% in 2008. Our gross margin on products sales in 2009 was 46% same as 2008. Gross margins in services is approximately 41% in 2009 and as compared to 35% in 2008. The decrease in gross profit while increase in gross margin is mainly as a result of decrease of Cellocator segment sales maintain the same gross margin, off set with efficiency of cost of services which increase the total gross margin.

Research and Development Costs. Research and development expenses in 2009 increased by \$0.3 million from \$2.5 million in 2008 to \$2.8 million in 2009, 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 decreased by \$0.7 million to \$6.2 million in 2009 from \$6.9 million in 2008. The decrease in 2009 resulted from the decrease in salaries, and marketing costs as part of our efforts to decrease expenses primarily in Cellocator segment.

General and Administrative Expenses. General and administrative expenses increased by \$0.5 million to \$ 8.8 million in 2009 from \$8.3 million in 2008. The main impact in 2009 resulted from increase in our business development efforts to penetrate to new territories and efforts to increase internal growth in existing territories while offset by decrease of our salaries and overhead cost.

Amortization of intangible assets and Impairment of long lived assets. Amortization of intangible assets and impairment of long lived assets increased by \$2.5 million from \$2.4 million in 2008 to \$4.9 million in 2009. The amortization of intangible assets includes amortization of intangible assets related to our acquisitions. The amount \$4.9 million amortization in 2009 includes a one-time impairment of \$3 million in connection with the decrease in activity of former-Cellocator customers that necessitated impairing intangible assets.

Operating Profit. As a result of the foregoing, we recorded in 2009 a \$4.2 million operating profit, compared to an operating profit of \$9.3 million in 2008. The decrease in 2009 is attributable to Cellocator segment revenue reduction and the impairment in the amount of \$3 million of intangible assets related to the acquisition of Cellocator in 2007.

Financial Expenses (Net). Financial expenses decreased from \$4 Million in 2008 to \$2.1 million in 2009 mainly due to the effect of foreign currency transaction adjustments, repayment of loans and amortization of discount on long-term loans recorded in 2008.

Taxes on income. Taxes on income were \$0.9 million in 2009 compared to \$0.6 million in 2008. In 2009 taxes on income include a decrease of \$150,000 in the deferred tax assets related to operating losses carried forward and other timing differences and increase of \$95,000 in the current taxes.

Equity in losses of our Brazilian affiliate. In 2009, due to an investment in our Brazilian affiliate, Pointer do Brazil S.A., we recorded equity in losses of the Brazilian affiliate in the amount of \$0.7 million,

Net Income. We recorded net income of \$0.5 million in 2009 and \$4.6 million in 2008.

Net Income attributable to non controlling interests. We recorded net income attributable to non controlling interests in the amount of \$2.6 million in 2009, compared to \$2.2 million 2008.

Net Income (Loss) attributable to Pointer shareholders. In 2009, Pointer recorded a net income (loss) of \$2.1 million, compared to net income of \$2.4 million in 2008.

Selected segment financial data:

As a result of the Company's acquisition of Cellocator in September 2007, in 2008 the Company 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.

	2010	2009	2008
	(in thousands of U.S.Dollars)		
Cellocator Segment Revenues	\$ 23,533	\$ 15,380	\$ 24,964
Pointer Segment Revenues	58,627	54,187	57,553
Intersegment adjustment	(8,297)	(4,242)	(5,862)
Total revenue	73,863	65,325	76,655
Cellocator Segments operating profit (loss)	2,839	(3,144)	3,777
Pointer Segments operating profit	3,898	7,043	6,394
Intersegments adjustment	(100)	276	(878)
Total operating profit	\$ 6,637	\$ 4,175	\$ 9,293

Revenues. Revenues of the Pointer segment increased by \$4.4 million to \$58.6 million from \$54.2 million in 2009. The increase of 8.2% is primarily attributable to the revaluation of the average exchange rate of the NIS against the dollar by 5%. Pointer segment revenues derive from services and the sale of products relating to those services provided by the Pointer segment. A portion of these products is obtained from our Cellocator segment and the rest is obtained from third parties.

Revenues of the Cellocator segment in 2010 were \$23.5 million (including \$8.3 million of inter-segment revenues), as compared to \$15.4 million in 2009 (including \$4.2 million of inter-segment revenues). The increase of \$8.1 million or 53% in the revenues of the Cellocator segment is primarily attributable to the upturn in the global economy and the car industry. The revenues of the Cellocator segment derive from sales of the products by the Cellocator segment.

Operating profit (loss). Operating profit of the Pointer segment decreased by \$3.1 million, from \$7 million in 2009 to \$3.9 million in 2010. This decrease of 45% is primarily attributable to the decrease in gross margin from 37% in 2009 to 31% in 2010 resulting from price erosion in the Israeli market.

Operating profit of the Cellocator segment in 2010 was \$2.8 million, compared to an operating loss of \$3.1 million in 2009. The operating loss in 2009 was attributable to a revenue reduction in the Cellocator segment and the impairment in the amount of \$3 million of intangible assets related to the acquisition of Cellocator in 2007.

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 Peso, the Mexican Peso, the Euro and the Brazilian Real. For a discussion regarding the functional and reporting currency of each of our subsidiaries see Note 2c of our consolidated financial statements.

We accomplished two significant acquisitions in Israel. Due to the acquisition of Shagrir and the SVR/FM activities, our business in Israel currently accounts for the majority of our Pointer segment business and revenues. The business in Israel, especially the activities acquired from Shagrir Towing, is mainly denominated in NIS. On the other hand, the majority of the revenues of the Cellocator segment are generated in U.S. Dollars with some expenses such as raw materials are mainly denominated in U.S. Dollars while some expenses such as labor and rental are denominated in NIS. See "Item 3D- 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 NIS and 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 "Item 3D- Risk Factors" for further information. Due to the potential off-set of the affects described above, we cannot evaluate the net impact on our results of operations.

During 2010 and up to February 28, 2011, the exchange rate fluctuated from a low of NIS 3.528 to the U.S. Dollar to a high of NIS 3.894 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:

MONTH	LOW 1 U.S. Dollar =	HIGH 1 U.S. Dollar =
September 2010	3.665	3.798
October 2010	3.569	3.645
November 2010	3.580	3.684
December 2010	3.549	3.665
January 2011	3.528	3.710
February 2011	3.602	3.713

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:

Exchange Rate	Period
4.4565 NIS/\$1	January 1, 2006 – December 31, 2006
4.1081 NIS/\$1	January 1, 2007 – December 31, 2007
3.5878 NIS/\$1	January 1, 2008 – December 31, 2008
3.9326 NIS/\$1	January 1, 2009 – December 31, 2009
3.7330 NIS/\$1	January 1, 2010 – December 31, 2010

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 2009, the Israeli economy recorded positive inflation of approximately 3.9%, where the NIS revalued against the U.S. Dollar by approximately 0.7%. 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 2009. In 2010, the Israeli economy recorded positive inflation of approximately 2.7%, where the NIS revalued against the U.S. Dollar by approximately 6%. As a result of the revaluation of the NIS, we experienced an increase in the revenues and in the costs of our Israel operations, as expressed in U.S. Dollars in 2010.

Regarding our operation in Argentina and the fact that Pointer Argentina'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 Pointer Argentina and as a consequence, on the results of our operations. In 2002, a severe and rapid currency devaluation in Argentina adversely affected Pointer Argentina's U.S. Dollar results. This was mainly due to Pointer Argentina'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 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. From January 1, 2008 to December 31, 2008, the value of the Argentinean Peso increased by approximately 2.84% against the U.S. Dollar. In 2009 the U.S. Dollar – Argentinean Peso exchange rate fluctuated between 3.453 and 3.80 Pesos to the Dollar. From January 1, 2009 to December 31, 2009, the value of the Argentinean Peso increased by approximately 10.05% against the U.S. Dollar. In 2010 the U.S. Dollar – Argentinean Peso exchange rate fluctuated between 3.80 and 3.976 Pesos to the Dollar. From

January 1, 2010 to December 31, 2010, the value of the Argentinean Peso increased by approximately 4.6% against the U.S. Dollar. From January 1, 2011 until February 28, 2011 the U.S. Dollar – Argentinean Peso exchange rate fluctuated between 3.976 and 4.025 Pesos to the 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 2009 and 2010 we entered into a foreign currency hedging transaction to manage risk related to salary expenses in NIS. In 2010 we entered into a foreign currency hedging transaction to manage risk related to receivables in Euro from customers. 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 employees pay tax on the imported value of the car placed at their disposal. The regulations which determine the method of calculation of the imputed taxable value of the use of a car by an employee were recently amended and apply to cars provided to and leased by employees on and of January 1, 2010. Whereas under the formal rules, fixed amounts of taxable income were assigned to various categories of vehicles, the new regulations determine the imputed taxable income according to a certain percentage of the purchase price of the car. With respect to some car models, the new regulations will result in a high amount of imputed income to the employees, as compared to the previous rules. This result may adversely affect the overall demand for vehicles, although it is premature to assess the impact, if any, of the new regulations since leasing arrangements are customarily for three years.

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 2010, 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, 2010, we had a negative working capital of \$15.1 million, our current assets to current liabilities ratio was 0.6 and we had cash and cash equivalents of \$2.2 million and an unused credit facility of \$3.2 million. We believe that we have access to sufficient capital to meet the Company's requirements for at least the next twelve months.

Our credit facilities and loans contain a number of restrictive covenants that limit the operating and financial flexibility of Pointer and Shagrir.

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.

In 2010, we received a dividend from Shagrir in the amount of \$2.9 million.

As of December 31, 2010, we had loans under long-term credit facilities (including current maturities) in the aggregate amount of approximately \$22 million, of which \$17.2 million was provided to our subsidiary Shagrir by Bank Hapoalim B.M. and \$3 million (in addition to a convertible debenture) was provided to Pointer to finance part of the Cellocator acquisition as referenced below. Of this aggregate amount, approximately \$4.75 million are long-term loans in or linked to the U.S. Dollar from banks and other sources, \$11.9 million are long-term loans denominated in NIS from a bank and other sources and \$5.5 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.

As of December 31, 2010, we had a short-term unutilized credit facility for available credit of approximately \$3.2 million.

In September 2007, Pointer obtained a loan of \$5 million and credit facilities of \$2 million with Bank Hapoalim B.M. in order to finance in part our acquisition of Cellocator. As of December 31, 2010, the full credit facility is available for use.

In January 2009 Pointer received credit facilities of \$1 million from Israel Discount Bank B.M. to finance its working capital. As of December 31, 2010, the full credit facility is available for use.

In 2010, net cash provided by our continuing operating activities amounted to \$6.5 million as compared to net cash provided from continuing operating activities of \$11.2 million in 2009.

In 2010, net cash used in our continuing investing activities was \$5.3 million as compared to \$2.6 million in 2009. The increase was primarily attributable to our purchase of property and equipment and investments in affiliates.

In 2010, net cash used in financing activities was \$2.6 million as compared to \$8 million in 2009. Net cash provided by financing activities of \$5 million was primarily attributable to the receipt of long-term loans from banks.

Current liabilities increased from \$32 million in 2009 to \$38 million as of December 31, 2010, mainly due to the increase of current maturities of long term loans. Long-term liabilities decreased from \$23.2 million in December 31, 2009 to \$21.7 million as of December 31, 2010 mainly due to repayments of long-term loans.

The acquisitions of Shagrir in 2004 and of Shagrir Towing in 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 of Cellocator in 2007 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 abovementioned acquisitions see Item 10C – 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-term loans 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 and 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 in particular of the automotive market and political conditions in certain countries in which we operate, such as Argentina.

For a discussion of certain commitments and contingent liabilities, see Note 13 to our consolidated financial statements. For further information regarding investments in our Company see Item 4 – Recent Developments and Item 10C – Material Contracts.

Capital expenditures were \$4.1 million in 2009 and \$6– million in 2010. In 2009, capital expenditures were used for purchasing property and equipment in the amount of \$3.4 million, an investment in our Brazilian affiliate, Pointer do Brazil Commercial S.A, in the amount of \$0.64 million and an amount of \$38,000 for the acquisition of Car2go. In 2010, capital expenditures were used for purchasing property and equipment in the amount of \$4.5----- million and investment in our Brazilian affiliate, Pointer do Brazil Commercial S.A, in the amount of \$1.5.

We estimate that our total capital expenditures for 2011 will be approximately \$4.4 million, substantially all of which will relate to fixed assets that serve our road side assistance and stolen vehicle retrieval business as well as our pursuit of new business opportunities, of which approximately 88% is estimated to be spent in Israel and 12% in Latin America. We also will need to continue to provide our cash negative subsidiaries 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 U.S. Dollar 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, 2010 and December 31, 2009, totaled approximately \$2.5 million and \$ 2.8 million respectively. We expect that we will continue to commit substantial resources to research and development in the future. As of December 2010, we employed 27 persons in research and development. Our research and development expenses constituted approximately 10.8% of Cellocator sales in the year ended December 31, 2010 and 18% in the year ended December 31, 2009. For additional information concerning commitments for research development programs, see Note 13 of our consolidated financial statements.

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 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 annual payments required to maintain our patents, and we may lose in the near future or may have already lost our rights to this proprietary technology.

We currently have several pending patent applications. However, there can be no assurance that such patent applications will actually 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 confidence until patents are 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 confidentiality 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 confidential 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 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.

Cellocator Segment

In 2006, we introduced to the mobile resource management market third party Cellular Monitoring Units which provide high functionality for mobile resource management services, utilizing advanced cellular modems with GPS. Following the acquisition of Cellocator in 2007, we are currently manufacturing, among other things, our own units through our Cellocator segment 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 and other verticals such as trailer and containers. The design takes special concern of these requirements, with high degree of reliability and flexibility.

